

AS 20 — Earnings per share (EPS)

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4. Bonus
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2. Formula
3. Conv Deb
4. Conv Pref Sh
5. Share Warrants / options
6. Negative EPS
7. Multiple PES

I] Basic EPS

1. Formula = $\frac{\text{Earnings available for Equity Share holders}}{\text{Weighted Average No. of equity shares.}}$ → Refer Note (A)
→ Refer Note (B)

Note A: Earnings Available for Eq Sh. Holders

Revenue (Total Income) xxx
(-) Total expenses (Int on Deb) (xx)
Profit Before Tax (PBT) xx
(-) Tax (xx)
Profit After Tax (PAT) xx
(-) Pref div
Cumulative (deduct whether it is declared or not)

Int paid on deb
(Tax Benefit is available)

eg 10L

Int (1L)

(9L) → Tax 9L per kgaga

Pref div

Non-cumulative (deduct only when it is declared)
 Earnings Available for FSH xxx
 Do not deduct eq div.

(Tax Benefit is NOT available)
 eg 10L → Tax 10L pe lagega.
 Pref Div (1L)
9L

Cumulative 10% Pref Share
 Yr 1 Yr 2
 10% x 10% ✓
 10% ✓

Non-Cumulative 10% Pref Sh.
 Yr 1 Yr 2
 10% 10%
 x ↓
 (Yr 1 wala pay)
 Kame ka there is NO obligatⁿ

Note B: Weighted Average No. of eq shares (WANES)

Ques 1

Eg: Assume Dec Yr end

	<u>No. of shares</u>
01/01/21 Balance @ the Bgn of the Year	1800
31/05/21 New shares issued	600
01/11/21 Buy Back	300

Calculate WANES

Alternative 1 :

$$1800 \times \frac{12}{12} \quad (+) \quad 600 \times \frac{7m}{12m} \quad (-) \quad 300 \times \frac{2m}{12m}$$

$$= 2100 \text{ shares}$$

Alternative 2:

(OR)

01/01/x1	Sm	31/05/x1	Sm	01/11/x1	2m
1800		+ 600		- 300	
		<u>2400</u>		<u>2100</u>	

$$1800 \times \frac{5m}{12m} \quad (+) \quad 2400 \times \frac{5m}{12m} \quad (+) \quad 2100 \times \frac{2m}{12m}$$

$$= 2100 \text{ shares}$$

2. Partly paid up shares

→ They are treated as a fraction of fully paid up equivalent shares.

eg: Dec 31 end

01/01/x1 → 1800 shares

Face value

£10

Paid up value

£10

01/01/x1 → 1000 shares

£10

£5 (Partly paid up shares).

Calculate W.A.N.E.S #

$$1800 \times \frac{12m}{12m} + 500 \text{ shares} \times \frac{12m}{12m}$$

$$= 2300 \text{ shares}$$

#

$$\frac{\text{No. of shares} \times \text{Paid up value}}{\text{Face value}}$$

$$1000 \times \frac{£5}{£10} = 500 \text{ shares}$$

Ques 2

WAFES

$$1800 \text{ shares} \times \frac{12m}{12m} + 600 \text{ shares} \times \frac{25}{20} \times \frac{12m}{12m}$$

$$= 1850 \text{ shares}$$

3. Shares with different nominal values

→ when an enterprise has equity shares with different nominal values, the no. of eq shares is calculated by converting all such equity shares into equivalent no. of shares of the same nominal value

Eg: Earnings Available for eq ch. holders (EAFESH) : ₹10,00,000

		No. of shares	Face Value	Paid up
01/01/21	bal @ the beg ⁿ of the year	18000	₹10	₹10
01/01/21	New Issue	4000	₹5	₹5

these are 2 diff class of shares as they have different face values.

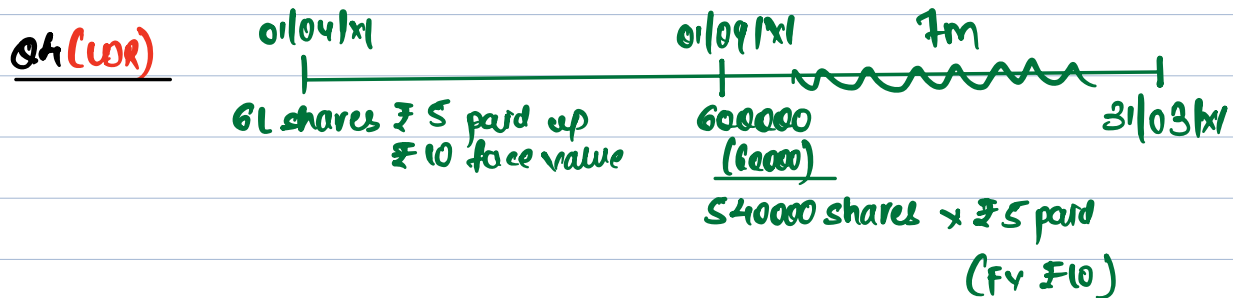
Calculate EPS for both class of shares.

