Volume 3, Section 1 – McShane, Cost of Capital

Q. (Statistical Exhibit, Schedules 26 and 28) Please describe in detail how the "returns on average common stock equity" are calculated using the Standard and Poor's Research Insight data. In particular, what income/earnings value is used in the numerator of each company's return ratio each year, and how is the denominator value determined for each company each year?

A. The returns on average common equity are calculated from data compiled by Standard and Poor's Research Insight. The formula is as follows:

$$100*((\text{IBCOM} + \text{DO}) / \text{Average}(\text{CEQ}_t \text{ and } \text{CEQ}_{t-1}))$$

where IBCOM = Income Before Extraordinary Items-Available for Common, current
DO = Income from Discontinued Operations, current
CEQ = Common Equity-Total, and
t = current year