AS 20 EARNINGS PER SHARE

Question 1

NB Pg. No.

Date	Particulars			Balance
1st January	Balance at beginning of year	1,800	-	1,800
31st May	Issue of shares for cash	600	-	2,400
1st November	Buy Back of shares	-	300	2,100

Calculate Weighted Number of Shares.

Solution

Computation of Weighted Average:

(1,800 × 5/12) + (2,400 × 5/12) + (2,100 × 2/12) = 2,100 shares.

The weighted average number of shares can alternatively be computed as fol-lows:

(1,800 x12/12) + (600 × 7/12) – (300 × 2/12) = **2,100 shares**

Question 2

NB Pg. No.

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.

Solution

Assuming that partly paid shares are entitled to participate in the dividend to the extent of amount paid, number of partly paid equity shares would be taken as 300 for the purpose of calculation of earnings per share.

Computation of weighted average would be as follows:

(1,800 × 12/12) + (300 × 2/12) = **1,850 shares.**

Question 3 (MTP Apr'21, Apr'22)

NB Pg. No.

Explain the concept of 'weighted average number of equity shares outstanding during the period'. Also compute, based on AS 20, the weighted average number of equity shares in the following case:

		No. of shares
1st April, 2020	Balance of equity shares	7,20,000
31st August, 2020	Equity shares issued for cash	2,40,000
1st February, 2021	Equity shares bought back	1,20,000
31st March, 2021	Balance of equity shares	8,40,000

(5 Marks)

Solution:

As per AS 20, "Earnings Per Share", the weighted average number of equity shares outstanding during the period reflects the fact that the amount of shareholders' capital may have varied during the period as a result of a larger or less number of shares outstanding at any time. For the purpose of

calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period.

Weighted average number of equity shares:

7,20,000 X 5/12	= 3,00,000 shares
9,60,000 X 5/12	= 4,00,000 shares
8,40,000 X 2/12	= 1,40,000 shares
	= 8,40,000 shares

Question 4 (MTP Oct '21, Mar'22, Mar'23, Oct'23) (PYQ May'18) NB Pg. No.

On 1st April, 20X1 a company had 6,00,000 equity shares of ₹ 10 each (₹ 5 paid up by all shareholders). On 1st September, 20X1 the remaining ₹ 5 was called up and paid by all shareholders except one shareholder having 60,000 equity shares. The net profit for the year ended 31st March, 20X2 was ₹ 21,96,000 after considering dividend on preference shares of ₹ 3,40,000.

You are required to compute Basic EPS for the year ended 31st March, 20X2 as per Accounting Standard 20 "Earnings Per Share". **(5 Marks)**

Solution:

$$\text{Basic Earnings per share (EPS)} = \frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$$

$$= \frac{21,96,000}{4,57,500 \text{ Shares (as per working note)}} = \textbf{₹ 4.80 per share}$$

Working Note:

Calculation of weighted average number of equity shares

As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period.

Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

Date	No. of equity shares	Amount paid per share	Weighted average no. of equity shares
1.4.20X1	6,00,000	5	6,00,000 X 5/10 X 5/12 = 1,25,000
1.9.20X1	5,40,000	10	5,40,000 X 7/12 = 3,15,000
1.9.20X1	60,000	5	60,000 X 5/10 X 7/12 = 17,500
Total weighted average equity shares			4,57,500

Question 5 NB Pg. No.

Net profit for the year 20X1	₹ 18,00,000
Net profit for the year 20X2	₹ 60,00,000
No. of equity shares outstanding until 30th September 20X2	20,00,000

Bonus issue 1st October 20X2 was 2 equity shares for each equity share out-standing at 30th September, 20X2

Calculate Basic Earnings Per Share.

Solution

No. of Bonus Issue 20,00,000 × 2 = 40,00,000 shares

Earnings per share for the year 20X2 $\frac{₹\ 60,00,000}{(20,00,000+\ 40,00,000)}$ = **₹ 1.00**

Adjusted earnings per share for the year 20X1 $\frac{₹\ 18,00,000}{(20,00,000+\ 40,00,000)}$ = **₹ 0.30**

Question 6 (PYQ May'22)

NB Pg. No.

