

### CONCEPT: RATIOS – BOOK VALUE PER SHARE OF COMMON STOCK

- The **book value per share of common stock** is exactly as the name states!
  - ❑ **Book value** is the historical value on the Balance Sheet, rather than the **fair market value** (current value)
  - ❑ Preferred stockholders have the first claim on equity. After they are paid, everything else belongs to common.

$$\text{Book Value per Share of Common Stock} = \frac{\text{Total Equity} - \text{Preferred Equity}}{\text{\# of Shares of Common Stock Outstanding}}$$

**Note:** If the company has no preferred equity, then the total equity belongs to the common stockholders.

**Analysis:** This ratio shows the book value of equity belonging to each share of common stock.

**Comparison:** Investors may seek companies with market prices below book value. This ratio helps fine these investments.

**PRACTICE:** MoneyCo had sales revenue and net income during the current year of \$500,000 and \$60,000, respectively.

The total amount of stockholders' equity was \$600,000, and common shares outstanding were 120,000 all year. If the market price of the stock is \$10, what is the book value per share of common stock?

- a) \$0.20
- b) \$0.50
- c) \$4.17
- d) \$5.00

**PRACTICE:** Tougher Company's current year income statement showed an EPS of \$1.25 per share. If total equity was \$600,000 (40,000 common shares, \$1 par), preferred dividends were \$10,000 (10,000 preferred shares with \$10 book value each), and the market price of common and preferred stock are \$25 and \$50, respectively, what is the book value per share of common stock?

- a) \$12.50
- b) \$15.00
- c) \$20.00
- d) \$25.00