

Ubbes Company: Earnings Per Share: Problem Handouts



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Ubbes Company: Earnings Per Share

Phase 1

You have recently been hired by the Ubbes Company and have been assigned to the Financial Reporting Division of the Controller's office. You have replaced a graduate of Ohio University who has left Ubbes to work for an internet hemp retailer. At year end Ubbes had 568,500 shares of \$1 par Common Stock outstanding and is reporting Net Income of \$2,565,000. The man you replaced calculated Earnings Per Share to be \$4.51 per share.

The Controller sent you the following note on e-mail "I question the validity of the Earnings Per Share figure Zeke calculated. I think he must have been smoking something. I seem to remember that this calculation is quite complex. Please calculate the Earning Per Share figures that Ubbes must report and provide me with a schedule that contains all the details so I can make a presentation to the Board of Directors."

Directions:

This is a Problem-Based Learning exercise. As part of your analysis, you must ascertain what additional information you need. Make three lists: 1) What do you know? 2) What do you need to know? 3) To what use would you put the information you know and the information you need to know? Use the PBL worksheet to assist you in your analysis and discussion. In addition, discuss where would you find the information you need?



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Phase 2

During the course of your investigation you discover the following transactions have occurred with respect to Ubbes' \$1 par common stock:

- Feb 28 Sold 25,000 shares @ \$37.
- Mar 31 Paid a cash dividend of \$0.50 per share on common stock.
- Apr 30 Declared and issued a 10% stock dividend.
- Jun 30 Paid a cash dividend of \$0.25 per share on common stock.
- Jul 31 Sold 7,000 shares @ \$40.
- Aug 31 Purchased 20,000 shares of common stock to be held in the treasury.
- Sep 30 Issued a 3-for-1 stock split.
- Oct 31 Paid a cash dividend of \$0.10 per share on common stock.
- Nov 30 Sold 30,000 shares of treasury stock.
- Dec 31 Paid a cash dividend of \$0.10 per share on common stock.

Directions:

With this additional information ascertain:

1. How you can use this additional information?
2. Is there anything additional that you need to know? How would you use this additional information?



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Phase 3

Further investigation has revealed to you that Ubbes has the following preferred stocks in its capital structure:

- 20,000 shares of \$100 par, 10% nonconvertible, cumulative preferred stock.
- 30,000 shares of \$100 par 8% convertible, cumulative preferred stock. Each of these shares is convertible into three shares of common stock.
- No preferred dividends are in arrears.

Directions:

With this additional information ascertain:

1. How you can use this additional information?
2. Is there anything additional that you need to know? How would you use this additional information?



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Phase 4

Further investigation has revealed to you that Ubbes has the following bonds in its capital structure:

- \$3,000,000 face value of 6% convertible bonds sold to yield 7%. Unamortized discount is \$100,000 at the beginning of the year. Each \$1,000 bond is convertible into forty shares of common stock.
- \$2,000,000 face value of 9% convertible bonds sold to yield 11%. Unamortized discount is \$400,000 at the beginning of the year. Each \$1,000 bond is convertible into fifteen shares of common stock.
- \$1,000,000 face value bonds sold at par. These \$1,000 bonds are not convertible.

All bonds were issued during a prior year.

In addition, you discover that the marginal tax rate is 30%.

Directions:

With this additional information ascertain:

1. How you can use this additional information?
2. Is there anything additional that you need to know? How would you use this additional information?



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Phase 5

Further investigation has revealed to you that Ubbes has the following stock options outstanding:

- Options to purchase 30,000 shares were issued on May 31 of the year. The exercise price is \$55 per share. The market price of the common stock was \$41 on the date the option was issued.
- Options to purchase 100,000 shares were issued to executives several years ago. The exercise price is \$30 per share. The market price of the stock was \$8 per share when the option was issued.
- The average market price of the stock for the year is \$40.

Directions:

With this additional information ascertain:

1. How you can use this additional information?
2. Is there anything additional that you need to know? How would you use this additional information?



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Phase 6

As you examine Ubbes' income statement, you discover a \$90,000 extraordinary loss.

Directions:

With this additional information ascertain:

1. How you can use this additional information?
2. Is there anything additional that you need to know? How would you use this additional information?



Ubbes Company: Earnings Per Share

PBL Worksheet: Pertinent, Known Information

Group: _____

Date: _____

What do we know?	How will what we know help us solve this problem?



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Ubbes Company: Earnings Per Share

PBL Worksheet: Additional Information Required

Group: _____

Date: _____

What do we need to know?	How will what we need to know help us solve this problem?



What have we learned?	

