

## Ind AS 33 (Earnings per share)

### Statement of P/L

A.	Profit or loss from the period	xxx
B.	<u>Other Comprehensive Income</u>	
	items not reclassified to P/L	
	Income tax relating to items not reclassified to P/L	
	Items reclassified to P/L	
	Income tax relating to items reclassified to P/L	xxx
		<hr/>
C.	Total Comprehensive Income from the period	xxx
d.	<u>Earnings per Equity Share (Continuing operation)</u>	
	Basic EPS	5.93
	Diluted EPS	
e.	<u>Earnings per Equity Share (Discontinued operation)</u>	
	Basic EPS	
	Diluted EPS	
	<u>Earnings per Equity Share (Continuing and Discontinued operation)</u>	
	Basic EPS	
	Diluted EPS	

$$\begin{aligned} \text{Earnings per share} &= \frac{\text{Total Earnings}}{\text{No. of shares}} \\ &= \frac{100000}{20000} \\ &= 5/\text{sh} \end{aligned}$$


---

1.4.2001

Shares issued = 100000 shares issued

31.3.2002

Profit during the year = 500000 (Earnings to ordinary sh. holder)

$$\text{EPS} = \frac{500000}{100000} = 5$$


---

1.4.01 Shares of S = 100000 shares.

1.1.02 Fresh issue = 50000 shares, = 50000 sh. x  $\frac{3}{12}$  = 12500 sh

Profit during the year = 600000 (PRESH)

$$\therefore \text{EPS} = \frac{600000}{150000} = \cancel{4} = \frac{600000}{112500} = 5.33$$

Basic EPS =  $\frac{\text{Profit attributable to ordinary sh. holder}}{\text{Weighted Average No. of shares}}$   
 for ordinary share holder.

# Earning per Share

Forecasted  
Future  
Position.

## Basic EPS (Current Position)

Shares which are already issued at Reporting period end are included while calculating Basic EPS.



1. Ordinary shares outstanding.
2. Fresh issue during the year.
3. Bonus shares already issued.
4. Right shares already issued.
5. Convertible instruments already converted into shares during the year.
6. Buy back of shares during the year.



Above shares already issued during the year

## Diluted EPS

Apart from shares already issued, Potential ordinary shares promised by company but not yet issued at Reporting period end are also included while calculating Diluted EPS.

1. Warrants.
2. Options
3. Employee stock options
4. Convertible Debentures/Bonds
5. Convertible Preference shares.
6. Contingently issuable shares



Here, share not yet issued and hence it will not form part of Basic EPS. But those shares have the potential to be converted into shares in future and therefore it should be included in DEPS.

### Example 1

Date	Description	Shares	Weighted Average
1.4.2001	→ Shares outstanding	= 50000	$50000 \times \frac{12}{12} = 50000$
1.8.2001	→ Fresh issue during the year	= 30000	$30000 \times \frac{8}{12} = 20000$
1.10.2001	→ " " " " "	= 5000	$5000 \times \frac{6}{12} = 2500$
1.2.2002	→ " " " " "	= 15000	$15000 \times \frac{2}{12} = 2500$
1.5.2002	→ " " " " "	= 500	$500 \times \frac{1}{12} = 42$
31.3.2002	→ " " " " "	= 1000	$1000 \times \frac{9}{12} = 750$

∴ Weighted Average No. of shares (WANOS) = 75042 shares



Illustration 5

Jan - Dec (F.Y.)

Jan - Dec

X Ltd.

1 January

1,000,000 shares in issue

1000000

28 February

issued 200000 shares at fair value

$$200000 \times \frac{10}{12} = 166667$$

31 August

Bonus issue 1 shares for 3 shares held

$$1166667 \times \frac{1}{3} = 388889$$

30 November

issued 250,000 shares at fair value

$$250000 \times \frac{1}{2} = 125000$$

Calculate the number of shares which be used in the basic EPT calculation. Consider reporting data as December end.

Calc of W.A.V.S

1 Jan —————  $1000000 \times \frac{12}{12} = 1000000$

28th Feb — Fresh issue  $\left( 200000 \times \frac{10}{12} \right) = 166667$

31st Aug — Bonus issue  $\left( 1000000 \times \frac{1}{3} + 200000 \times \frac{1}{3} + 166667 \times \frac{1}{3} \right) = 388889$

30th Nov — Fresh issue  $\left( 250000 \times \frac{1}{2} \right) = 125000$

1576389

Illustration 3

Following is the data for company XYZ in respect of number of equity shares during the financial year 20X1-20X2. Find out the number of shares for the purpose of calculation of basic EPS as per Ind AS 33.

S.No	Date	Particulars	No of shares
1	1-Apr-20X1	Opening balance of outstanding equity shares	100,000
2	15-Jun-20X1	Issue of equity shares	75,000
3	8-Nov-20X1	Conversion of convertible preference shares in Equity	50,000

15th June will also be counted

4	22-Feb-20X2	Buy back of shares	(20,000)
5	31-Mar-20X2	Closing balance of outstanding equity shares	205,000

1st April — o.p of s  $\left( 100000 \times \frac{12}{12} \right) = 100000$

15th June — Fresh issue  $\left( 75000 \times \frac{290}{365} \right) = 59589$

8th Nov — Conversion  $\left( 50000 \times \frac{149}{365} \right) = 19726$

22 Feb — Buyback  $\left( 20000 \times \frac{38}{365} \right) = (2082)$

177233

## Right Issue

1.4.2001 → opening shares of £ - 200000

1.10.2001 → Bonus shares issued - 50000

1.1.2002 → Right Shares issued (2/5) - 100000

Exercise price = £ 20/share,

Market Price immediately before exercise of right shares = 27 X

Profit (2001-02) = 30,00,000

Profit (2000-01) = 30,00,000.

$$\begin{array}{l} 250000 \text{ sh} \times 27 = 6750000 \\ 100000 \text{ sh} \times 20 = 2000000 \\ \hline 350000 \text{ sh} \quad \quad \quad 8750000 \end{array}$$

$$\text{Ex Right Price} = \frac{8750000}{350000} = 25$$

$$\text{Paid Part} = \frac{20}{25} \times 100000 \text{ sh} = 80000 \text{ sh} \text{ (time weight)}$$

$$\text{Bonus Part} = \frac{5}{25} \times 100000 \text{ sh} = 20000 \text{ sh} \text{ (No time weight)}$$

Sol<sup>n</sup> Net Asset before exercise of right shares (250000 × 27) = 6750000

(+) Cash received by right shares (100000 × 20) = 2000000

**Net Asset after Right Issue (350000 shares)** = 8750000

∴ Price after right shares =  $\frac{8750000}{350000} = 25/\text{sh}.$

Here, out of market price of £ 25, £ 20 exercise price will be received.

$$\text{Paid Part} = 100000 \text{ sh} \times \frac{20}{25} \text{ i.e. } 80\% = 80000 \text{ sh} \times 3/12 = 20000 \text{ sh}.$$

$$\text{Bonus Part} = 100000 \text{ sh} \times \frac{5}{25} \text{ i.e. } 20\% = 20000 \text{ sh} \times 12/12 = 20000 \text{ sh}.$$

$$\begin{aligned} \therefore \text{WANDS} &= 250000 + 20000 \text{ (paid)} + 20000 \text{ (bonus)} \\ &= \underline{290000 \text{ sh.}} \end{aligned}$$

## Alternatively

$$\text{Amount received (100000 sh} \times 20/\text{sh)} = \text{£ } 2000000$$

Market Price after right issue = 25/sh

∴ No. of shares that would have been issued for a

$$\text{consideration of £ } 2000000 = \frac{2000000}{25} = 80000 \text{ sh.}$$

$$\therefore \text{Paid Part} = 80000 \text{ shares i.e. Bonus Element} = 20000 \text{ sh.}$$

Illustration 6

Jan-Dec

At 31 December 20X1, the issued share capital of a company consisted of 1.8 million ordinary shares of ₹ 10 each, fully paid. The profits for the year ended 31 December 20X1 and 20X2 amounted to ₹ 630,000 and ₹ 875,000 respectively. On 31 March 20X2, the company made a rights issue on a 1 for 4 basis at ₹ 30. The market price of the shares immediately before the rights issue was ₹ 60. Calculate EPS.