NAT, a listed entity, as on 1st April, 20X1 had the following capital structure:

Particulars	₹
10,00,000 Equity Shares having face value of ₹ 1 each	10,00,000
10,00,000 8% Preference Shares having face value of ₹ 10 each	1,00,00,000

During the year 20X1–20X2, the company had profit after tax of Rs. 90,00,000.

On 1st January, 20X2, NAT made a bonus issue of one equity share for every 2 equity shares outstanding as at 31st December, 20X1.

On 1st January, 20X2, NAT issued 2,00,000 equity shares of Rs. 1 each at their full market price of Rs. 7.60 per share.

NAT's shares were trading at Rs. 8.05 per share on 31st March, 20X2.

Further it has been provided that the basic earnings per share for the year ended 31st March, 20X1 was previously reported at Rs. 62.30.

You are required to:

i. Calculate the basic earnings per share to be reported in the financial statements of NAT for the year ended 31st March, 20X2 including the comparative figure, in accordance with AS-20 Earnings Per Share.

ii. Explain why the bonus issue of shares and the shares issue at full market price are treated differently in the calculation of the basic earnings per share? **(5 Marks)**

Solution:

(i) **Computation of Basic Earnings per share for the year ended 31st March, 20X2:**

(including the comparative figure)

Working Note – I:

Earnings for the year ended 31st March, 20X1:

= EPS x Number of shares outstanding during 20X0–20X1

= ₹ 62.30 × 10,00,000 equity shares

= ₹ 6,23,00,000

Adjusted/Restated Earnings per share for the year ended 31st March 20X1:

(after taking into consideration bonus issue)

Adjusted/Restated Basic EPS:

= Earnings for the year 20X0–20X1 / (Total outstanding shares +Bonus issue)

= ₹ 6,23,00,000 / (10,00,000+ 5,00,000)

= ₹ 6,23,00,000 / 15,00,000

= ₹ 41.53 per share

Computation of Basic EPS for the year 20X1–20X2:

Basic EPS = (Total Earnings – Preference Shares Dividend) / (Total shares outstanding at the beginning + Bonus issue + weighted average of the shares issued in January, 20X2)

=(₹ 90,00,000 – ₹ (1,00,00,000 × 8%)) / (10,00,000 + 5,00,000 + (2,00,000 × 3/12))

= ₹ 82,00,000 / 15,50,000 shares

= ₹ 5.29 per share

(ii) In case of a bonus issue, equity shares are issued to existing shareholders for no additional consideration. Therefore, the number of equity shares outstanding is increased without an increase in resources.

Since the bonus issue is an issue without consideration, the issue is treated as if it had occurred prior to the beginning of the year 20X1, the earliest period reported.

However, the share issued at full market price does not carry any bonus element and usually results in a proportionate change in the resources available to the enterprise. Therefore, it is taken into consideration from the time it has been issued i.e. the time- weighting factor is considered based on the specific shares outstanding as a proportion of the total number of days in the period.

NB Pg. No.

Question 7 (RTP May '21)

In the following list of shares issued, for the purpose of calculation of weighted average number of shares, from wnich date weight is to be considered:

i. Equity Shares issued in exchange of cash,

ii. Equity Shares issued as a result of conversion of a debt instrument,

iii. Equity Shares issued in exchange for the settlement of a liability of the enterprise,

iv. Equity Shares issued for rendering of services to the enterprise,

v. Equity Shares issued in lieu of interest and/or principal of an other financial instrument,

vi. Equity Shares issued as consideration for the acquisition of an asset other than in cash.

Also define Potential Equity Share.

Solution:

The following dates should be considered for consideration of weights for the purpose of calculation of weighted average number of shares in the given cases:

i. Date of Cash receivable

ii. Date of conversion

iii. Date on which settlement becomes effective

iv. When the services are rendered

v. Date when interest ceases to accrue

vi. Date on which the acquisition is recognised.