Solⁿ: Basic EPS = $\frac{\text{EAFESH}}{\text{WAFES}}$

$$= \frac{10,00,000}{18000 \times \frac{12m}{12m} + 4000 \times \frac{25}{20} \times \frac{12m}{12m}}$$

$$\text{EPS} = \cancel{250} \quad (\text{Face value } \pounds 10)$$

$$\text{EPS} = \pounds 25 \quad \text{Face value } \pounds 5$$



Basic EPS: $\frac{\text{EAFESH}}{\text{WAFES}}$

WAFES

$$= \pounds 2196,000$$

$$\frac{600,000 \text{ shares} \times \pounds 5}{\pounds 10} \times \frac{12\text{m}}{12\text{m}} + \frac{540,000 \text{ shares} \times \pounds 5}{\pounds 10} \times \frac{7\text{m}}{12\text{m}}$$

$$= \pounds 2196,000$$

$$457,500 \text{ shares}$$

$$= \pounds 4.8 \text{ per share}$$

10 share £10

1 share £100

4. Bonus shares / Share split / Shares consolidation

→ In case of Bonus shares, they are issued to existing shareholders for no additional consideration. ∴ the no. of shares outstanding is increased without any increase in cash resources.

→ Therefore in case of Bonus, the date of issue of Bonus shares is irrelevant & Bonus shares are assumed to be o/s from the earliest reporting period (i.e. take the effect of Bonus in C.Y. & P.Y. Both)

→ Just like Bonus, same treatment is also applicable to share split / share consolidation

Eg:	20x1	20x2
EAFESH	₹ 10L	₹ 10L
WAMES	5L shares	5L shares + 5L shares Bonus (1:1 ratio)
<u>Basic EPS</u>	₹ 2 per share (original)	₹ 1

$$\begin{aligned}\text{Basic EPS of PY (Restated)} &= \frac{\text{EAFESH}}{\text{WAMES (incl. Bonus)}} \\ \text{(including the effect of Bonus in PY)} &= \frac{10L}{10L \text{ shares (5L shares PY + 5L Bonus)}} \\ &= ₹ 1 \text{ per share}\end{aligned}$$

If there is Bonus remove 3 EPS (for 2 years)

P.Y	C.Y.
① Original	① Original.
② Restated	

$$\underline{\text{Q5}} \quad \text{EPS for the year 20x2 (C.Y.)} = \frac{\text{EAFESH}}{\text{W.A.N.E.S}}$$

$$= \frac{£60,00,000}{}$$

$$\frac{20,00,000 \text{ share} + \text{Bonus } 40,00,000 \text{ (2:1)}}{}$$

No month ka weight in Bonus

$$= £1 \text{ per share.}$$

$$\text{EPS for 20x1 (Original)} = \frac{\text{EAFESH}}{\text{W.A.N.E.S}}$$

$$= \frac{18,00,000}{}$$

$$20,00,000 \text{ shares}$$

$$= £0.9 \text{ per share.}$$

$$\text{EPS for 20x1 (Restated)} = \frac{\text{EAFESH}}{\text{W.A.N.E.S (incl. Bonus)}}$$

$$= \frac{18,00,000}{}$$

$$20 \text{L shares} + 40 \text{L shares}$$

$$= £0.3 \text{ per share.}$$

Q6 (LDR)

Cy. (x1-x2)

$$\text{Basic EPS} = \frac{\text{EAFESH (WN1)}}{\text{WANES (WN2)}} = \frac{82,00,000}{15,50,000} = ₹ 5.29 \text{ per share}$$

WN1	EAFESH	WN2	WANES
PAT	90,00,000	Op'n Bal	$10,00,000 \times 12/12 = 10,00,000$
less: Pref div	(8,00,000)	Bonus (+)	$5,00,000 \quad (101 \times 1/2) \quad 5,00,000$
(1cr x 8%)		New Issue (+)	$200000 \times 3/12 = 50,000$
EAFESH	82,00,000		15,50,000

P.y (20x0-x1) = Original EPS = ₹ 62.30 per share.

↙

EAFESH ? Basic EPS = $\frac{\text{EAFESH}}{\text{WANES}}$

$$62.30 = \frac{\text{EAFESH}}{10,00,000}$$

$$\text{EAFESH} = 6,23,00,000$$

$$\text{EPS P.y. (Restated)} = \frac{\text{EAFESH}}{\text{WANES incl. Bonus}}$$

$$= \frac{6,23,00,000}{10,00,000 + 5,00,000}$$

share share

$$= ₹41.53 \text{ per share}$$

ii) Refr Q.B.