No. of sh. of S = 1800000 shares.

Net Asset before right issue (1800000 x 60)	10800000
+ Right issue (450000 sh. x 30)	13500000
Net Asset after right issue (2250000 sh.)	121500000

Theoretical Price after right issue =  $\frac{121500000}{2250000} = ₹ 54/sh.$

Out of ₹ 54 m/p, ₹ 30 received

∴ Paid part  $\left\{ 450000 \times \frac{30}{54} \right\} = 250000 sh \times \frac{9}{12} = 187500$

Premium part  $\left\{ 450000 \times \frac{24}{54} \right\} = 200000 \times \frac{12}{12} = 200000$

∴ W.A.N.O.S (2002) = 1800000 + 187500 + 200000 = 2187500

	<u>31.12.02</u>	<u>31.12.01</u>
Profit attributable	875000	630000
W.A.N.O.S	2187500	1800000
Basic EPS	.40	.35

Restated Basic EPS

.315  
 $\left\{ \frac{1800000 sh + 200000 sh}{1800000} \right\}$

### Illustration 6

Jan-Dec

At 31 December 20X1, the issued share capital of a company consisted of 1.8 million ordinary shares of ₹ 10 each, fully paid. The profits for the year ended 31 December 20X1 and 20X2 amounted to ₹ 630,000 and ₹ 875,000 respectively. On 31 March 20X2, the company made a rights issue on a 1 for 4 basis at ₹ 30. The market price of the shares immediately before the rights issue was ₹ 60. Calculate EPS.

$$\text{NAV} = 1800000 \text{ sh} \times 60 = 108000000$$

$$\begin{aligned} \text{① Rights} &= \frac{450000 \text{ sh} \times 30}{2250000 \text{ sh}} = \frac{13500000}{22500000} \end{aligned}$$

$$\therefore \text{Ex Right Price} = \frac{121500000}{2250000} = 54$$

$$\begin{aligned} \text{Paid Part} &= \frac{30}{54} \times 450000 \text{ sh} = 250000 \times \frac{9}{12} \text{ time weight} = 187500 \\ \text{Money Part} &= \frac{24}{54} \times 450000 \text{ sh} = 200000 \times \frac{12}{12} = 200000 \end{aligned}$$

$$\therefore \text{W.A.N.O.S (2002)} = 1800000 + 187500 + 200000 = 2187500 \text{ shares}$$

$$\text{W.A.N.O.S (2001)} = 1800000$$

$$\text{W.A.N.O.S (2001) for Restated BEPS} = 1800000 + 200000 = 2000000$$

Profit attributable

W.A.N.O.S

Basic EPS

Restated Basic EPS

2002  
31.12.02  
875000  
2187500  
.40

2001  
31.12.01  
630000  
1800000  
.35

.315  
↑ 2000000 sh

### Question 4 *class work*

Calculate Basic EPS for period ending 20X0, 20X1 and 20X2, when

	20X0	20X1	20X2
Profit attributable to ordinary equity holders of the parent entity	₹ 1,100	₹ 1,500	₹ 1,800
Shares outstanding before rights issue	500 shares		
Rights issue	One new share for each five outstanding shares		
Exercise price	₹ 5.00		
Date of rights issue	1 January 20X1		
Last date to exercise rights	1 March 20X1		
Market price of one ordinary share immediately before exercise on 1 March 20X1:	₹ 11.00		
Reporting date	31st December		

$$\text{Paid} = \frac{₹ 1000}{10} = 50 \times \frac{10}{10} = 41.67$$

$$\text{Premium} = \frac{₹ 1000}{10} = 50$$

$$\text{Weighted} = 500 + 41.67 + 50 = \underline{591.67}$$

$$500 \times 11 = 5500$$

$$100 \times 5 = 500$$

$$\frac{5500}{600} = 9.1667$$

$$\text{Ex Right Price} = \underline{10}$$

Rights issue = 100000 Sh.

Ex. Price = 15

Avg. Market Price = 20

-CAI

$$\frac{15}{20} = 75\% \text{ Payment received}$$

$$\text{Paid Part} = 100000 \times 75\% = 75000 \text{ Sh. (time weighted)}$$

$$\text{Amount Part} = 100000 \times 25\% = 25000 \text{ Sh. (no time period)}$$

Net

$$\text{Cash received} = 100000 \text{ Sh.} \times 15 = 1500000$$

$$\text{Avg. m/p} = 20$$

∴ Max. Sh. Net can be issued at ₹ 1500000

$$= \frac{1500000}{20} = 75000 \text{ Sh.}$$

$$\text{Paid Part} = 75000 \text{ Sh.}$$

$$\text{Amount Part} = 25000 \text{ Sh.}$$

Note: The share price before rights issue is called Cum Right Price while the share price after rights issue is called Ex-Right Price.

Note Preference Shares can be classified as Financial Liability or can be classified as Equity.

Pref. Sh classified as Equity → Dividend treated as dist<sup>n</sup> of profits

Pref. Sh classified as Liability → Dividend treated as Finance Cost

Calc of Profit attributable to ordinary shareholders

	Profit before interest and tax	2000000
(-)	Finance Cost	(150000)
	{ Interest on Debentures / Bonds / Loans, <u>Dividends</u> <u>on Preference Shares classified as Liability</u> }	
	Profit before tax	1850000
(-)	Taxes	(400000)
	Profit after tax	1450000
(-)	Dividend on <u>Cumulative Pref. Shares</u> <u>whether</u> <u>or not declared</u> (Equity)	(100000)
(-)	Dividend on <u>Non Cumulative Pref. Shares</u> <u>only if declared</u> (Equity)	(50000)
	Profit attributable to Eq. Shareholders	1300000

Share Capital } Market Price of Share = Net Asset  
Other Equity }

# Diluted EPS

1.4.2001 Equity Shares of £ = 100000 shares

1.4.2001 Convertible Debentures issued - 2000, 10% Debentures of £ 100 each converted into 5 shares for every 1 Debentures held.

