

Eps as a decision making tool essay samples

[Business](#), [Company](#)



Businesses come in to these markets to survive and grow successfully, that majorly depend upon making good profits. Continued expansion and existence are the basic measures of business success. As a result, business must make profits and make them in infinity. To measure the profit and its growth, business can use various measures and among them Earnings per share (EPS) is leading. EPS is described as net earnings or net profit after tax of a company during a particular period divided by the number of outstanding ordinary shares. It tells about the amount of profit earned by each share (Kasznik and McNichols, pp. 727-759). Due to its importance, EPS is widely used as a decision making tool and as a convenient measure to evaluate the performance of how shareholders are doing.

It is used as a decision tool to evaluate how much earnings grew in a given period so that earnings can be divided to shareholders as a dividend. If EPS grows and shows positive results then good amount of money can be distributed to shareholders as dividend, affecting the positive aspect of company that it cares about shareholders and pays them their money on a regular and consistent basis. On the other hand, if EPS goes negative and shows reduced results and earnings, it can give a red signal to company that it needs to take possible and required actions for business, adopting suitable short-term and long-term strategies. EPS is also used as a tool to evaluate the performance of business and shares' earnings overtime (Ohlson and Juettner-Nauroth, pp. 349-365). EPS results are used to compare the results of a company from one period to another, from last year to current year, from one company to another, from one sector or industry average. Based on the information, EPS growth is evaluated and so the rate of growth of a

business.

In addition to that, EPS for a stock is also used as a decision making tool that guides the sustainability of business earnings. If the earnings or EPS is higher, then it means that each share has a higher worth in the market. Higher EPS results from higher earnings or low number of shares issued. The analysts of a company always track EPS for positive trends. For various companies EPS is also used as a decision tool regarding the bonuses and remuneration of executives. EPS targets act as tools that signal the possibility of bonuses and their remuneration that depend upon the high target EPS.

Furthermore, EPS is also used as a decision making tool for investors as before investing they always look at the ability and sustainability in company's profits. While capturing the companies in market to invest in, they will prefer big earnings and stocks that reflect high EPS. If they are satisfied by EPS then they go ahead and invest in a company.

Works Cited

Kasznik, Ron, and Maureen F. McNichols. " Does meeting earnings expectations matter? Evidence from analyst forecast revisions and share prices." *Journal of Accounting Research* 40. 3 (2002): pp. 727-759.

Ohlson, James A., and Beate E. Juettner-Nauroth. " Expected EPS and EPS growth as determinantsof value." *Review of accounting studies* 10. 2-3 (2005): pp. 349-365.