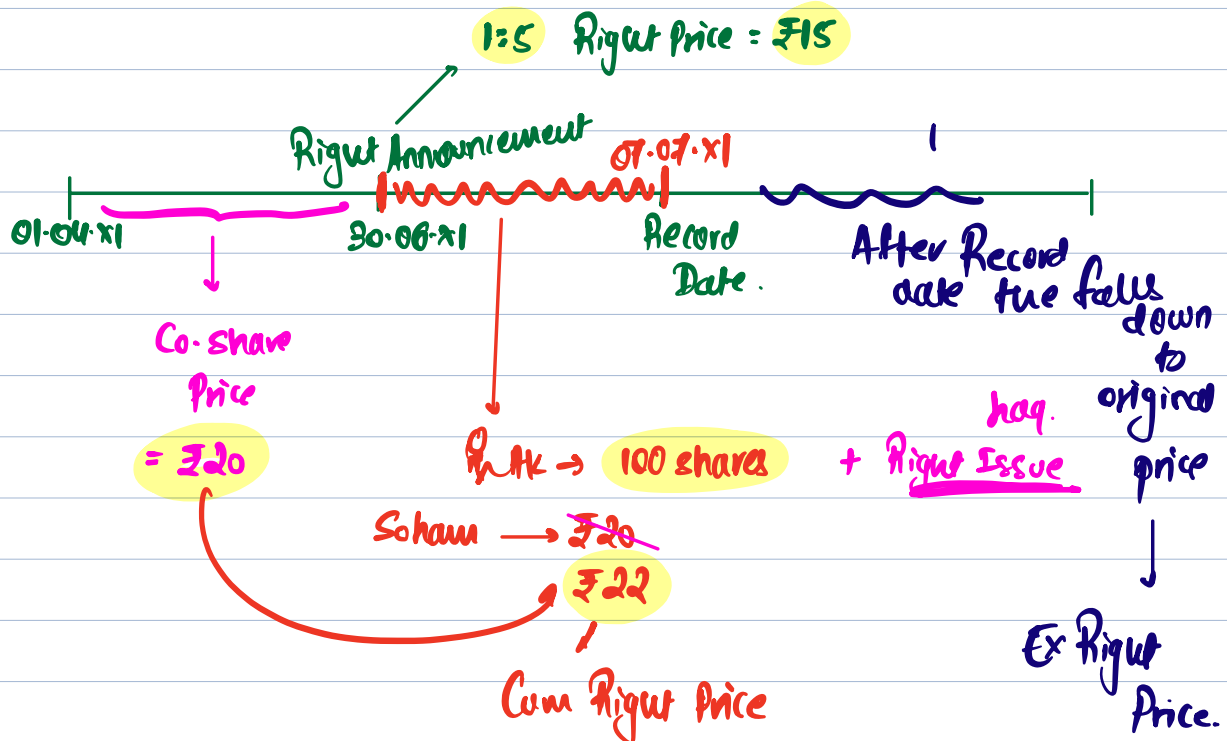
5. Time of inclusion in calculation of weighted average no. of shares

When shares are issued	When to include in denominator
1. Shares issued for cash (eg: New shares issue announced $\rightarrow$ 01/07 $\times$ Cash receivable on new issue $\rightarrow$ 01/08 $\checkmark$)	When cash is receivable
2. Issued for conversion of debentures	Date of conversion
* 3. Shares given against interest or prin. repayment of loan	Date when interest or prin. ceases to accrue.
4. Shares given for settlement of a liab	Date of settlement
5. Shares given for acquisition of asset	Date when acquired asset is recognised
6. Shares to be issued for services rendered.	Date when services are rendered.

✓ Imp

6. Right shares

↳ Existing SH are given shares @ lower price



Right shares are generally issued at less than fair value $\therefore$ it means that there is a Bonus element in right shares also.

Steps to solve

Step ① Calculate theoretical Ex-Right Price

= Fair value of shares o/s Before Right Issue (+) Amount Rec'd in Right shares

Total No. of shares after Right Issue.

Step ② Bifurcate the shares issued under right into Bonus element &

Shares issued for consideration

Note: Under Right Issue also if 2 years are given, then 3 EPS will be calculated
(C.Y. → original
P.Y. → original (+) Restated)

Ques 8

Right shares

Step ① Compute theoretical Ex-Right Price

$$\frac{\text{Fair value of shares of Before Right Issue (+) Amount Rec'd in Right Shares}}{\text{Total No. of shares after Right Issue.}}$$

$$= \frac{(500000 \times ₹21) + (100000 \times ₹15)}{5,00,000 + 100,000 \text{ shares}}$$

$$= ₹20 \text{ per share. (Ex Right Price)}$$

$$\text{Funds raised through right issue} = ₹15,00,000 \\ (100000 \text{ shares} \times ₹15)$$

$$\text{No. of shares to be issued @ ₹20 to raise ₹15,00,000} = \frac{15000000}{₹20} = 75000 \text{ shares.}$$

Step 2) Right share Bifurcation

① Bonus shares = 25000 shares $\rightarrow$ No time weights
(12 - 75k)
shares

② Issued for consideration = 75000 shares $\rightarrow$ time weight applies.

$$\text{Basic EPS (C.Y.)} = \frac{\text{EAFESH}}{\text{W.A.N.E.S}}_{20 \times 2}$$

$$= \frac{15,00,000}{}$$

$$\frac{500000 \times \frac{12m}{12m} + 25000 \times \frac{12m}{12m} + 75000 \times \frac{10m}{12m}}{\text{shares Bonus shares}}$$

$$= \frac{15,00,000}{5,87,500 \text{ shares}}$$

$$= ₹ 2.55 \text{ per share.}$$

$$\text{Basic EPS (P.Y.) 20 \times 1 (Original)} = \frac{\text{EAFESH}}{\text{W.A.N.E.S}}$$

$$= \frac{11,00,000}{5,00,000 \text{ shares}}$$

$$= ₹ 2.2 \text{ per share.}$$

$$\text{Basic EPS (P.Y.) (Restated)} = \frac{\text{EAFESH}}{\text{W.A.N.E.S incl Bonus}}$$

$$= \frac{11,00,000}{500000 + 25000 \text{ shares}}$$

$$= ₹ 2.09 \text{ per share.}$$

Q9 (WR)

Right shares

Step ① Compute Theoretical Ex Right Price

Fair value of shares o/s Before Right Issue (+) Amount Rec'd in Right shares

Total No. of shares after Right Issue.

$$\frac{10,00,000 \text{ shares} \times ₹ 25 \quad (+) \quad 250000 \text{ shares} \times ₹ 20}{12,50,000 \text{ shares}}$$

$$= ₹ 24 \text{ (Ex Right Price)}$$

Funds raised through right issue = 50,00,000

No. of shares to be issued @ Ex Right Price (i.e. ₹ 24) to raise ₹ 50L

$$= \frac{50,00,000}{₹ 24} = 208333 \text{ shares}$$

Step 2) Right share Bifurcation (250000)