A Potential Equity Share is a financial instrument or other contract that entitles or may entitle its holder to equity shares.

Question 8

NB Pg. No.

Net profit for the year 20X1	₹ 11,00,000
Net profit for the year 20X2	₹ 15,00,000
No. of shares outstanding prior to rights issue	5,00,000 shares
Rights issue price	₹ 15.00
Last date to exercise rights	1st March 20X2

Rights issue is one new share for each five outstanding (i.e. 1,00,000 new shares)

Fair value of one equity share immediately prior to exercise of rights on 1st March 20X2 was ₹ 21.00.

Compute Basic Earnings Per Share.

Solution

$$= \frac{\text{Fair value of shares immediately prior to exercise of rights + Total amount re-ceived from exercise}}{\text{Number of shares outstanding prior to exercise + Number of shares issued in the exercise}}$$

$$= \frac{(₹21.00 \times 5,00,000 \text{ shares}) + (15.00 \times 1,00,000 \text{ Shares})}{5,00,000 \text{ Shares} + 1,00,000 \text{ Shares}}$$

Theoretical ex-rights fair value per share = **₹ 20.00**

Computation of adjustment factor:

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}} \quad \frac{(21.00)}{(20.00)} = \mathbf{1.05}$$

Computation of earnings per share:

EPS for the year 20X1 as originally reported: ₹ 11,00,000/5,00,000 shares = **₹ 2.20**

EPS for the year 20X1 restated for rights issue: ₹ 11,00,000/ (5,00,000 shares x 1.05) = **₹ 2.10**

EPS for the year 20X2 including effects of rights issue:

(5,00,000 × 1.05 × 2/12) + (6,00,000 × 10/12) = 5,87,500 shares

EPS = 15,00,000/5,87,500 = **₹ 2.55**

Question 9 (MTP May'20 Sep'22) (RTP Nov'20, May'23, Nov'23) (PYQ Nov'19) NB Pg. No.

X Ltd. supplied the following information. You are required to compute the basic earnings per share:

(Accounting year 1.1.20X1– 31.12.20X1)

Net Profit : Year 20X1	:	₹ 20,00,000
: Year 20X2	:	₹ 30,00,000
No. of shares outstanding prior to Right Issue	:	10,00,000 shares
Right Issue	:	One new share for each four outstanding i.e., 2,50,000 shares.
		Right Issue price – ₹ 20
		Last date of exercise rights– 31.3.20X2.
Fair rate of one Equity share immediately prior to exercise of rights on 31.3.20X2	:	₹ 25

(5 Marks)

Solution:

Computation of Basic Earnings Per Share

	Year 20X1	Year 20X2
EPS for the year 20X1 as originally reported		

= (₹ 20,00,000 / 10,00,000 shares)	2.00	
EPS for the year 20X1 restated for rights issue		
= [₹ 20,00,000 / (10,00,000 shares x1.04*)]	1.91 (approx.)	
EPS for the year 20X2 including effects of rights issue		
$\frac{30,00,000}{(10,00,000 \text{ shares } 1.04\ 3/12) (12,50,000 \text{ shares } 9/12)}$ $\frac{30,00,000}{₹\ 11,97,500 \text{ shares}}$		2.51 (approx.)

Working Notes:

1. Computation of theoretical ex-rights fair value per share Fair value of all outstanding shares immediately prior to

$$\frac{\text{Exercise of rights + Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise+ Number of shares issued in the excercise}}$$

$$= \frac{(25 \times 10,00,000 \text{ shares}) + (20 \times 2,50,000 \text{ shares})}{10,00,000 \text{ shares} + 2,50,000 \text{ shares}} = \frac{3,00,00,000}{12,50,000 \text{ shares}} = ₹\ 24$$

2. Computation of adjustment factor

$$= \frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}}$$

$$= \frac{3,00,00,000}{24 \text{ (Refer Working Note 1)}} = \mathbf{1.04 \text{ (approx.)}}$$

Question 10 (MTP Jan'25) (RTP Sep'24) NB Pg. No.

