



AS-20: EARNING PER SHARE

STUDENT
NOTES

PRESENTATION OF BASIC AND DLUTED EPS

Both basic and diluted EPS should be presented on the face of statement of P&L with equal prominence for each class of equity shares.

CALCULATION OF BASIC EPS

Net profit/loss for the period attributable to Equity shareholders
Weighted average no. of equity shares.

$$\text{NPAESH} = \frac{\text{NP} - \text{Taxes} - \text{Preference dividend}}{\text{WANES}} = \frac{1.4.20 - 31.3.21}{1.4.20 - 31.3.21}$$

Example 1 :- 1.4.20 = 5,000 ES opening bal.

30.6.20 = 2000 Es issued

31.12.20 = 3,000 ES bought back

NES = 4000ES. Calculate WANES. *on 21.3.21*

No. of ES = 5000 + 2000 - 3000 = 4000

WANES = 5000 x 12/12 + 2000 x 9/12 - 3000 x 3/12 M1 } 2
= 5000 x 3/12 + 7000 x 6/12 + 4000 x 3/12 M2 } 2

Equity shares with different nominal values :

If there are equity shares with different nominal values but same dividend rights, the number of equity shares will be calculated by converting all equity shares into equivalent number of equity shares having same nominal value.

FV = 10 FV = 50 (86.95 x 5)
86.95 86.95

NPAESH = 500,000
5750
EPS = 86.95

Example :-

5,000 Equity shares of Rs. 10 each ; 10,000 equity shares of Rs. 50 each. Net profit for the period :- Rs. 20,00,000. Calculate EPS.

Particulars

Number of shares	5,000	10,000
Nominal value /Face value	10	50
Equity No (10)	5,000	50,000
EPS	$\frac{20,00,000}{55,000} = 36.36(10)$	181.81 (50)

More than one class of Equity Shares

If an enterprise has more than one class of equity shares, the net profit/loss for the period shall be apportioned over the different classes in accordance with their dividend rights.

Dividend Rights :- Amount/%age of dividend each class of ESH are entitled to- Minus Net profit attributable to ESH will be divided between the different classes of shareholders in the ratio of dividend rights.



$$\text{EPS} = \frac{\text{Net Profit attributable to Equity SH}}{\text{Weighted Average Number of ES}} \rightarrow \text{Basic}$$

$$\textcircled{1} \text{ Net Profit attributable to ESH } = \begin{aligned} &\text{Profit Before Tax} \\ &- \text{(Current Tax \& Deferred Tax) Tax Expense} \\ &\text{Profit after Tax} \\ &- \text{Preference Dividend} \\ &\text{NPAESH} \end{aligned}$$

Cumulative P.S.

Non-Cumulative P.S.

Preference Dividend will be deducted even if it is not provided by the company.

Preference Dividend will be deducted only if it is provided by the company.

$\textcircled{2}$ Weighted Average Number of Equity Shares :-

$$\begin{array}{lcl} \text{Equity share} & : & \text{Issued} \rightarrow \text{Kabse} : \text{Kabtak} \\ & & \underbrace{\hspace{10em}} \\ & & \text{"weight"} \\ & & \text{buyback} \rightarrow \text{Kab} : \text{year end} \end{array}$$

Example :-

Equity Shares balance on	1-4-20	=	10000 sh.
Fresh shares issued on	1-10-20	=	5000 sh
Shares bought back on	1-1-21	=	2500 sh.

Calculate the weighted average number of Equity Shares (WANES) on 31-3-21.

Solution :- Number of Equity shares = $10000 + 5000 - 2500 = 12500 \text{ sh.}$

$$\begin{aligned} \text{WANES} &= 10000 \times \frac{12}{12} + 5000 \times \frac{6}{12} - 2500 \times \frac{3}{12} \\ &= 10000 + 2500 - 625 \\ &= 11875 \text{ Equity Shares.} \end{aligned}$$

Why is there a need to calculate the weighted average number of Equity shares.

The numerator i.e. net profit AESH represents the profit over a period say for example 12 months.