(a) Issued for consideration = 208333 shares → Time weight applies

(b) Bonus (BIM) = 41667 shares → No time weight

$$\text{Basic EPS (C.Y.)} = \frac{\text{EAFESH}}{20 \times 2 \quad \text{WANES}}$$

$$= \frac{30,00,000}{}$$

$$\frac{10,00,000}{\text{shares}} \times \frac{12}{12} + \frac{41667}{\text{shares}} \times \frac{12}{12} + \frac{208333}{\text{shares}} \times \frac{9}{12}$$

$$= ₹ 2.50 \text{ per share.}$$

$$\text{Basic EPS P.Y. (Original)} = \frac{\text{EAFESH}}{20 \times 1 \quad \text{WANES}}$$

$$= \frac{20,00,000}{}$$

$$10,00,000 \text{ shares}$$

$$= ₹ 2 \text{ per share.}$$

$$\text{Basic EPS P.Y. (Retated)} = \frac{\text{EAFESH}}{\text{WANES (incl Bonus)}}$$

$$= \frac{20,00,000}{}$$

$$\frac{10,00,000}{\text{shares}} + \frac{41667}{\text{shares}}$$

$$= ₹ 1.92 \text{ per share}$$

Extra Part (B9) Right shares calculation as per ICAI.

Step ① Ex Right Price = ₹24

Step ② Adjustment factor = $\frac{\text{Conv Right Price}}{\text{Ex Right Price}} = \frac{₹25}{₹24} = 1.04$

Step ③ Calculate EPS

$$\begin{aligned}\text{Basic EPS (C.Y.)} &= \frac{\text{EAFESH}}{\text{W.A.N.E.S}} \\ &= 30,00,000\end{aligned}$$

Timeline diagram showing two periods:

- Period 1: 01/01/12 to 31/03/12 (3m)
- Period 2: 01/04/12 to 31/03/13 (9m)

During Period 1, there are 10L shares.

During Period 2, there is a Right Issue of 2.5L shares, resulting in 12.5L shares.

$$\begin{aligned}&10,00,000 \times 1.04 \times \frac{3}{12} + 12,50,000 \times \frac{9}{12} \\ &\quad \text{shares} \quad \downarrow \quad \text{Adj} \quad \text{Bonus}\end{aligned}$$

$$= \frac{30,00,000}{11,97,500} = ₹2.50 \text{ per share.}$$

Ques 10

Step ① Calculation of Ex Right Price

$$= \frac{\text{Fair value of shares o/s Before Right Issue (+) Amount rec'd in Right issue}}{\text{Total No. of shares after Right Issue.}}$$

$$= \frac{10,00,000 \times 32 + 200000 \times 25}{12,00,000 \text{ shares}}$$

$$= ₹ 30.83 \text{ per share.}$$

Funds raised through right issue = ₹ 50,00,000

$$\begin{aligned} \text{Shares to be issued @ ₹ 30.83 to raise ₹ 50,00,000} &= \frac{5000000}{30.83} \\ &= 162180 \text{ shares} \end{aligned}$$

Step ② Right share Bifurcation (200000 shares)

① Issued for consideration = 162180 shares → Time weight applies

② Bonus (BIP) = 37820 shares → No time weight

$$\text{Basic EPS C.Y.} = \frac{\text{EAFESH}}{\text{WANES}}$$

20x3-24

WANES

$$= \frac{30,00,000}{12}$$

$$10,00,000 \times \frac{12}{12} + 37820 \times \frac{12}{12} + 162180 \times \frac{8}{12}$$

$$= ₹ 2.62 \text{ per share.}$$

$$\begin{aligned} \text{P/E (Original)} &= \frac{22000000}{1000000} \\ &= \text{£ 2.2 per share} \end{aligned}$$

$$\begin{aligned} \text{P/E (Restated)} &= \frac{22,00,000}{10,00,000 + 37820 \text{ Bonus shares}} \\ &= \text{£ 2.12 per share} \end{aligned}$$

II] Diluted EPS

1. Potential Eq. Shares

→ Potential Eq Share are instruments which entitle the holder the right to acquire equity shares in future. (future mein equity share banega)

Examples : Convertible Debentures

Convertible Pref Shares

ESOPs

Share Warrants (It is a instrument that gives the holder, right to purchase the shares of a company at a pre-determined lower price which is set on Day ①)

Formula for diluted EPS = $\frac{\text{EAFESH (+ Effect of Potential Eq Shares)}}{\text{WANES (+ Effect of Potential Eq Shares)}}$

Ex ① Basic EPS

$$\frac{\text{EAFESH}}{\text{WANES}} = \frac{100}{10 \text{ shares}} = \$10 \text{ per share.}$$

8% Conv Deb of \$100 each. [5000 Deb] outstanding for the whole year. These Conv Deb will be converted into Eq Shares where each Deb will be allotted 10 eq shares after 5 years. Tax Rate = 30%.