1.10.2001 Convertible Debentures issued - 1500, 8% Debentures of £ 100 each converted into 6 shares for every 1 Debentures held

1.1.2002 Convertible Pref. Shares issued - 1200, 10% Pref. Sh. of £ 100 each converted into 10 shares for every 1 Pref. Sh. held.  
 (classified as Liability)  $\rightarrow$  Finance cost  
 $12000 \text{ Sh.} \times 3/12 = 3000 \text{ Sh.}$

1.1.2002 Convertible Pref. Shares issued - 500, 6% Pref. Sh. of £ 100 each converted into 10 shares for every 1 Pref. Sh. held.  
 (classified as Equity)  $\uparrow$  Assume cumulative  
 $5000 \times 3/12 = 1250 \text{ Sh.}$

1.2.2002 Employee Stock Option - 5000 options at exercise price of £ 20/sh  
 Average Fair Value of option = 25/sh  
 Confusion may arise with right issue question

PAT for the year = 2500000

Tax rate = 30%

PAT = 2500000

$\rightarrow$  Pref Div. = (750)

$(5000 \times 6\% \times 3/12)$

PRESH = 2499250

$\therefore$  BASIC EPS =  $\frac{2500000}{100000} = \frac{2499250}{100000} = 24.9925$

## Diluted EPS

1. 10% Convertible Debenture (Bank £)

$\frac{2499250}{100000}$	$\frac{2499250 + 9997}{100000 + 400}$	$\frac{2499250 + 8000}{100000 + 400}$
$= 24.9925$	$= \frac{2509247}{100400}$	$= \frac{2507250}{100400}$
	$= 24.9925$	$= 24.9926$

Deb	Int Saving (Net 9997)	= 9997	8000
Nos.		= 400	400
Incremental EPS		= $\frac{9997}{400}$	= $\frac{8000}{400}$
		= 24.9925	= 20

Incremental Profit (savings in Interest) =  $200000 \times 10\% \times 70 = 14000$

Incremental shares (2000 x 5) = 10000 shares

$\therefore$  Incremental EPS =  $\frac{14000}{10000} = 1.4$  (Dilutive)

2. 8% Convertible Debenture (Rank 3)

$$\text{Incremental Profit (savings in Interest)} = (150000 \times 8\% \times \frac{6}{12}) \times 70 = 4200$$

$$\text{Incremental Shares } (1500 \times 6) \times \frac{6}{12} \text{ i.e. } 4500$$

$$\therefore \text{Incremental EPS} = \frac{4200}{4500} = \underline{.933} \text{ (Dilutive)}$$

3. 10% Convertible Pref. Shares (Rank 4)

$$\text{Incremental Profit (savings in Finance Cost)} (120000 \times 10\% \times \frac{3}{12}) = 3000$$

Assume No tax benefit

$$\text{Incremental Shares } (1200 \times 10) \times \frac{3}{12} \text{ i.e. } 3000 \text{ Shares}$$

$$\therefore \text{Incremental EPS} = \frac{3000}{3000} = \underline{1} \text{ (Dilutive)}$$

4. 6% Convertible Pref. Shares (Rank 2)

$$\text{Incremental Profit (savings in Dividend)} (50000 \times 6\% \times \frac{3}{12}) = 750$$

$$\text{Incremental Shares } (500 \times 10 \times \frac{3}{12}) \text{ i.e. } 1250 \text{ Shares}$$

$$\therefore \text{Incremental EPS} = \frac{750}{1250} = \underline{.6} \text{ (Dilutive)}$$

5. Options (Rank 1)

$$\text{Incremental Profit} = 0$$

$$\text{Incremental Shares}$$

$$(5000 \times \frac{5}{25} \times \frac{2}{12})$$

$$= \frac{166.67}{166.67} = 167 \text{ (Rounded off)}$$

$$\therefore \text{Incremental EPS} = \frac{0}{166.67} = \underline{0} \text{ (Dilutive)}$$

Basic EPS

$$\frac{2499250}{100000} > 24.9925$$

$$1. \text{ Options} \Rightarrow \text{Diluted EPS} = \frac{2499250 + 0}{100000 + 167} = \frac{2499250}{100167} = 24.95 \text{ (Dilution)}$$

$$2. \text{ 6\% Conv Pref. sh} \Rightarrow \text{Diluted EPS} = \frac{2499250 + 750}{100167 + 1250} = \frac{2500000}{101417} = 24.65 \text{ (Dilution)}$$

$$3. \text{ 8\% Conv. Deb} \Rightarrow \text{Diluted EPS} = \frac{2500000 + 4200}{101417 + 4500} = \frac{2504200}{105917} = 23.64 \text{ (Dilution)}$$

$$4. \text{ 10\% Conv Pref. sh. + DEPS} = \frac{2504200 + 3000}{105917 + 3000} = \frac{2507200}{108917} = 23.02 \text{ Dilution}$$

$$5. \text{ 10\% Conv. Deb.} = \frac{2507200 + 14000}{108917 + 10000} = \frac{2521200}{118917} = 21.20 \text{ (Dilution)}$$

$$\begin{aligned} \text{2. BEPS} &= 24.9925 \\ \text{DEPS} &= 21.20 \end{aligned}$$


---

Diluted EPS

(option)

$$\frac{2499250 + 0}{100000 + 1000} = 24.745$$

Diluted EPS

(6% Conv Pref)

$$\frac{2499250 + 0 + 750}{100000 + 1000 + 1250} = 24.45$$

Diluted EPS

(8% Conv Deb)

$$= \frac{2499250 + 0 + 750 + 4200}{100000 + 1000 + 1250 + 4500} = 23.46$$

Diluted EPS

(10% Conv Pref)

$$= \frac{2499250 + 0 + 750 + 4200 + 3000}{100000 + 1000 + 1250 + 4500 + 3000} = 22.84$$

Diluted EPS

(10% Conv Deb)

$$= \frac{2499250 + 0 + 750 + 4200 + 3000 + 14000}{100000 + 1000 + 1250 + 4500 + 3000 + 10000} = 21.05$$

$$\text{Basic EPS} = 24.9925$$

$$\text{Diluted EPS} = 21.05$$

~~Work~~

	20000	20000
Interest Expense	(2000)	(2000)
Prefer Div (Finance)	(3000) x	-
	177000	180000
(-) Pay 30% of 180000	(54000)	(54000)
	123000	126000

Parent  
 BEPS = 10000 Sh  
 DEPS = 10000 Sh

Calculate Subsidiary's and Group's Basic EPS and Diluted, when EPS

Parent:	
Profit attributable to ordinary equity holders of the parent entity	₹12,000 (excluding any earnings of, or dividends paid by, the subsidiary)
Ordinary shares outstanding	10,000
Instruments of subsidiary owned by the parent	800 ordinary shares <i>→ 20% of Warrant issued</i>
	30 warrants exercisable to purchase ordinary shares of subsidiary
	300 convertible preference shares
Subsidiary:	
Profit <i>PAT</i>	₹ 5,400
Ordinary shares outstanding	1,000
Warrant	150, exercisable to purchase ordinary shares of the subsidiary
Exercise price	₹ 10
Average market price of one ordinary share	₹ 20
Convertible preference shares	400, each convertible into one ordinary share
Dividends on preference shares	₹ 1 per share
No inter-company eliminations or adjustments were necessary except for dividends.	
Ignore income taxes. Also, ignore classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by Ind AS 32.	

$\frac{10}{20} \times 150 = 75$  shares (P.O.S)

400 shares

Subsidiary

Basic EPS =  $\frac{\overset{\text{PAT}}{5400} - \overset{\text{Pref Div.}}{400}}{1000} = \frac{\overset{\text{P.A.E.S.H}}{5000}}{1000} = 5$

5000  
 80% Parent  
 20% NCI

Diluted EPS =  $\frac{5000 + 400 + 0}{1000 + 400 + 75} = \frac{5400}{1475} = 3.66$

800  
 300  
 15

1115 x 3.66  
 OR  
 5400 x  $\frac{1115}{1475}$

Parent

Basic EPS =  $\frac{12000 + \overset{\text{Dividend Income}}{300} + \overset{\text{Portion of Sub. Profit}}{4000}}{10000} = 1.63$

4082

Diluted EPS =  $\frac{12000 + (1115 \times 3.66)}{10000} = \frac{16081}{10000} = 1.61$

Parent Holding in Subs.

