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As-20

E.P.S.

#1 Introduction

- Means Earnings per share
- It is calculated only for equity shares. not for Bonus Shares.
- EPS is disclosed in FIs of Co. but its calc. is govern by As-20.

#2 Types of EPS

- Basic
- Diluted

EPS (BEPS)

EPS. (DEPS)

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#3 BEPS

$$= \frac{\text{Earnings available to Equity shareholders}}{\text{Weighted avg. no. of Equity sh. at yr. end.}}$$ (EATESH) / (WANES)

a) EATESH

PAT	xxx
− pref. Divid.	(xx)
− Cum. Div. tax on P.D.	(xx)
EATESH	xxx

Note-1 Pref. Dividend

- Cumulative → always subtract.
- Non-cumulative → Subtract only if dividend is declared.

Note:- txf. to Reserves should never be subtracted.
∵ it belongs to equity sh.

b) WANES

Op. Bal. × $\frac{12m}{12m}$ = xxx

Public issue × $\frac{\text{Date of iss. to yr. end}}{12m}$ = xxx

Buy back × $\left(\frac{\text{Date of B.B.}}{12m}\right)$ = (xxx)

Bonus × $\frac{12m}{12m}$ = xxx

Merger × $\frac{12m}{12m}$ = xxx

Purchase × $\frac{\text{D.o.P. to yr. end}}{12m}$ = xxx

Note-1 Whenever Bonus Shares are issued in C.Y. then P.Y. BEPS is restated.

$$\text{BEPS (Restated)} = \frac{\text{EATESH}}{\text{WANES + Bonus}}$$

Eg-1

1-1-01	Op. Bal.	1800 sh.
31-5-01	Issue of sh. for Cash	= 600
1-11-01	Buyback of Eq. sh.	300

Calculates WANES.

Soln :-

1-1-01	Op. Bal	$= 1800 \times \frac{12}{12} =$	1800
31-5-01	Issue of sh	$= 600 \times \frac{7}{12} =$	350
1-11-01	Buyback	$= 300 \times \frac{2}{12} =$	(50)
	WANES.		2100

QUESTION: 2

Date	Particulars	No. of Shares	Face Value	Paid up Value
1st January	Balance at beginning of year	1,800	₹ 10	₹ 10
31st October	Issue of Shares	600	₹ 10	₹ 5

Calculate Weighted Number of Shares

Soln. ⇒ op. = $1800 \times \frac{10}{10} \times \frac{12}{12} = 1800$

Iss. = $600 \times \frac{5}{10} \times \frac{2}{12} = 50$

WANES. 1850

eg-2 N.P. for year 2016 1800000

N.P. for year 2017 600000

Bonus issue on 1-10-17 = 2:1

no. of eq. sh. upto 30-9-2017 = 20 lacs.

Calculate BEPS for 2016 & 2017.

Soln :-

WANES for year 2017.

1-1-17	op.	2000000
1-10-17	Bonus.	4000000
	(20L × 12/12) WAPES.	6000000

BEPS (2016) = $\frac{1800000}{2000000} = 0.9$

BEPS (2017) = $\frac{6000000}{6000000} = 0.1$

BEP(2016) Restated = $\frac{1800000}{20L + 40L} = \frac{18L}{60L}$

= 0.3.

c) Right shares.

i) Right shares are equity shares issued to existing shareholders at concessional rate.

ii) ∵ Right shares are issued at concessional rate we need to breakup right shares into 2 parts.

a) Paid part. i.e. R.S. at F.V.

b) Free part (Bonus part) i.e. R.S. which are free.

eg⇒ Suppose

HD Ltd.

MP = ₹30

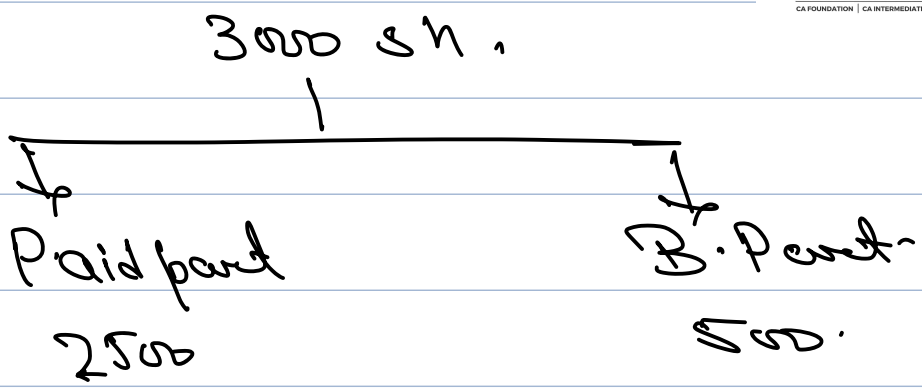
R.sh. @ ₹25 → 3000 sh.

⇒ 3000 sh × 25

⇒ 75000

$$\Rightarrow \frac{75000}{₹30} = 2500 \text{ shares.}$$

∴ Paid part = 2500 sh.
Bonus part = 500 sh.



iii) Paid part = $\frac{\text{R. shares} \times \text{offer price.}}{\text{FV or M.P.}}$ =
(Ex right price)

iv) Bonus part = Total R. shares — paid part.

v) paid part is treated as public issue. hence its period in calc of WANES = Date of issue to year end.

vi) Bonus part = $\frac{12m}{12m}$ as usual and due to Bonus part we will calculate Restated B.E.P.S.

vii) what if F.V. of shares after Ri. / MP of shares / Ex right price of share is not given.