The following information is available in respect of High-end Ltd. for the accounting year 2022-2023 and 2023-2024:

Net profit for	₹
Year 2022-2023	22,00,000
Year 2023-2024	30,00,000

Number of shares outstanding prior to right issue 10,00,000 shares.

Right issue: One new share for each five shares outstanding i.e. 2,00,000 shares.

: Right issue price ₹ 25

: Last date to exercise right 31st July, 2023.

Fair value of one equity share immediately prior to exercise of rights on 31.07.2023 is ₹ 32.

You are required to compute, as per AS 20:

(i) Basic earnings per share for the year 2022-2023.

(ii) Restated basic earnings per share for the year 2022-20223 for right issue.

(iii) Basic earnings per share for the year 2023–2024.

Solution:

Computation of basic earnings per share

	2022–2023 (₹)	2023–2024 (₹)
EPS for the year 2022–2023 as originally reported = Net profit for the year attributable to equity shareholders / weighted average number of equity shares outstanding during the year = ₹ 22,00,000 / 10,00,000 shares	2.20	
EPS for the year 2022–2023 restated for the right issue = ₹ 22,00,000 / (10,00,000 × 1.04)	**2.12**	
EPS for the year 2023–2024 (including effect of right issue) = ₹ 30,00,000 / {(10,00,000 × 1.04 × 4/12) + (12,00,000 × 8/12)}		**2.62**

Working Notes:

1) Computation of theoretical ex-rights fair value per share = (fair value of all outstanding shares immediately prior to exercise of rights + Total value received from exercise of rights) / (number of shares outstanding prior to exercise + number of shares issued on the exercise)

= (₹ 32 × 10,00,000 + ₹ 25 × 2,00,000) / (10,00,000 + 2,00,000)

= ₹ 30.83

2) Computation of adjustment factor

= Fair value per share prior to exercise of rights / Theoretical exright value per share

= ₹ 32/₹ 30.83

= 1.04 (approx.)

Question 11 (PYQ Nov'23) **NB Pg. No.**

Sapphire Limited earned Net profit of ₹ 39,00,000 and ₹ 59,40,000 for the years 2021–22 & 2022–23 respectively.

The following information were given for 2022–2023:

(i) The company declared Rights issue of two new shares for each five outstanding shares.

(ii) 4,00,000 shares were outstanding prior to Rights issue.

(iii) Rights issue price was ₹ 27.50 and the last date to exercise rights was 1stJuly, 2022.

(iv) Fair value of one equity share immediately prior to exercise of rights on 1st July,2022 was₹ 143.

You are required to Compute Basic Earnings Per Share as per AS-20:

(i) For the year 2021–22, and

(ii) For the year 2022–23 **(5 Marks)**

Solution:

(a) Computation of Basic Earnings Per Share

	Year 2021–22 ₹	Year 2022–23 ₹
EPS for the year 2021–22 as originally reported Net profit of the year attributable to equity shareholders		

Weighted average number of equity shares outstanding during the year = (₹ 39,00,000 / 4,00,000 shares)	9.75	
EPS for the year 2021–22 restated for rights issue = [₹ 39,00,000 / (4,00,000 shares X1.3*)]	7.5	
EPS for the year 2022–23 including effects of rights issue $\frac{₹\ 59,40,000}{(4,00,000 \times 1.3 \times 3/12) + (5,60,000 \times 9/12)}$ $\frac{₹\ 59,40,000}{5,50,000}$		10.8 (approx.)

*Refer working note 2.

Working Notes:

1) Computation of theoretical ex-rights fair value per share

$$\frac{\text{Fair value of all outstanding shares immediately prior to Exercise of rights + Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise+ Number of shares issued in the excercise}}$$

$$= \frac{(143 \times 4,00,000 \text{ shares}) + (27.5 \times 1,60,000 \text{ shares})}{4,00,000 \text{ shares} + 1,60,000 \text{ shares}} = \frac{6,16,00,000}{5,60,000 \text{ shares}} = 110$$

2) Computation of adjustment factor

$$= \frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}}$$

$$= \frac{143}{110 \text{ (Refer Working Note 1)}} = 1.3 \text{ (approx.)}$$

Question 12 (PYQ Dec'21) NB Pg. No.