800 shares + 300 shares (Net) + ~~30 shares~~ 15 shares

Question 2: Jan - Dec

Basic EPS =  $\frac{200000}{1022500} = 0.1955$

1 January	Shares in Issue	1,000,000
	5% Convertible Bonds	₹ 100,000

(terms of conversion 120 ordinary shares for ₹ 100)

31 March Holders of ₹ 25,000 bonds converted to ordinary shares.

Profit for the year ended 31 December ₹ 200,000

Tax rate 30%.

Calculate basic and diluted EPS. Ignore the need to split the convertible bonds into liability and equity elements.

$25000 \times 5\% \times \frac{9}{12} = 912.5$

$75000 \times 5\% \times \frac{12}{12} = 4062.5$

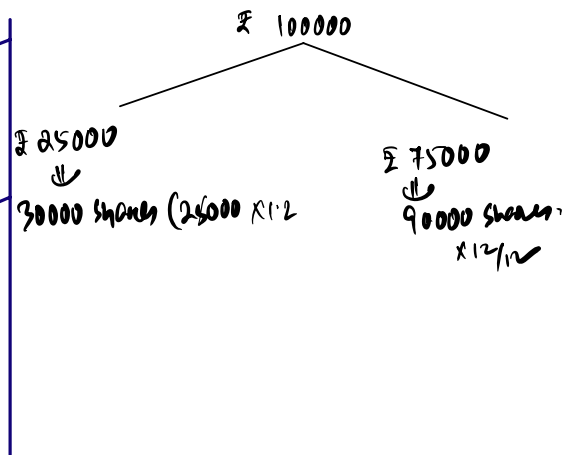
(net of tax)

$4062.5 \times .70$

$= 2843.75$

Basic EPS:  $\frac{200000}{1022500} = .1955 = .20$

DEPS =  $\frac{200000 + 2843.75}{1120000} = .1811 = .18$



Basic EPS

Profit for the year = 200,000

WANDS =  $1000000 + (30000 \times \frac{9}{12})$

= 1022500

∴ Basic EPS =  $\frac{200000}{1022500} = .1955 = .20$

Diluted EPS

WANDS for the purpose of DEPS =  $1022500 + 7500 + 90000$

OR

$1000000 + 120000$

= 1120000 shares

$$\begin{aligned}
 \text{P.A.E.G.H. for DEPS} &= 200000 + (25000 \times 5\% \times \frac{3}{12} \times 70) \\
 &\quad + (75000 \times 5\% \times \frac{1}{12} \times 70) \\
 &= 200000 + 21875 + 2625 \\
 &= 202844
 \end{aligned}$$

$$\therefore \text{DEPS} = \frac{202844}{1120000} = \underline{\underline{.1811}} = \underline{\underline{.18}}$$

$$\begin{aligned}
 & \begin{matrix} .20 \\ \downarrow \\ .20 \times 60\% \\ = .12 \end{matrix} & \begin{matrix} .80 \\ \downarrow \\ .80 \times 100\% \\ = .80 \end{matrix} \\
 & \frac{46000 \times .12}{6000} = \frac{6000}{6000} = 1 & \frac{46000 \times .80}{10000} = \frac{40000}{10000} = 4
 \end{aligned}$$

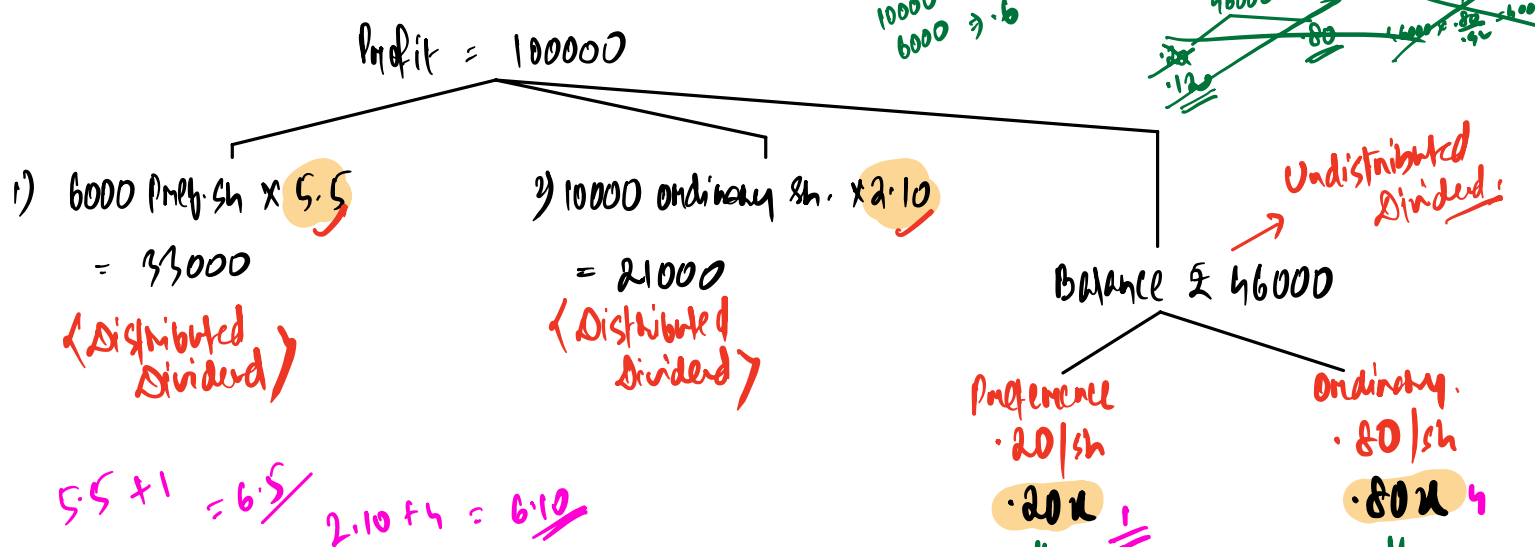
**Illustration 16**

(This illustration does not illustrate the classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by Ind AS 32).

Profit attributable to equity holders of the parent entity	₹ 100,000
Ordinary shares outstanding	10,000
Non-convertible preference shares	6,000
Non-cumulative annual dividend on preference shares (before any dividend is paid on ordinary shares)	₹ 5.50 per share

After ordinary shares have been paid a dividend of ₹ 2.10 per share, the preference shares participate in any additional dividends on a 20:80 ratio with ordinary shares.

Compute the allocation of earnings for the purpose of calculation of Basic EPS when an entity has ordinary shares & participating equity instruments that are not convertible into ordinary shares.



A/Q,

$$.20x + .80x = 46000$$

$$\Rightarrow 1200x + 8000x = 46000$$

$$\therefore x = \frac{46000}{9200} = 5 \quad \left\{ \text{Pref} = .20 \times 5 = 1, \text{Ordinary} = .80 \times 5 = 4 \right\}$$

$$1 \times 6000 = 6000$$

$$4 \times 10000 = 40000$$

Dividend/Ch.

Distributed Div.

Undistributed Div

Pref.

5.5

1

6.50

Ordinary

2.10

4

6.10

Illustration 15

An entity has two classes of shares in issue:

- 5,000 non-convertible preference shares
- 10,000 ordinary shares

The preference shares are entitled to a fixed dividend of ₹ 5 per share before any dividends are paid on the ordinary shares. Ordinary dividends are then paid in which the preference shareholders do not participate. Each preference share then participates in any additional ordinary dividend above ₹ 2 at a rate of 50% of any additional dividend payable on an ordinary share.

