THE FOLLY OF MAKING EPS COMPARISONS ACROSS COMPANIES: DO ACCOUNTING TEXTBOOKS SEND THE CORRECT MESSAGE?

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ABSTRACT

This paper demonstrates why EPS comparisons across companies are meaningless. An example is provided showing how a company with a higher ROE than another company may have a lower EPS simply from having a lower book value per share (and more shares outstanding) than the comparison company. While ROE comparisons across companies can be useful, cross-company EPS comparisons are meaningless due to the arbitrary number of shares outstanding across companies. The authors review the EPS discussion of 31 financial and intermediate accounting textbooks and find that seven of these textbooks incorrectly assert or imply that cross-company EPS comparisons are meaningful. Quotes from these seven textbooks are included with the paper.

Key Words: Accounting Education, Earnings Per Share, EPS, Return on Equity, ROE.