Compute Diluted EPS.

$$\begin{aligned} & 5000 \times 100 \times 8\% = 40000 \\ & \times 70\% \quad \quad \quad 28000 \end{aligned}$$

Solⁿ: Diluted EPS = EAFESH (+) Effect of Pot. Eq Share → WN 1
conservatism WAFES (+) Effect of Potential Eq Share → WN 2

$$= \frac{10,28,000}{150000 \text{ shares}}$$

$$= ₹ 6.85 \text{ per share}$$

→ Basic se kam aaya
 ∴ it is Diluted EPS (Reported)

→ Basic se zyada aaya then it is
 anti-dilutive (Not Reported)

WN 1

$$\text{EAFESH} = 10,00,000$$

$$(+)\text{ Effect of Pot Eq Share} = 28,000$$

(Savings in Int)

✓
 net of tax

$$\underline{10,28,000}$$

$$(5000 \text{ Deb} \times ₹100 \times 8\%) \times 70\% \\ = \cancel{40,000} \quad 28,000$$

WN 2

$$\text{WAFES} = 100,000$$

$$(+)\text{ Effect of Potential} = 50,000 \text{ shares}$$

Eq. Shares

$$\underline{150000 \text{ shares}}$$

Q12

PES = Potential Eq. Share.

Basic EPS = ₹2 per share (Given)

$$\text{Diluted EPS} = \frac{\text{EAFESH} + \text{Effect of PES} \rightarrow \text{WN1}}{\text{WANES} + \text{Effect of PES} \rightarrow \text{WN2}}$$

$$= \frac{1,08,40,000}{60,00,000}$$

= ₹1.81 per share

WN1

EAFESH 1,00,00,000

+1 Savings in Int

(12 Deb x ₹100 x 12%) 840000

x 70%

(OR)

1,08,40,000

12L (-) 36L

↓
Int Exp↓
Tax on IntWN2 WANES = 50,00,000

(+1 Effect of PES = 10,00,000)

60,00,000

Q14 (LOR)

i) Basic EPS = $\frac{\text{EAFESH}}{\text{WANES}}$

$$= \frac{750}{100 \text{ shares}}$$

$$= 7.5 \text{ per share.}$$

ii) Diluted EPS = $\frac{\text{EAFESH (+) Effect of PES}}{\text{WANES + Effect of PES}}$

$$= \frac{8060000}{11,10,000 \text{ shares}} = 7.26 \text{ per share. (Dilutive since it is less than Basic EPS)}$$

WN ①

EAFESH 75,00,000
(+) Savings in Int 560000
(16 × £100 × 8%) × 70%.

80,60,000

WN ②

WANES 10,00,000
(+) Effect of PES 110000

11,10,000

Ex 2 (WR) (Deb issued during the year)

$$\text{Basic EPS} = \frac{\text{EAFESH}}{\text{WANES}} = \frac{\text{£}10,00,000}{10,00,000 \text{ shares}} = \text{£}1 \text{ per share.}$$

Cy.

On 01.07.21 issue of 10% Conv Deb of £7,00,000 (FV £100), they are convertible into 10,000 equity shares after 5 years.

Tax Rate = 30%.

Compute Basic & Diluted EPS for 21-22.

Solⁿ: Basic EPS = £1 per share.

$$\text{Diluted EPS} = \frac{\text{EAFESH (A) Effect of PES} \rightarrow \text{WN 1}}{\text{WANES (A) Effect of PES} \rightarrow \text{WN 2}}$$

$$= \frac{10,36,750}{10,07,500} = 1.03 \rightarrow \text{This is more than Basic EPS} \\ \therefore \text{it is anti dilutive.}$$

(Here Basic EPS = Diluted EPS = 1)

WN 1

EAFESH	10,00,000
(A) Savings in Jul	36,750
$(7,00,000 \times 10\% \times \frac{9m}{12m}) \times 70\%$	
	<u>10,36,750</u>

WN 2

WANES	10,00,000 shares
(A) Effect of PES	7500 shares
$(10,000 \text{ shares} \times \frac{9m}{12m})$	
	<u>10,07,500 shares</u>

Eg 3 (LDR)

$$\left. \begin{array}{l} \text{EAFESH} = 1,00,00,000 \\ \text{WANES} = 50,00,000 \text{ shares} \end{array} \right\} \text{Basic EPS} = ₹2$$

No. of 12% Conv Deb of ₹100 each = 1,00,000 Deb
Each Deb is convertible into 10 equity shares

Interest Exp for current year = ₹9,00,000

Tax Rate = 30%.

Compute Basic & Diluted EPS

Solⁿ: Hidden Adj

$$\begin{array}{ll} \text{Deb Int for 12 months} & = 12,00,000 \rightarrow 12\text{m} \\ \text{Int Exp in Ques} & = 9,00,000 \rightarrow \textcircled{?} 9\text{m} \end{array}$$

This means Conv Deb was there only for 9 months in C.Y.

$$\text{Diluted EPS} = \frac{\text{EAFESH} + \text{Effect of PES}}{\text{WANES} + \text{Effect of PES}} = \frac{1,06,30,000}{57,50,000} = ₹1.85 \text{ per share}$$

It is less than Basic EPS
 $\therefore$ reported.

WN ①

EAFESH	1,00,00,000
(+) Effect of PES (Savings in Int)	630000
900000 (9m) $\times$ 70%.	
	<u>1,06,30,000</u>

WN ② WANES = 50,00,000 shares

(+) Effect of PES

$$(100000 \text{ Deb} \times 10 \text{ share}) \times \frac{9}{12} = 750000 \text{ shares}$$

57,50,000
shares

* Convertible Pref Share

Eg: Basic EPS = $\frac{100}{10 \text{ shares}}$ = £10 per share.