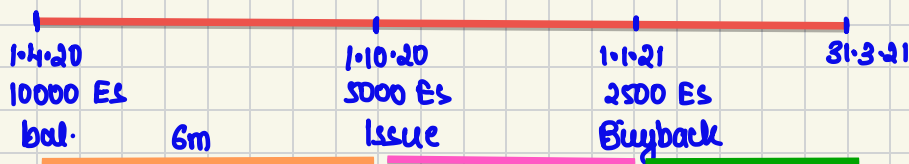
Whereas, the denominator i.e. "No of ES" represents a particular date. As a result the numerator and denominator are not comparable. To make them comparable we will have to calculate WANES which represents a period rather than a particular day.

Alternative method to calculate WANES :-

Grotcha

→ Balance
(Total method :- this is not an official name)

*Grotcha-cha"



$$= 10000 \times \frac{6}{12} + 15000 \times \frac{3}{12} + 12500 \times \frac{3}{12}$$

$$= 5000 + 3750 + 3125$$

$$= 11875$$

NPAESH :- ICAI SM PRESENTATION

A quick recap of adjustments to be made to the numerator will be as under:

Particulars	Adjusted in the numerator of Basic EPS
Tax expense (Current and Deferred Tax)	Yes
Exceptional items as per AS 5	Yes
Extraordinary items as per AS 5	Yes
Changes in Accounting estimates as per AS 5	Yes
Changes in Accounting Policy as per AS 5	Yes
Amount of preference dividends and any attributable tax thereto	
(a) Non-cumulative preference	Yes – only if it has been provided in the books
(b) Cumulative preference shares	Yes – irrespective, whether or not the dividends have been provided for in the books

Calculation of Period for WANES

In most cases, shares are included in the weighted average number of shares from the date the consideration is receivable, for example:

- Equity shares issued in exchange for cash are included when cash is receivable;
- Equity shares issued as a result of the conversion of a debt instrument to equity shares are included as of the date of conversion;
- Equity shares issued in lieu of interest or principal on other financial instruments are included as of the date interest ceases to accrue;
- Equity shares issued in exchange for the settlement of a liability of the enterprise are included as of the date the settlement becomes effective;
- Equity shares issued as consideration for the acquisition of an asset other than cash are included as of the date on which the acquisition is recognised; and
- Equity shares issued for the rendering of services to the enterprise are included as the services are rendered. → complete

In these and other cases, the timing of the inclusion of equity shares is determined by the specific terms and conditions attaching to their issue. Due consideration should be given to the substance of any contract associated with the issue.

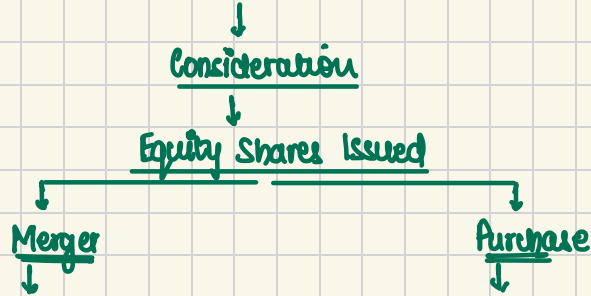
→ Bank loan

Equity Sh.

→ kabse include

o.k. interest lagna jis din bond hojega.

→ JE date



WANES

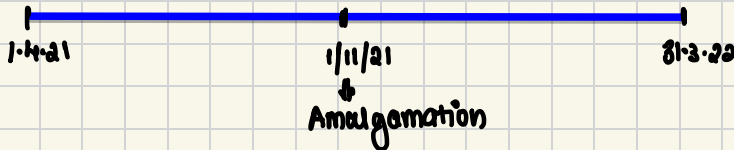
Period: Beginning of financial Year

Period = from the date of acquisition of the other company.