Net profit for the current year	₹ 1,00,00,000
No. of equity shares outstanding	50,00,000
Basic earnings per share	₹ 2.00
No. of 12% convertible debentures of ₹ 100 each	1,00,000
Each debenture is convertible into 10 equity shares	
Interest expense for the current year	₹ 12,00,000
Tax relating to interest expense (30%)	₹ 3,60,000

Compute Diluted Earnings Per Share.

Solution **(5 Marks)**

Adjusted net profit for the current year (1,00,00,000 + 12,00,000 – 3,60,000) = ₹ 1,08,40,000

No. of equity shares resulting from conversion of debentures: 10,00,000 Shares

No. of equity shares used to compute diluted EPS: (50,00,000 + 10,00,000) = 60,00,000 Shares

Diluted earnings per share: (1,08,40,000/60,00,000) = **₹ 1.81**

Question 13 (PYQ Nov'18) NB Pg. No.

No. of equity shares outstanding = 30,00,000

Basic earnings per share ₹ 5.00

No. of 12% convertible debentures of ₹ 100 each; 50,000

Each debenture is convertible into 10 equity shares

Tax Rate 30%

Compute Diluted Earnings per Share.

Working notes should form part of the answer. (5 Marks)

Solution:

Earnings for the year:

= No. of Shares x Basic EPS

= 30,00,000 shares x ₹ 5 per share = ₹ 1,50,00,000

Computation of Adjusted Net Profit:

= Earnings for the year + Interest on debentures net of tax

= 1,50,00,000 + (6,00,000 – 1,80,000) = ₹ 1,54,20,000

Computation of Adjusted Denominator:

No. of equity shares resulting from conversion of debentures:

= 50,000 × 10 shares = 5,00,000 shares

No. of equity shares for diluted EPS = 30,00,000 + 5,00,000

= 35,00,000 shares

Computation of Diluted EPS:

= ₹ 1,54,20,000/35,00,000 shares = ₹ 4.4 per share

Question 14 (MTP Oct'18, Nov'21) (RTP May'20, Nov'22) NB Pg. No.

From the following information, you are required to compute Basic and Diluted Earnings Per Share (EPS) of M/s. XYZ Limited for the year ended 31st March, 2019:

Net Profit for the year after tax:	Rs. 75,00,000
Number of Equity Shares of Rs.10 each outstanding:	Rs. 10,00,000

1,00,000, 8% Convertible Debentures of Rs. 100 each were issued by the Company at the beginning of the year. 1,10,000 Equity Shares were supposed to be issued on conversion. Consider rate of Income Tax as 30% (5 Marks)

Solution:

Computation of basic earnings per share

Net profit for the current year / Weighted average number of equity shares outstanding during the year Rs. 75,00,000 / 10,00,000 = Rs. 7.50 per share

$$\text{Computation of diluted earnings per share} = \frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$$

Eg 2 (LDR) (Deb issued during the year)

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

C.Y.

On 01.07.X1 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 X1-X2.

Soln: Basic EPS = ₹1 per share.

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

= $\frac{10,36,750}{10,07,500}$ = 1.03 → This is more than Basic EPS

∴ it is anti dilutive.

(Here Basic EPS = Diluted EPS = 1)

WN 1

EAFESH	10,00,000
(+) Savings in Jul ($700000 \times 10\% \times \frac{9m}{12m}$) $\times 70\%$	36150
	10,36,750

WN 2

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

Eg 3 (CDR)

EAFESH = 1,00,00,000
WANES = 50,00,000 shares
} 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

Deb Int for 12 months = 12,00,000 → 12m
Int Exp in Ques = 9,00,000 → ? 9m

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

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

It is less than Basic EPS
∴ reported.