8% Conv Pref shares of £100 each (5000 Pref shares) outstanding for whole year.
These conv Pref Share will be converted into 10 eq shares for each pref share. Tax Rate = 30%.
Compute Diluted EPS.

Irrelevant for Pref Share

as Pref div has no tax impact.

$$\begin{aligned}\text{Diluted EPS} &= \frac{\text{EAFESH} + \text{Effect of PES} \rightarrow \text{WN1}}{\text{WANES} + \text{Effect of PES} \rightarrow \text{WN2}} \\ &= \frac{£10,40,000}{150,000 \text{ shares}} \\ &= £6.93 \text{ per share}\end{aligned}$$

WN1

EAFESH	10,00,000
(+) Saving in Div (Net after tax)	40,000
(5000 Pref x £100 x 8%)	
Shares	
	<u>£10,40,000</u>

WN2

WANES	1,00,000
(+) Effect of PES	50,000 shares
(5000 Pref x 10 eq.)	
Share	shares
	<u>150,000 shares</u>

* Share Warrants/ESOPs

Eg: EAFESH = ₹20,00,000

WANES = 5,00,000 shares

No. of options/warrants granted = 2,00,000 warrants against which 200000 shares will be issued after 3 years.

Market price during current year 20x1 = ₹40.

Exercise price for one share = ₹30.

$$\left. \begin{array}{l} \text{Market price during current year 20x1} \\ \text{Exercise price for one share} \end{array} \right\} 20 \times \frac{10}{40} = \text{₹50K}$$

Calculate Basic & Diluted EPS

Soln: Basic EPS = $\frac{\text{EAFESH}}{\text{WANES}}$

$$= \frac{20,00,000}{5,00,000 \text{ shares}} = ₹4 \text{ per share.}$$

Diluted EPS: $\frac{\text{EAFESH} + \text{Effect of PES} \rightarrow \text{WN①}}{\text{WANES} + \text{Effect of PES} \rightarrow \text{WN②}}$

$$= \frac{20,00,000}{5,50,000 \text{ shares}} = ₹3.64$$

WN1 EAFESH → 20,00,000

* (1) Effect of PES → NIL
due to warrants

Q12 WAFES 5,00,000

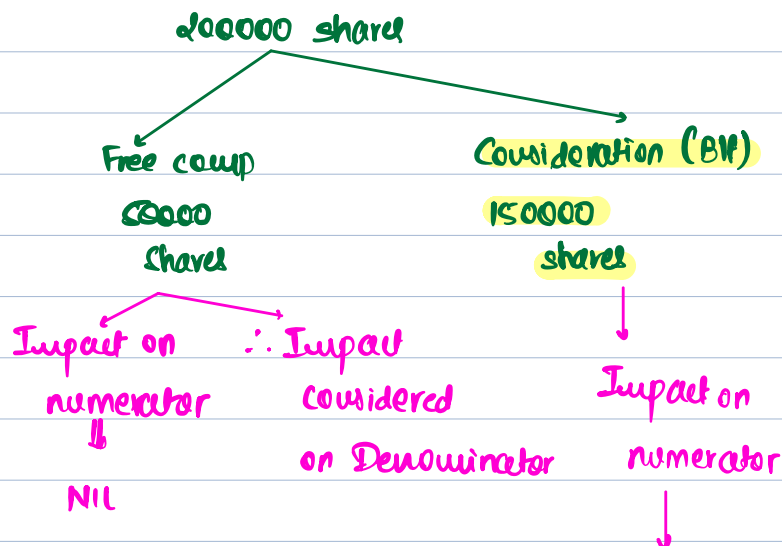
(1) Effect of PES ~~200000 shares~~

$(200000 \text{ shares} \times \frac{\text{₹} 10}{\text{₹} 40}) \rightarrow \text{Free comp}$
 $\rightarrow \text{Mkt price}$

= 50000 shares

5,50,000 shares

logic



(Paisa aaya But usse kitna Earnings kamaya cant measure)

∴ Ignore from both numerator & denominator.

Please Note: Warrant is neither share nor Bonus.

Q15

$$\text{i) Basic EPS} = \frac{\text{EAFESH}}{\text{WANES}}$$

$$= \frac{12,00,000}{5,00,000 \text{ shares}} \\ = ₹ 2.4 \text{ per share.}$$

$$\text{ii) Diluted EPS} = \frac{\text{EAFESH} + \text{Effect of PES} \rightarrow \text{WN1}}{\text{WANES} + \text{Effect of PES} \rightarrow \text{WN2}}$$

$$= \frac{12,00,000}{5,25,000 \text{ shares}} \\ = ₹ 2.29 \text{ per share.}$$

WN1	WN2	WANES	5,00,000
EAFESH = 1200000	(+) Effect of PES		25000 shares
(+) Effect of PES NIL	(100000 x 5 → Free)		
	20 → Mkt price		
			5,25,000 shares

Q16 (WR)

i) Basic EPS = $\frac{\text{EAFESH}}{\text{WANES}}$

WANES

(PAI) (-) Pref div

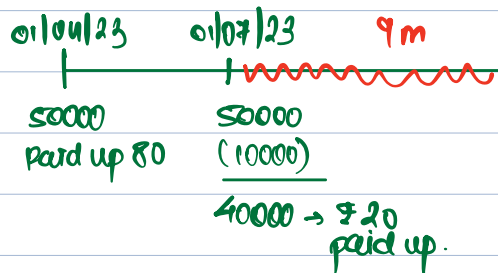
$$= \frac{344000 - 160000}{}$$

$$\frac{50000 \times \frac{80}{100} \times \frac{12}{12} + 40000 \times \frac{20}{100} \times \frac{9}{12}}{}$$

$$= \frac{184000}{}$$

$$46000$$

$$= ₹4 \text{ per share.}$$



ii) Diluted EPS = $\frac{\text{EAFESH (+) Effect of PES}}{\text{WANES (+) Effect of PES}}$

$$= \frac{268000}{76000 \text{ shares}} = ₹3.53 \text{ per share. (It is less than Basic } \therefore \text{ it is diluted)}$$