The entity's profit for the year is ₹ 100,000, and dividends of ₹ 2 per share are declared on the ordinary shares.

Compute the allocation of earnings for the purpose of calculation of Basic EPS when an entity has ordinary shares & participating equity instruments that are not convertible into ordinary shares.

~~$$6.50 \times 6000 + 6.10 \times 10000 = 39000 + 61000 = 100000$$~~

~~$$100000 - 25000 - 20000 = 55000$$~~

~~$$55000 \times \frac{.25}{1.25} = 11000 = 2.2$$

$$55000 \times \frac{1.25}{1.25} = 44000 = 4.4$$~~

~~$$\frac{1}{1}$$~~

<u>Sol<sup>n</sup></u>	Pref. for the year	= 100000
(-)	Dividends on Pref. shares (5000 x 5) (Distributed)	(25000)
(-)	Dividends on Ordinary Sh. (10000 x 2) (Distributed)	(20000)
	<u>∴ Undistributed Earnings</u>	<u>55000</u>

~~$$10000 \times 1 = 10000$$

$$5000 \times .5 = 2500$$

$$55000 \times \frac{1}{1.25} = 44000$$

$$55000 \times \frac{.25}{1.25} = 11000 = 2.2$$~~

Allocation of Undistributed Earnings

Let, Dividend Per Share allocated to Ordinary Sh. = x  
 " " " " " " " Preference Sh. = .5x

A/Q,

$$(10000 \times x) + (5000 \times .5x) = 55000$$

$$\Rightarrow 10000x + 2500x = 55000$$

$$\therefore x = \frac{55000}{12500} = 4.4$$

$$\therefore \text{Ordinary Sh.} = 4.4 \checkmark$$

$$\text{Pref. Share} = (4.4 \times .5)$$

$$= 2.2$$

Dividends Per Share  
Distributed Earnings  
Undistributed Earnings

Profit:  
5  
2.2  
7.20

Ordinary  
2  
4.4  
6.40

Illustration 7 *Ans*

Entity A has in issue 25,000 4% debentures with a nominal value of Re 1. The debentures are convertible to ordinary shares at a rate of 1:1 at any time until 20X9. The entity's management receives a bonus based on 1% of profit before tax.

Entity A's results for 20X2 showed a profit before tax of ₹ 80,000 and a profit after tax of ₹ 64,000 (for simplicity, a tax rate of 20% is assumed in this question). Calculate Earnings for the purpose of diluted EPS.

<p>(-) Profit before tax = 80000 tax @ 20% = (16000) Profit after tax = 64000</p>	<p>PBT (+) Int saving (-) Mgt Exp (1% of 1000)  (-) tax 20% PAT</p>	<p>80000 1000 (10) <u>80990</u> (16198) <u>64792</u> ↓ Earning for DEPS</p>
---	---	---

∴ Earnings for the purpose of Basic EPS = 64000

Earnings for the Purpose of Diluted EPS

REAL oriented

PBT	= 80000
(+) Interest saving (4% of 25000)	= 1000
(-) Management Exp (1% of 1000)	= (10)
NET PBT	<u>80990</u>
(-) tax @ (20% of 80990)	= (16198)
PAT	<u>64792</u>
Earnings for the Purpose of DEPS	= 64792

ICAL (Intra)

PAT	= 64000
(+) Int saving (net of tax)	= 800
(4% of 25000 x 80)	
(-) Mgt Exp (1% of 800)	= (8)
	<u>64792</u>

Illustration 8 (MTP Mar'21)

ABC Ltd. has 1,000,000 ₹ 1 ordinary shares and 1,000 ₹ 100 10% convertible bonds (issued at par), each convertible into 20 ordinary shares on demand, all of which have been in issue for the whole of the reporting period. ABC Ltd.'s share price is ₹ 4.50 per share and earnings for the period are ₹ 500,000. The tax rate applicable to the entity is 21%.

Calculate basic EPS, earnings per incremental share for the convertible bonds and diluted EPS.

$$\text{Basic EPS} = \frac{500000}{1000000} = \underline{\underline{.5}}$$

$$10000 \times .79 = \underline{\underline{7900}}$$

Incremental EPS

$$\text{Incremental Profit} = (100000 \times 10\% \times .79) = 7900$$

$$\text{No. of Shares} = (1000 \times 20) = 20000 \text{ Shares}$$

$$\therefore \text{Incremental EPS} = \frac{7900}{20000}$$

$$= \underline{\underline{.395}} \rightarrow \text{(Dilutive)}$$

$$\therefore \text{Diluted EPS} = \frac{500000 + 7900}{1000000 + 20000} = \frac{507900}{1020000} = \underline{\underline{.4979}}$$

Illustration 10

At 31 December 20X7 and 20X8, the issued share capital of an entity consisted of 4,000,000 ordinary shares of ₹ 25 each. The entity has granted options that give holders the right to subscribe for ordinary shares between 20Y6 and 20Y9 at ₹ 70 per share. Options outstanding at 31 December 20X7 and 20X8 were 630,000. There were no grants, exercises or lapses of options during the year. The profit after tax, attributable to ordinary equity holders for the years ended 31 December 20X7 and 20X8, amounted to ₹ 500,000 and ₹ 600,000 respectively (wholly relating to continuing operations).

630000 options of ₹ 70 exercise price.

Average market price of share:

$$\text{Year ended 31 December 20X7} = ₹ 120$$

$$\text{Year ended 31 December 20X8} = ₹ 160$$

Calculate basic and diluted EPS.

$$\frac{70}{120} \\ \frac{70}{160}$$

$$\frac{50}{120} \times 630000 = 262500 \text{ sh.} \\ \frac{90}{160} \times 630000 = 353375 \text{ P.O.S.}$$

$$630000 \times 70 = \frac{44100000}{120} = 367500$$

$$\text{P.O.S} = 630000 - 367500 = \underline{\underline{262500}}$$

PAOSH  
WOS.  
Basic EPS

2008  
600000  
4000000  
.15

2007  
500000  
4000000  
.125

PAOSH

600000

500000

2007

$$630000 \times \frac{70}{120} = 367500 \text{ (Paid)}$$

$$630000 \times \frac{50}{120} = 262500 \text{ (Free) } \checkmark$$

↳ Part of DEPS.

2008

$$630000 \times \frac{70}{160} = 275625 \text{ (Paid)}$$

$$630000 \times \frac{90}{160} = 354375 \text{ (Free)}$$

↳ Part of Dilution

∴ WANTS for DEPI Purpose

$4354375$ $4000000 + 354375$	$4262500$ $4000000 + 262500$
------------------------------	------------------------------

∴ DEPS

.14

.12

$$\frac{2001-02}{1687500 \times \frac{9}{12}} = 1265625$$

$$\frac{2002-03}{1687500}$$

Illustration 9 July to June F.Y. Practice a lot

At 30 June 20X1, the issued share capital of an entity consisted of 1,500,000 ordinary shares of ₹ 1 each. On 1 October 20X1, the entity issued ₹ 1,250,000 of 8% convertible loan stock for cash at par. Each ₹ 100 nominal of the loan stock may be converted, at any time during the years ended 20X6 to 20X9, into the number of ordinary shares set out below:

- 30 June 20X6: 135 ordinary shares;
- 30 June 20X7: 130 ordinary shares;
- 30 June 20X8: 125 ordinary shares; and
- 30 June 20X9: 120 ordinary shares.