Eg-3 Co. has 10000 E.sh. with FV = ₹ 40 before Rights. (cum Right). Co. offerres Right shares @ ₹ 1:5 @ ₹ 20.

Soln :- no. of R. shares = $10000 \times \frac{1}{5} = 2000$

∴ we say FV of shares after Rights.

$$= \frac{10000 \times 40 + 2000 \times 20}{12000}$$

$$= 36.67/-$$

Or

nos.	price p. sh.	amt.
10000	40	400000
2000	20	40000
12000		440000

$$\therefore M.P = \frac{440000}{12000} = 36.67/-$$

Now paid part = $\frac{2000 \text{ sh} \times ₹20}{₹36.67}$

= 1091 shares.

Bonus part = 2000 shares − 1091

= 909 shares

eg-4 N.P. for year 2016 = 112 lac.

N.P. for year 2017 = 15 lac.

no. of E.sh prior to R.I. = 5 lac.

FV of E.sh. prior to R.I. = ₹21

Co. made R.I. on 1-3-2017 in 1:5 @ ₹15

Calculate BEPS.

Soln :- Step 1 WN

1) no. of Right shares = $500000 \times \frac{1}{5}$

= 100000 shares.

2) F.V. (Ex right) = $\frac{5 \text{ lac} \times ₹21 + 1L \times ₹15}{600000}$

= ₹20

3) Paid part = $\frac{100000 \times ₹15}{₹20}$ = 75000 Shares on 1-3-2017.

4) Bonus part = 100000 − 75000
= 25000

Step2 WANES.

for 2016

1-1-16 op. bal = 5L × $\frac{12m}{12m}$ = 5lac.

for 2017.

1-1-17 op.bal = 5L × $\frac{12m}{12m}$ = 5lac.

1-3-17 R.Sh. (paid) = 75000 × $\frac{10m}{12m}$ = 62500

1-3-17 Bonus part = 25000 × $\frac{12m}{12m}$ = 25000

587500

Step3. BEPS.

BEPS (2016) = $\frac{1100000}{500000}$ = 2.2.

Restated BEPS (2016) = $\frac{1100000}{5L + 25000} = 2.09$

BEPS (2017) = $\frac{150000}{587500} = 2.55$

#4 Diluted EPS (DEPS)

↳ i) it means dilution of EPS bcoz of potencial equity shares

↓

Those instruments which will get converted into equity shares in future w/o payment.

eg → a) Convertible pref. shares.

b) " Debentures.

c) Bonus part of Esops.

↓

Refer eg-5

eg-5 no. of Esop. offered = 10000 @ ₹20.

M.P. of shares = ₹25.

$\therefore$ paid $= \frac{10000 \times 20}{25} = 8000$

$\therefore$ Bonus $= 10000 - 8000 = 2000$

OR

Bonus part $= \left(\text{no. of eqsh} - \frac{(\text{no. of esop} \times \text{E.P.})}{\text{FV/MP}}\right)$

$= 10000 - \frac{10000 \times 20}{25}$

$= 10000 - 8000$

$= 2000$

ii) When we will calculate DEPS, our EATESH shall WANES will get impacted due to potencial equity shares which is explained in further 2 steps.

Step 1 Cal^{n} of Revised Earnings.

EATESH (BEPS)	xxx
+ Deb. int.	xx
(N.V. x R.O.I. x (1-tax))	

+ pref. Dividend	xx
+ DDT on Pref. Div.	xx
Revised Earnings	xxx

Step 2 Revised WANES.

WANES (BEPS)	xxx
+ Esh. issued to p.sh & Deb.hold	xx
+ Bonus part of Esops.	xx
Revised WANES.	xxx

Eg - 6 N.P. for C.Y. = 1,00,00,000

no. of E.sh OIS = 50,00,000

no. of 12% Conv. Deb of ₹100 ⇒ 100000

Each deb. is converted into 10 eq. sh.

Tax rate = 30%.

Calculate DEPS.

Soln:- Step 1 Revised Earnings.

EAT ESH	10000000
+ Deb. Int.	840000
(100000 × 100 × 12% × (1-0.3))	10840000

Step 2. Revised WANES.

WANES. 5000000

+ Conv. deb. (12 x 10 E.sh) 1000000

6000000

Step3 DEPS.

$$\Rightarrow \frac{10840000}{6000000} = ₹1.81$$

Eg-7 N.P. for 2017 1200000

WANES 500000

Esop. 100000 sh @ ₹15

FV of sh. ₹20

Calculate BEPS & DEPS.

Soln

Step1 Revised earnings.

EATESH = 1200000

Step2 Revised WANES.

WANES 500000

+ Bonus part of Esop. 25000

(100000 - (12 x 15 / 20)) 525000

Step3 DEPS

① BEPS = $\frac{1200000}{500000} = 2.4$.

② DEPS = $\frac{1200000}{525000} = 2.29$