WN ①

EAFESH 184000

(+) Savings in Int 84000
(net of tax)

$(10L \times 12\%) \times 70\%$

$$\underline{\underline{268000}}$$

WN ② WANES

46000 shares

(+) Effect of PES

30000 shares

(10000 Deb x 3 shares)

76000 shares

2. EPS in case of negative earnings

Eg.	Basic	Diluted EPS	
	10	7	—————→ Dilutive
	(10)	(7)	—————→ Anti-Dilutive
	(10)	(12)	—————→ Dilutive

3. EPS in case of continued & discontinued operations

In case of Companies where profit/loss for continued & discontinued both are given, in such case whether Pot. Eq Shares are dilutive or not would be calculated only on profit/loss from Continuing operations.

Eg: Profit from continuing op 100000
Loss from disc op. (25000)

WANES = 10,000

Pot Eq Shares (warrants) only free component given = 2000 shares

Check whether PES are dilutive or not.

Solⁿ: Basic EPS = $\frac{\text{EAFESH (only cont op)}}{\text{WANES}}$

$$= \frac{100000}{10000 \text{ shares}} = ₹10 \text{ per share.}$$

$$\begin{aligned}
 \text{Diluted EPS} &= \frac{100000 + \text{NIL}}{10000 + 2000 \text{ shares}} \\
 &= \frac{100000}{12000 \text{ shares}} \\
 &= ₹ 8.33 \quad (\text{It is less than Basic } \therefore \text{Dilutive})
 \end{aligned}$$

(only consider count op)

Q17 (LOR)

	Separate FS of XYZ	Consolidated FS of XYZ
Basic EPS = $\frac{\text{EAFESH}}{\text{WANES}}$	$\frac{(2cr)}{500000 \text{ shares}}$ = (£40) per share.	$\frac{40L}{500000 \text{ shares}}$ = £8 per share.
Diluted EPS = $\frac{\text{EAFESH} + \text{Effect of PES}}{\text{WANES} + \text{Effect of PES}}$	$\frac{(2cr) + \text{NIL}}{500000 \text{ shares} + 100000 \text{ shares}}$ = (£33.33) per sh.	$\frac{40L}{500000 + 100000 \text{ shares}}$ = £6.67 per share

✓
Anti dilutive

$\therefore$ Basic EPS = Diluted EPS = (£40 per share)
(Separate FS)

↓
Dilutive.

Q18

$$\begin{aligned}\text{i) Basic (Only of Cost op)} &= \frac{\text{EAFESH}}{\text{WANES}} \\ &= \frac{240000}{1000 \text{ shares}} \\ &= \text{£}240 \text{ per share.}\end{aligned}$$

$$\begin{aligned}\text{ii) Dilutive (Only of Cost)} &= \frac{\text{EAFESH} + \text{Effect of PES}}{\text{WANES @1} \text{ —————}} \\ &= \frac{240000 + \text{NIL}}{1000 \text{ shares} + 200 \text{ shares}} \\ &= \text{£}200 \text{ per share} \quad (\text{Less than Basic } \therefore \text{Dilutive})\end{aligned}$$

$$\text{Extra Combine Profit (Cost + Disc)} = (120000)$$

$\begin{matrix} \text{£}240 & \text{£}360 \\ \text{2.4L} & \text{(3.6L)} \end{matrix}$

$$\begin{aligned}\text{Basic EPS} &= \frac{(120000)}{1000 \text{ shares}} \\ &= (\text{£}120)\end{aligned}$$

$$\begin{aligned}\text{Diluted EPS} &= \frac{(120000)}{1200 \text{ shares}} \\ &= (\text{£}100)\end{aligned}$$

Report this even if it is anti dilutive as cost.op Basic & Diluted both are reported.

4. Multiple Potential Eq. Shares (Calculation of Diluted EPS)

(LOR)

Ex: AK Ltd has the following info for the year ended 31.3.2.

EAFESH = 950000

Shares on 01/04/21 → 50,000 shares

New Issue on 01/07/21 → 30000 shares

i) AK Ltd has also issued 40000 share warrants/options, which will be allotted shares after 3 years (Mkt price = ₹20, Exercise price = ₹15)

ii) AK Ltd has also issued 12% Conv Deb of ₹6,00,000 which will be converted into 1000 eq. shares.

iii) It has also issued 10% Conv Pref Share of ₹500000 to be converted into 10000 eq. shares.

Tax Rate = 30%. Compute Basic & Diluted EPS.