WN ①

EAFESH	1,00,00,000
(+) Effect of PES (Savings in Int) 900000 (9m) x 70%	630000
	1,06,30,000

WN ② WANES = 50,00,000 shares

(+) Effect of PES
(100000 Deb x 10 share) x 9/12 = 750000 shares

57,50,000 shares

Adjusted net profit for the current year

	Rs.
Net profit for the current year	75,00,000
Add: Interest expense for the current year	8,00,000
Less: Tax relating to interest expense (30% of Rs.8,00,000)	(2,40,000)
Adjusted net profit for the current year	80,60,000

Number of equity shares resulting from conversion of debentures

= 1,10,000 Equity shares (given in the Question)

Weighted average number of equity shares used to compute diluted earnings per share

= 11,10,000 shares (10,00,000 + 1,10,000)

Diluted earnings per share

= Rs. 80,60,000/ 11,10,000

= Rs. 7.26 per share

Note: Conversion of convertible debentures into Equity Share will be dilutive potential equity shares. Hence, to compute the adjusted profit the interest paid on such debentures will be added back as the same would not be payable in case these are converted into equity shares.

Question 15 (PYQ Nov'22) **NB Pg. No.**

Net profit for the year 20X1	₹ 12,00,000
Weighted average number of equity shares outstanding during the year 20X1	5,00,000 shares
Average fair value of one equity share during the year 20X1	₹ 20.00
Weighted average number of shares under option during the year 20X1	1,00,000 shares
Exercise price for shares under option during the year 20X1	₹ 15.00

Compute Basic and Diluted Earnings Per Share. **(5 Marks)**

Solution

Computation of earnings per share

	Earnings	Shares	Earnings/ Share
Net profit for the year 20X1	12,00,000		
Weighted average no. of shares during year 20X1		5,00,000	
Basic earnings per share			2.40
Number of shares under option		1,00,000	
Number of shares that would have been issued at			
fair value (100,000 × 15.00)/20.00	—	(75,000)	
Diluted earnings per share	12,00,000	5,25,000	2.29

Note: The earnings have not been increased as the total number of shares has been increased only by the number of shares (25,000) deemed for the purpose of the computation to have been issued for no consideration.

Question 16 : (PYQ May 24) NB Pg. No.

On 1 April 2023, ABC Limited has given the following information:

	₹
50,000 equity shares of Rs.100 each (Rs.80 paid up by all shareholders)	40,00,000
2,00,000 8% Preference shares of Rs.10 each	
10,000, 12% Debentures of Rs.100 each	20,00,000
(Each debenture is convertible into 3 equity shares of Rs.100 each)	10,00,000

On 1st July 2023, the remaining Rs.20 was called up and paid by all the shareholders except one shareholder holding 10,000 equity shares. During the year 2023-24 the company had a profit after tax of Rs.3,44,000.

Tax rate is 30%.

You are required to compute Basic and Diluted EPS.

Solution :

Basic Earnings per share (EPS) =

$$= \frac{\text{Net profit attributable to equity shareholders}}{\textbf{Weighted Average number of equity shares outstanding during the year}}$$

$$= \frac{1,84,000}{46,000 \text{ Shares (as per working note)}} = \textbf{Rs.4 per share}$$

Diluted earnings per share

Net profit for the current year	Rs.3,44,000
No. of equity shares outstanding	50,000
Basic earnings per share	Rs.4
No. of 12% convertible debentures of Rs.100 each Each debenture is convertible into 3 equity shares	10,000
Interest expense for the current year	Rs.1,20,000
Tax relating to interest expense (30%)	Rs.36,000
Adjusted net profit for the current year	Rs.(1,84,000 + 1,20,000 – 36,000) = Rs.2,68,000
No. of equity shares resulting from conversion of debentures	30,000
No. of equity shares used to compute diluted earnings per share	46,000 + 30,000 = 76,000
Diluted earnings per share	2,68,000 / 76,000 = Rs.3.53

Working Note:

