Basic Earnings Per Share

Basic Earnings per Share, EPS, represents the portion of a company's profit allocated to each outstanding share of common shareholders. EPS is commonly used as an indicator of company's profitability. To calculate the Basic Earnings per Share of a company, it is more accurate to use a weighted average of common shares outstanding because the number of common shares outstanding can vary over time.

First by subtracting Preferred Dividends from the Net Income, companies can measure the portion of the net income that is allocated to the non-preferred shareholders. Then by dividing the outcome of Net Income minus Preferred Dividends by the Weighted Average Number of Common Shares Outstanding, companies can measure the Basic Earnings Per Share.

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Preferred Dividends

Perfumed DVDs

A Preferred Dividend is an equity security with properties of both an equity and a debt instrument, and is generally considered a hybrid instrument. It has priority over common stocks, but subordinate to bonds in terms of claim. Preferred Shares usually carry zero voting rights, but may carry dividends and may have priority over common stock in the payment of dividends and upon liquidation. To calculate EPS, Preferred Dividends must be subtracted from Net Income to find balance for common shareholders.

Net Income

A Net Full of Inked Cash

EPS is calculated as Net Income minus Dividends on Preferred Stock over the Weighted average Shares Outstanding. Net Income is an entity's income minus expenses for the an accounting period. It is also known as the bottom line, net profit, or net earnings.

Weighted Average Common Shares

Weight Scale Caveman on a Chair

A weighted average takes into account of the length of time each common share is outstanding for and calculates an average based on the timing. The number of outstanding shares refers to the total shares currently owned by stockholders. The company receives authorization from the Securities and Exchange Commission to issue a specified number of shares. Most companies only issue a limited amount of these shares at one time. After the company issues the shares to investors, those shares become outstanding. Occasionally a company purchases its own shares off the open market. These shares are called treasury stock and are removed from the total number of outstanding shares.