Solⁿ: i) Basic EPS = $\frac{\text{EAFESH}}{\text{WAMES}}$

= $\frac{950000}{\text{WAMES}}$

$\frac{50000}{\text{share}} + \frac{30000}{\text{share}} \times \frac{9m}{12m}$

= $\frac{950000}{\text{WAMES}}$

72500 shares

= ₹ 13.10 per share

$$\text{ii) Diluted EPS} = \frac{\text{EAFESH (+ Effect of PES)} \rightarrow \text{WN ①}}{\text{WANES (+ Effect of PES)} \rightarrow \text{WN ②}}$$

$$= \frac{1050400}{93500 \text{ shares}} = ₹ 11.23 \text{ per share.}$$

WN ① Numerator

EAFESH = ₹ 950000

(+) Impact of warrants NIL

(+) Impact of Conv Deb

(Savings in Int net of tax) ₹ 50400

$(600000 \times 12\%) \times \frac{1}{70}\%$

(+) Impact of Pref Sh ₹ 50000

(Savings in Div)

$(500000 \times 10\%)$

10,50,400

WN ② Denominator

WANES = 72,500 shares

(+) Impact of = 10000 shares
warrants

$(40000 \times \frac{75}{70})$

(+) Impact of = 1000 shares
Conv Deb

(+) Impact of = 10000 shares
Conv Pref Shares

93500 shares

Why kattaappa? Because there are more than 1 class of PES.

∴ we will have to evaluate each class separately

Follow Below Steps.

Step ① Calculate incremental EPS for each PES.

= Incremental Effect on Numerator

Incremental Effect on Denominator

(lowest to highest)

Step 2 Ranking

$$\textcircled{1} \text{ Warrants} = \frac{0}{10000 \text{ shares}} = 0$$

I

$$\textcircled{2} \text{ Conv Deb} = \frac{50400}{1000 \text{ shares}} = ₹50.40$$

III

$$\textcircled{3} \text{ Conv Pref share} = \frac{50000}{10000 \text{ shares}} = ₹5 \text{ per share.}$$

II

Step 3 Conclusion (Dilutive / Antidilutive)

Particulars	Numerator	Denominator	EPS	Conclusion
1) Basic EPS	950000	72500	13.10	-
(+) Warrants (Rank I)	0	10000		
	950000	82500	11.52	Dilutive
Conv (+) Pref Share (Rank II)	50000	10000		
	10,00,000	92500	10.81	Dilutive
(+) Conv Deb (Rank III)	50400	1000		
	1050400	93500	11.23	Anti Dil.
Not be considered in diluted EPS as it is anti dilutive ↓ Since no anti dilutive stop.				

$$\begin{array}{lcl}
 \text{Diluted EPS} & = & \frac{950000 + 0 + 50000}{72500 + 10000 + 10000} \\
 \text{(consider only} & & \\
 \text{PES which are} & & \\
 \text{dilutive)} & = & 10.81 \\
 & & \downarrow \\
 & & \text{Reported}
 \end{array}$$

warrants Pref

↓ ↓

Q22 (10R) (Jan '25 PYQ)

Question 1

(a) XYZ Limited has provided you the following information as on 31st March, 2024:

Particulars	₹
Net profit (After Tax) / EAFESH	₹ 31,20,000
No. of shares outstanding as on <u>31-3-2024</u> of ₹ 10 each	8,00,000
Average fair value of one equity share during the year 2023-24	₹ 25
Weighted average no. of shares under warrant option during the year 2023-24	80,000
Exercise price for shares under option during the year 2023-24	₹ 20
12% Debentures of ₹ 100 each	₹ 30,00,000
(Each debenture is convertible into 4 equity shares)	
Tax rate	30%

PES

PES

opn
Bons
New
Issue.

The company issued one equity share as bonus for every 5 equity shares outstanding as on 1st October, 2023. It further issued 2,00,000 equity shares of ₹ 10 each as on 1st January, 2024. The Financial Year of the company ends on 31st March each year.

You are required to calculate Basic and Diluted earnings per share as on 31st March, 2024 (round off your answer to 2 decimal places). **(5 Marks)**

Solⁿ: Q22 (LDR)

No. of shares outstanding on 31/03/24 = 8,00,000 (It includes New Issue & Bonus shares)

Ques

Ques ① Calculation of shares on Date, Bonus shares, New Issue.

Total shares on Yr end	800000	
(-) New Issue (Given)	(200000)	
Opn Shares + Bonus	600000	
(-) Bonus	(100000)	$\frac{6}{1}$
Opn shares	500000	5

i) Basic EPS = 3120000

$$\begin{array}{ccc} \swarrow & & \swarrow \\ \frac{5L \times 12}{12} & + & \frac{1L \times 12}{12} + \frac{2L \times 3}{12} \\ \text{Opn} & & \text{new} \\ \text{share} & & \text{Issue} \end{array}$$

$$= \frac{3120000}{650000 \text{ shares}} = \text{₹ 4.8 per share.}$$

ii) Diluted EPS (Multiple PES)

Step ① Incremental EPS = $\frac{\text{Impact on Num}}{\text{Impact on Den.}}$

Step ② Ranking

I

i) Warrants = $\frac{0}{16000} = 0$

$\rightarrow 80000 \times \frac{5}{25}$

ii) Conv Deb = $\frac{252000}{120000 \text{ shares}} = 21$

$\rightarrow 300 \times 12\% \times 70\% = 21$

$\rightarrow 30000 \text{ Deb} \times 4 \text{ eq. share.}$

II

Step ③ Conclusion

Particulars	Numerator	Denominator	EPS	Conclusion
i) Basic EPS	3120000	650000	4.8	-
(+) Warrants	0	16000		
	3120000	6,66,000	4.68	Dilutive
(+) Conv Deb	252000	120000		
	3372000	786000	4.29	Dilutive.

Diluted EPS = 4.29