1. **Net profit attributable to equity share holders = Net profit less preference dividends**

   Total earnings – preference shares dividend

   Rs.3,44,000 – Rs.(8% x 20,00,000)'

   Rs.3,44,000 – Rs.1,60,000

   = Rs.1,84,000

2. **Calculation of weighted average number of equity shares**

   As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity

share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

Date	No. of equity shares	Amount paid per share	Weighted average no. of equity shares
	₹	₹	₹
01.04.2023	50,000	80	50,000x 80/100x 3/12 = 10,000
01.07.2023	40,000	100	40,000 × 9/12 = 30,000
01.07.2023	10,000	80	10,000x 80/100x 9/12 = 6,000
Total weighted average equity shares			46,000

Question 17 (RTP Jan'25) NB Pg. No.

XYZ Limited has a wholly owned subsidiary BC Limited. The Group prepares consolidated Financial Statements for the year ended 31st March, 2024. XYZ Limited (in its separate financial statements) has incurred a loss of Rs.2 crore during the year, while the consolidated profit for the group during the year is Rs.40 lakh. XYZ Limited has 5,00,000 shares outstanding as at 31st March, 2024.

Further, it has granted options to issue equity shares as at that date. In respect of such options, 1,00,000 shares are considered to be the shares issued for no consideration. There are no changes in income orexpenses that are expected from the issue of equity shares on exercise of these options.

Calculate Basic and Diluted EPS for XYZ Limited for separate financial statements and for the Group.

Solution :

Computation of earnings per share

Particulars	Consolidated financial statements	Standalone financial statements of XYZ Limited
Basic earnings/(loss) per share	Rs.8 [40,00,000/5,00,000]	(Rs. 40) [2,00,00,000/ 5,00,000]
Diluted earnings/ (loss) per share	Rs. 6.66 [40,00,000/ 6,00,000]	(Rs. 40) [2,00,00,000/ 5,00,000]

As per paragraph 39 of AS 20 "Potential equity shares should be treated as dilutive when, and only when, their conversion to equity shares would decrease net profit per share from continuing ordinary operations.

In the above case, if the exercise of options was considered for separate financial statements of XYZ Limited, the diluted loss per share would have reduced to Rs.33.33 [2,00,00,000/6,00,000]. As this is antidilutive, the options would not be treated as potentially dilutive equity shares. Accordingly, in the separate financial statements of XYZ Limited, the Diluted EPS would be same as Basic EPS.

Question 18 (RTP May 22) NB Pg. No.

X Limited, during the year ended March 31, 20X1, has income from continuing ordinary operations of Rs. 2,40,000, a loss from discontinuing operations of Rs. 3,60,000 and accordingly a net loss of Rs. 1,20,000. The Company has 1,000 equity shares and 200 potential equity shares outstanding as at March 31, 20X1.

You are required to compute Basic and Diluted EPS?

Solution:

As per AS 20 "Potential equity shares should be treated as dilutive when, and only when, their conversion to equity shares would decrease net profit per share from continuing ordinary operations". As income from continuing ordinary operations, Rs. 2,40,000 would be consid-ered and not Rs. (1,20,000), for ascertaining whether 200 potential equity shares are dilutive or anti-dilutive. Accordingly, 200 potential equity shares would be dilu-tive potential equity shares since their inclusion would decrease the net profit per share from continuing ordinary operations from Rs. 240 to Rs. 200. Thus, the basic E.P.S would be Rs. (120) and diluted E.P.S. would be Rs. (100).

Question 19 (RTP May 22)

NB Pg. No.

Stock options have been granted by AB Limited to its employees and they vest equally over 5 years, i.e., 20 per cent at the end of each year from the date of grant. The options will vest only if the employee is still employed with the company at the end of the year. If the employee leaves the company during the vesting period, the options that have vested can be exercised, while the others would lapse. Currently, AB Limited includes only the vested options for calculating Diluted EPS.

Should only completely vested options be included for computation of Diluted EPS? Is this in accordance with the provisions of AS 20? Explain.