01-02  $1250000 \times 8\% \times \frac{9}{12} = 75000 - 33\% = 50250$  (net)

02-03  $1250000 \times 8\% \times \frac{12}{12} = 100000 - 33\% = 67000$  (net)

---

01-02  $\frac{1250000}{100} \times 135 = 1687500 \times \frac{9}{12} = 1265625$

02-03  $= 1687500$

If the loan stocks are not converted by 20X9, they would be redeemed at par.

This illustration assumes that the written equity conversion option is accounted for as a derivative liability and marked to market through profit or loss. The change in the options' fair value reported in 20X2 and 20X3 amounted to losses of ₹ 2,500 and ₹ 2,650 respectively. It is assumed that there are no tax consequences arising from these losses. No tax ded<sup>n</sup> on fair value movement

The profit before interest, fair value movements and taxation for the year ended 30 June 20X2 and 20X3 amounted to ₹ 825,000 and ₹ 895,000 respectively and relate wholly to continuing operations. The rate of tax for both periods is 33%. Calculate Basic and Diluted EPS.

	<u>2002</u>	<u>2003</u>
Profit before interest, fair value movement, taxation	895000	825000
(-) Interest		(75000)
2001-02 $\rightarrow 1250000 \times 8\% \times \frac{9}{12}$		
2002-03 $\rightarrow 1250000 \times 8\% \times \frac{12}{12}$	(100000)	
(-) Fair value movement	(2650)	(2500) x
(-) tax @ 33%		(247500)
2001-02 $\rightarrow (825000 - 75000) \times 33\%$		
2002-03 $\rightarrow (895000 - 100000) \times 33\%$	(262350)	
P.A.O.S.H	530000	500000
No. of share of s	1500000	1500000
Basic EPS	<u><u>3.53</u></u>	<u><u>3.33</u></u>

PAOSM for the purpose of DEPS

2001-02 → 825000 - 33%

2002-03 → 895000 - 33% top

552750

599650

WAVOS for the purpose of DEPS

2001-02 → 1500000 + (1687500 × 9/12)

2002-03 → 1500000 + (1687500 × 14/12)

2765625

3187500

∴ DEPS

19

20

895000

825000

∴ for 33%

∴ for 9%

599650

552750

(67000)

(50250)

(2650)

(2500)

590000

500000

550000

500000

+ 2650

+ 2500

+ 67000

+ 50250

599650

552750

## Contingently issuable shares

**Example: 5** On 01.04.01, Entity X enters into agreement with any parties to issue additional shares if consolidated earnings go beyond ₹ 20,00,000 in 3 years. Earnings of ₹ 20,00,000 should be maintained till 3rd year end.

Additional Contingent Shares to be issued	20,000 Shares
Shares Outstanding (01.04.01)	5,00,000 Shares
Profit for the year ended 31.03.02	7,50,000
First year end profit	7,50,000
Second Year End Profit	13,00,000
Third Year End Profit	-2,00,000 or 3,50,000

1st year end Basic EPS =  $\frac{750000}{500000} = 1.50$

DEPS =  $\frac{750000}{500000} = 1.50$

2nd year end Consolidated Profit = ₹ 750000 + 1300000 = 2050000 (Potential ordinary shares)

Basic EPS =  $\frac{1300000}{500000} = 2.6$

DEPS =  $\frac{1300000}{500000 + 20000} = 2.5$

3rd year Consolidated Profit = Either 1850000 or 2400000

Basic EPS =  $\frac{-200000}{500000} = -0.4$  or  $\frac{350000}{500000 + (20000 \times \frac{0}{12})} = .7$

Diluted EPS =  $\frac{-200000}{500000} = -0.4$  or  $\frac{350000}{500000 + 20000} = .673$

**Example: 6** On 01.04.01, Entity ABC enters into contract to issue additional 5,000 shares if market price of shares after 3 years reaches ₹ 65 or more.

Shares outstanding at the beginning	25,000 Shares
Profit for the year ended 31.03.02:	
1 <sup>st</sup> Year	1,15,000
2 <sup>nd</sup> Year	1,25,000
3 <sup>rd</sup> Year	1,25,000
Market Price of Shares (Actual)	
1 <sup>st</sup> Year	70 P.O.S.
2 <sup>nd</sup> Year	60 Not a P.O.S.
3 <sup>rd</sup> Year	68 P.O.S.

1<sup>st</sup> Year End

$$BEPS = \frac{115000}{25000} = 4.6$$

$$DEPS = \frac{115000}{25000 + 5000} = 3.83$$

2<sup>nd</sup> Year End

$$BEPS = \frac{125000}{25000} = 5$$

$$DEPS = \frac{125000}{25000 + 0} = 5$$

3<sup>rd</sup> Year End

$$BEPS = \frac{125000}{25000 + (5000 \times \frac{0}{12})} = 5$$

$$DEPS = \frac{125000}{25000 + 5000} = 4.17$$

**Example: 7**

On 01.04.01, Entity ABC enters into contract to issue additional 7,500 shares if consolidated earnings of company in 3 years period go beyond ₹ 25, 00,000 and market value of shares reaches ₹ 65 or more after 3 years.

Shares outstanding at the beginning	30,000 Shares
Profit for the year ended 31.03.02:	
1 <sup>st</sup> Year	12,50,000
2 <sup>nd</sup> Year	15,00,000
3 <sup>rd</sup> Year	(1,50,000)
Market Price of Shares (Actual)	
1 <sup>st</sup> Year	70
2 <sup>nd</sup> Year	67
3 <sup>rd</sup> Year	65

1<sup>st</sup> No P.O.S. ✗

$$\text{EPS} = \frac{1250000}{30000} = 41.67$$

$$\text{DEPS} = \frac{1250000}{30000} = 41.67$$

2<sup>nd</sup> P.O.S.

$$\text{EPS} = \frac{1500000}{30000} = 50$$

$$\text{DEPS} = \frac{1500000}{30000 + 7500} = 40$$

3<sup>rd</sup> P.O.S.

$$\text{EPS} = \frac{-150000}{30000} = -5$$

$$\text{DEPS} = \frac{-150000}{30000 + 7500} = -4$$

↓  
Anti Dilutive

$$\text{DEPS} = \underline{\underline{-5}}$$

# Illustration 12- Contingently issuable shares Jan - Dec

Practice a lot

Ordinary shares outstanding during 20X1

1,000,000 (there were no options, warrants or convertible instruments outstanding during the period)

An agreement related to a recent business combination provides for the issue of additional ordinary shares based on the following conditions:

5,000 additional ordinary shares for each new retail site opened during 20X1

1,000 additional ordinary shares for each ₹ 1,000 of consolidated profit in excess of ₹ 2,000,000 for the year ended 31 December 20X1

5000  
April - May June

Retail sites opened during the year:

April - May June

one on 1 May 20X1

one on 1 September 20X1

Consolidated year-to-date profit attributable to ordinary equity holders of the parent entity:

₹ 1,100,000 as of 31 March 20X1

₹ 2,300,000 as of 30 June 20X1

₹ 1,900,000 as of 30 September 20X1 (including a ₹ 450,000 loss from a discontinued operation)

₹ 2,900,000 as of 31 December 20X1

Calculate basic and diluted EPS.

Basic EPS

1st Quarter  
 $\frac{1100000}{1000000}$   
= 1.10

2nd Quarter  
 $\frac{1200000}{1000000 + (5000 \times \frac{2}{3})}$   
= 1.196 → 1.20

3rd Quarter  
 $\frac{-400000}{1000000 + 5000 + (5000 \times \frac{1}{3})}$   
= .397 → .40

4th Q  
 $\frac{1000000}{1000000 + 5000 + 5000}$   
= .99

Full Year  
 $\frac{2900000}{1000000 + 5000 \times \frac{2}{3} + 5000 \times \frac{1}{3} + 1005000}$   
= 2.885 → 2.89

Diluted EPS

1st Quarter  
 $\frac{1100000}{1000000}$   
= 1.10

2nd Quarter  
 $\frac{1200000}{1000000 + 3333 + 1667 + 700000}$   
= .92

3rd Quarter  
 $\frac{-400000}{1000000 + 5000 + 1667 + 3333}$   
= .396 → .40

4th Q  
 $\frac{1000000}{1000000 + 5000 + 5000 + 900000}$   
= .523

Full Year  
 $\frac{2900000}{1000000 + 5000 + 5000 + 900000 + 2900000 + 1910000}$   
= 1.518 → 1.52

### Illustration 13

Assume the following facts for Company XY:

Income from continuing operations:	INR 30,00,000
Loss from discontinued operations:	(INR 36,00,000)
Net loss:	(INR 6,00,000)
Weighted average Number of shares outstanding	10,00,000
Incremental common shares outstanding relating to stock options	2,00,000

- You are required to calculate the basic and diluted EPS for Company XY from the above information.
- Assume, if in above case, Loss from continued operations is ₹10,00,000 and income from discontinued operations is ₹ 36,00,000 calculate the diluted EPS.

	<u>Continuing operation</u>	<u>Discontinued operation</u>	<u>Both Continuing &amp; Discontinued operation</u>
Basic EPS	$\frac{3000000}{1000000}$ = <u>3</u>	$\frac{-3600000}{1000000}$ = -3.6	$\frac{-600000}{1000000}$ = <u>-0.6</u>
DEPS	$\frac{3000000}{1000000 + 200000}$ = $\frac{3000000}{1200000}$ = 2.5 (Dilutive)	$\frac{-3600000}{1000000 + 200000}$ $\frac{-3600000}{1200000}$ = -3 (Anti-Dilutive)	$\frac{-600000}{1000000 + 200000}$ = <u>-0.5</u> (Anti-Dilutive) ↓ But it is ignored as DEPS on Continuing operation is Dilutive.

The income from continuing operations is the control number, there is a dilution in basic EPS for income from continuing operations (reduction of EPS from ₹ 3.00 to ₹ 2.50). Therefore, even though there is an anti-dilution [Loss per share reduced from ₹ 0.60 (i) to ₹ 0.50 (ii) above], diluted loss per share of ₹ 0.50 is reported.

(b)

Continuing operation

Discontinued operation

Both Continuing & Discontinued operation

BEPs

$$\frac{-1000000}{1000000}$$

$$= -1$$

$$\frac{3600000}{1000000}$$

$$= 3.6$$

$$\frac{2600000}{1000000}$$

$$= 2.6$$

DEPS

$$\frac{-1000000}{1000000 + 200000}$$

$$= -0.833 \text{ (Anti Diluting)}$$



$$\therefore \text{DEPS} = -1$$



$$\text{DEPS} = 3.6$$



$$\text{DEPS} = 2.6$$



Because there is Dilution in Continuing operation

Illustration 14 (RTP May'19) (MTP Oct'20)

REAL Sol<sup>n</sup> now connect in new scheme 8/11

An entity issues 2,000 convertible bonds at the beginning of Year 1. The bonds have a three-year term and are issued at par with a face value of ₹ 1,000 per bond, giving total proceeds of ₹ 2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6 per cent. Each bond is convertible at any time up to maturity into 250 ordinary shares. The entity has an option to settle the principal amount of the convertible bonds in ordinary shares or in cash.

$$2000 \times 1000 = 2000000$$

When the bonds are issued, the prevailing market interest rate for similar debt without a conversion option is 9 per cent. At the issue date, the market price of one ordinary share is ₹ 3.

Income tax is ignored.

$$\text{Total P.O.S.} = 2000 \times 250$$

$$= 500000 \text{ Sh.}$$

Calculate basic and diluted EPS when

Profit attributable to ordinary equity holders of the parent entity Year 1	₹ 1,000,000
Ordinary shares outstanding	1,200,000
Convertible bonds outstanding	2,000

0th  
Amt received = 2000000

1st  
120000

2nd  
120000

3rd  
120000

~~2000000~~

9%

Lib  
1302735

Bank 2000000

TO P.V. of Liab

303755 <Liab Component>

TO Equity

1696245

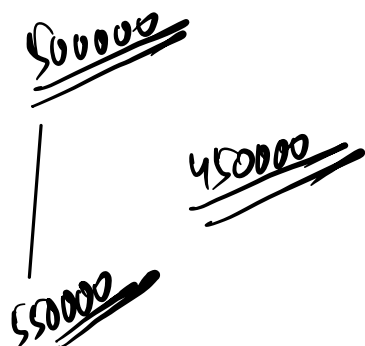
Liab

	<u>op.</u>	<u>9mt @ 9%</u>	<u>Payment</u>	<u>cl.</u>
	303755	27338 ✓	(12000)	211093
	211093	18998	(12000)	110091
	110091	9908	(12000)	-
				-

Interest already deducted.

Basic EPS =  $\frac{1000000}{1200000} = .833$

DEPS =  $\frac{1000000 + 27338}{1200000 + 500000} = \frac{1027338}{1700000} = .604$

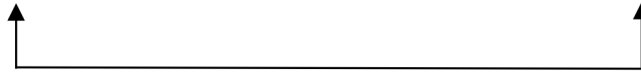


<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>
80000	80000	80000	80000
67500	67500	67500	67500
90000	90000	90000	90000

# INCREASING RATE PREFERENCE SHARES

Preference shares that provide for a low initial dividend to **compensate an entity** for selling the preference shares at a discount.

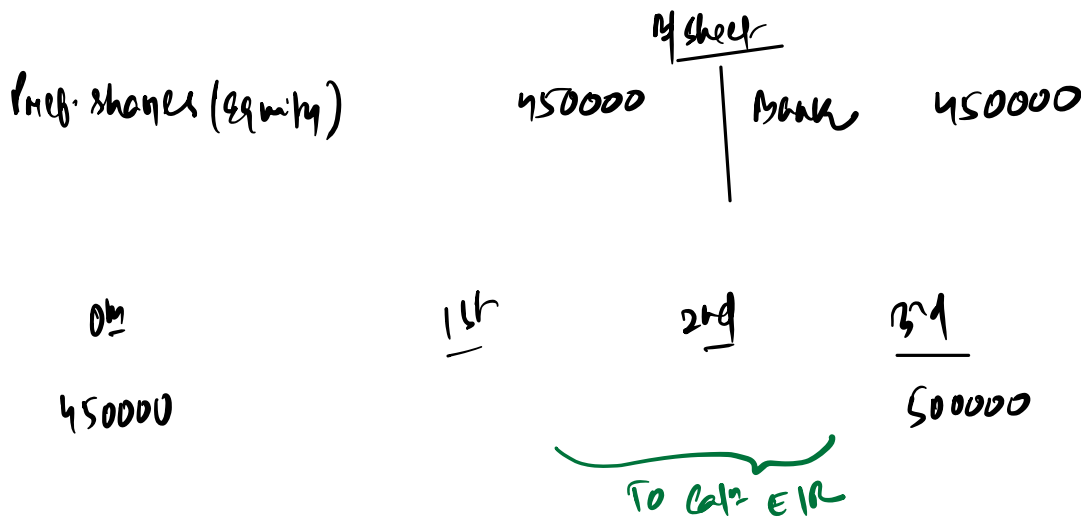
Or an above-market dividend in later periods to **compensate investors** for purchasing Preference shares at a premium



They are sometime referred to as increasing rate preference share.