Solution:

As per AS 20 "A potential equity share is a financial instrument or other contract that entitles, or may entitle, its holder to equity shares".

Options including employee stock option plans under which employees of an enterprise are entitled to receive equity shares as part of their remuneration and other similar plans are examples of potential equity shares. Further, for the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares.

The current method of calculating Diluted EPS adopted by AB limited is not in accordance with AS 20. The calculation of Diluted EPS should include all potential equity shares, i.e., all the stock options granted at the balance sheet date, which are dilutive in nature, irrespective of the vesting pattern. The options that have lapsed during the year should be included for the portion of the period the same were outstanding, pursuant to the requirement of the standard.

Question 20 (RTP Nov 21)

NB Pg. No.

AB Limited is a company engaged in manufacturing industrial packaging equipment. As per the terms of an agreement entered with its debenture holders, the company is required to appropriate adequate portion of its profits to a specific reserve over the period of maturity of the debentures such that, at the redemption date, the reserve constitutes at least half the value of such debentures. As such appropriations are not available for distribution to the equity shareholders, AB Limited has excluded this from the numerator in the computation of Basic EPS. Is this treatment correct as per provisions of AS 20?

Solution:

The appropriation made to such a mandatory reserve created for the redemption of debentures would be included in the net profit attributable to equity shareholders for the computation of Basic EPS. AS 20 states that "For the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period"; With an emphasis on the phrase attributable to equity shareholders, it may be construed that such amounts appropriated to mandatory reserves, though not available for distribution as dividend,

are still attributable to equity shareholders. Accordingly, these amounts should be included in the computation of Basic EPS. In view of this, the treatment made by the company is not correct.

Question 21 (PYQ Nov'23) **NB Pg. No.**

Z Ltd. decides to increase its existing share capital by making right issue to its existing shareholders.

The company is offering 2 new shares for every 5 existing shares held by the shareholders.

The market value of shares is ₹ 420 per share.

Company is offering each share at ₹ 245 per share.

Calculate the value of right and the ex-right market price of a share. **(5 Marks)**

Solution:

Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares X Issue Price) / (Existing Number of shares + No. of right shares)

= (₹420 X 5 Shares + ₹245 X 2 Share) / (5 + 2) Shares

= ₹ 2,590 / 7 shares = **₹370 per share.**

Value of right = Cum-right value of the share – Ex-right value of the share

= ₹420 – ₹370 = **₹50 per share**

Note: In the question, the market value of share is given at ₹ 420 per share. It has been considered that this value is cum right.

Q22 (LDR) (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 31-3-2024 of ₹ 10 each	8,00,000
Average fair value of one equity share during the year 2023-24	₹ 25
Weighted average on. Of shares under 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%

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)

Jump

Working ① Calculation of shares on Day 1, Bonus shares, New Issue.

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

i) Basic EPS = $\frac{3120000}{5L \times \frac{12}{12} + 1L \times \frac{12}{12} + 2L \times \frac{3}{12}}$

(5L: Opn shares; 1L: Bonus; 2L: new Issue)

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

AS 20 Earning Per Share

	Que	Type
	1	WANES
	2	WANES
	3	WANES
LDR	4	**BASIC**
	5	BASIC+BONUS
LDR	6	**DIVIDEND**
	7	THEORY
	8	BASIC+RIGHT
LDR	9	**BASIC+RIGHT**
	10	BASIC+RIGHT
	11	BASIC+RIGHT
	12	DILUTED+DEB
	13	DILUTED+DEB
LDR	Eg 2	DEB+INT
LDR	Eg 3	DEB+INT
LDR	14	**DILUTED+DEB**
LDR	15	**DILUTED+ESOP**
LDR	16	**DILUTED+DEB**
LDR	17	**CASE+DILUTED**
	18	DISCONTINUING
	19	THEORY
	20	THEORY
	21	RIGHT
LDR	PYQ J25	**FULL Q**

LDR LIST FROM QB OF AK SIR

Credit- mehul jain