Any original issue discount or premium on increasing rate preference shares is amortised to retained earnings using the effective interest method and treated as a preference dividend for the purposes of calculating earnings per share.

Example Pref. shares face value of £ 500000 issued at a discount on £ 450000. Such pref. shares will be converted into equity shares after 3 years.



Interest charged to PL

---

But Dividend charged to retained earnings.

EIR = 3.575%

## P.A.O.S.H. for the purpose of EPS

	1st	2nd	3rd
PAT	20000	20000	20000
(-) Pref. Dividend (low dividend)	(50000) (90000)	(50000) (90000)	(50000) (90000)
(-) <b>Deemed Dividend</b>	(16087) 20000	(16662) 20000	(17241) 20000
<b>PAOSH</b>	<u>133913</u>	<u>133338</u>	<u>132709</u>

Retained Earnings

	- 16087	- 16662	- 17241	Bank	450000		
<u>Equity</u>							
Pref. Shares (1st yr)			450000	<u>Discount</u>		(5000)	(5000) (5000)
(+) EIR @ 3.575% (R/E)	16087		<u>16087</u>			(20000)	(20000) (20000)
Pref. Shares (1st yr)			466087			(7000)	(7000) (7000)
(+) EIR	16662		<u>16662</u>				
Pref. Shares (2nd yr)			482749	<u>Prem</u>		(9000)	(9000) (9000)
(+) EIR	17241		<u>17241</u>			(2000)	(2000) (2000)
Pref. Shares (2nd yr)			500000			(7000)	(7000) (7000)

Amortisation table

<u>Opening</u>	<u>EIR @ 3.575%</u>	<u>Closing</u>
450000	16087 R/E	466087
466087	16662 R/E	482749
482749	17251 R/E	500000

Redemption / Repurchase of Pref. Shares at Premium

E.g.  
 C.A. of Preference Shares of 2nd yr End → 480000  
 Repurchased Pref. Shares at Premium of 5% i.e. 504000 (480000 x 1.05)

Journal

Pref. Shares 480000  
 Retained Earnings 24000  
 To Bank 504000.

Seemed Dividend

470000

For the purpose of EPS calculation

PAT	-	500000
(-) Deemed Dividend		(24000)
P.A.O.S.H.		<u>476000</u>

PAT	-	500000
(+) Deemed Div		<u>10000</u>
		<u>510000</u>

### EARLY CONVERSION OF PREFERENCE SHARES AT PREMIUM:

Early conversion of convertible preference shares may be induced by an entity through favorable changes to the original conversion terms or the payment of additional consideration.

The excess of the fair value of the ordinary shares or other consideration paid over the fair value of the ordinary shares issuable under the original conversion terms is a return to the preference shareholders, and is deducted in calculating profit or loss attributable to ordinary equity holders of the parent entity.

Any excess of the carrying amount of preference shares over the fair value of the consideration paid to settle them is added in calculating profit or loss attributable to ordinary equity holders of the parent entity.

↳ To Rebut illustration 1

9/12

PAT	150000
(-) Deemed Dividend (increasing rate pref)	(18000)
(+) Dividend received on Repurchase (50000 - 49000)	1000
(-) Induced cost on Early Conversion	(300)
	<u>132700</u>

### Question 6 (RTP May'20 & MTP April'21)

CAB Limited is in the process of preparation of the consolidated financial statements of the group for the year ending 31st March, 20X3 and the extract of the same is as follows:

Particulars	Attributable to CAB Limited	Non-controlling Interest	Total (₹ in '000)
Profit for the year	39,000 ✓	<del>3,000</del> ✗	42,000
Other Comprehensive Income	<del>5,000</del> ✗	Nil	5,000
Total Comprehensive Income	44,000	3,000	47,000

The long-term finance of the company comprises of the following:

- a) 20,00,00,000 equity shares at the beginning of the year and the company has issued 5,00,00,000 shares on 1st July, 20X2 at full market value.

$50000000 \times 9/12 = 37500000$

- b) 8,00,00,000 irredeemable preference shares. These shares were in issue for the whole of the year ended 31st March, 20X3. The dividend on these preference shares is discretionary.
- c) 18 crores of 6% convertible debentures issued on 1st April, 20X1 and repayable on 31st March, 20X5 at par. Interest is payable annually. As an alternative to repayment at par, the holder on maturity can elect to exchange their convertible debentures for 10 crores ordinary shares in the company. On 1st April, 20X1, the prevailing market interest rate for four-year convertible debentures which had no right of conversion was 8%. Using an annual discount rate of 8%, the present value of ₹ 1 payable in four years is 0.74 and the cumulative present value of ₹ 1 payable at the end of years one to four is 3.31.

In the year ended 31st March, 20X3, CAB Limited declared an ordinary dividend of 0.10 paise per share and a dividend of 0.05 paise per share on the irredeemable preference shares.

Compute the following:

the finance cost of convertible debentures and its closing balance as on 31st March, 20X3 to be presented in the consolidated financial statements.

the basic and diluted earnings per share for the year ended 31st March, 20X3. Assume that income tax is applicable to CAB Limited and its subsidiaries at 25%.

$$\begin{aligned}
 \text{PAT} &= 390,00,000 \\
 (-) \text{ Int. Div. } (8000000 \times 0.05) &= (4000000) \\
 \hline
 &= 350,00,000
 \end{aligned}$$

Debenture

	1st	2nd	3rd	4th
Int. received	10800000	10800000	10800000	10800000
18 crore				180000000
				<u>180000000</u>

168948000

$$\begin{aligned}
 \text{P.V.} &= 10800000 \times 3.31 \\
 \text{P.V.} &= 18000000 \times 0.74
 \end{aligned}$$

Bank	180000000
To Debenture Liability)	168948000
To Debenture (Equity)	11052000

## Liability

	<u>Opening</u>	<u>9% @ 8%</u>	<u>Payment</u>	<u>Cl.</u>
18	168948000 (1.4.01)	13515840 (31.3.02)	(10800000) (31.3.02)	171663840 (31.3.02)
200	171663840 (1.4.02)	<u>13733107 (31.3.03)</u>	(10800000) (31.3.03)	<u>174596947 (31.3.03)</u>

$$\begin{aligned}\text{Basic EPS} &= \frac{\text{PAT} - \text{Pref. Div}}{\text{WANDS}} \\ &= \frac{39000000 - 4000000}{20000000 + 3750000} \\ &= \frac{35000000}{23750000} \\ &= \underline{\underline{.147}}\end{aligned}$$

$$\begin{aligned}\text{Diluted EPS} &= \frac{39000000 - 4000000 + (13733107 \times .75)}{20000000 + 3750000 + 10000000} \\ &= \frac{45299830}{33750000} \\ &= \underline{\underline{.134}}\end{aligned}$$

Ex 1 Shares of S = 500000 shares

1.4.02 100000 shares issued

Fully paid up value = £ 100

Partial payment received on issue of shares = £ 60

$$\underline{\text{WPNOS}} = 500000 + \left( 100000 \times \frac{60}{100} \right)$$

$$= 500000 + 60000$$

$$= \underline{\underline{560000 \text{ items}}}$$

~~115~~  
103  
110  
33 } test

103  
110  
33

28, 111, 33

































































