NPAESH

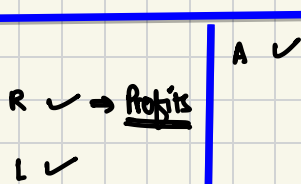
= Profits of A Co. before amalgamation
 +
 Profits of A Co. after amalgamation
 +
 Profits of B Co. before amalgamation

= Profits of A Co. before amalgamation
 +
 Profits of A Co. after amalgamation



A Ltd.	✓	✓
B Ltd.	✓	x

A Ltd. purchased / takeover B Ltd.



Example :-

Calculation of EPS

(81.3.22)

Amalgamation in the nature of Purchase ✓

(B Co. → Net Profits → not included
WA → ES issued → period →
from the DOA)

$$= \frac{\text{NP/ESH}}{\text{WANES}}$$

$$= \frac{500000 + 800000}{10000 \times \frac{12}{12} + 5000 \times \frac{6}{12}}$$

$$= \frac{1300000}{10000 + 2500}$$

$$= 104$$

Amalgamation in the nature of merger

(B Co. → Net Profit → included
WA → ES issued → period →
from the beginning of FY)

$$= \frac{\text{NP/ESH}}{\text{WANES}}$$

$$= \frac{500000 + 800000 + 400000}{10000 \times \frac{12}{12} + 5000 \times \frac{12}{12}}$$

$$= 113.33$$

$$\text{EPS} = \frac{\text{NP/ESH}}{\text{WANES}} = \frac{1000000}{5000 \times \frac{12}{12} + 5000 \times 0.6 \times \frac{12}{12}} \rightarrow \underline{\underline{\text{weight}}}$$

$$= 125$$

fraction of
fully paid ES.
fraction : Dividend rights as compared
to fully paid ES

- 1) MV = 150
- 2) ES issued = 100000
- 3) Right shares issued = 20000
- 4) Right Issue Price = 120
- 5) Date of Right Issue = 30/6/20 (FY: 20-21)

6) NP = 2000000

Calculate EPS.

$$\textcircled{1} \text{ Fair Value per sh. after RI} = \frac{(100000 \times 150) + (20000 \times 120)}{120000}$$

$$= 145$$

② Bonus (free) Element in RI (Shares Issued for free)

$$\text{Total amount raised from RI} = 20000 \times 120 = \frac{2400000}{145}$$

$$= 16552 \text{ ES issued}$$

$$\text{Actual shares issued} = 20000$$

$$\text{Shares Issued for free (Bonus Shares)} = \frac{20000}{16552} \times 16552 = 3448 \text{ ES}$$

$$\textcircled{3} \text{ EPS} = \frac{\text{NP/RES}}{\text{W/ANES}}$$

$$= \frac{2000000}{\frac{100000 \times 12}{12} + 16552 \times \frac{9}{12} + 3448 \times \frac{12}{12}}$$

$$= \frac{2000000}{100000 + 12414 + 3448}$$

$$= \frac{2000000}{115862}$$

$$= 17.26$$

13. Following information is supplied by K Ltd.:

Number of shares outstanding prior to right issue - 2,50,000 shares.

Right issue - two new share for each 5 outstanding shares (i.e. 1,00,000 new shares)

Right issue price - ₹ 98

$$\begin{array}{r} 2 \\ \times \\ 5 \\ \hline 100000 \end{array} \quad \begin{array}{r} 5 \\ \times \\ 250000 \\ \hline 1250000 \end{array}$$

Last date of exercising rights - 30-06-20X2.

Fair value of one equity share immediately prior to exercise of right on 30-06-20X2 is ₹ 102.

Net Profit to equity shareholders:

20X1-20X2 - ₹ 50,00,000

20X2-20X3 - ₹ 75,00,000

You are required to calculate the basic earnings per share as per AS-20 Earnings per Share.

$$FV = \frac{250000 \times 102 + 100000 \times 98}{350000}$$

$$= 100.85$$

$$\text{Bonus Element} = \frac{980000}{100.85}$$

$$= 97174 \text{ sh.}$$

$$= \frac{100000 \text{ sh}}{1.02826}$$

$$\text{Bonus} = 2826$$

$$\text{EPS} = \frac{7500000}{\frac{250000 \times 12}{12} + \frac{97174 \times 9}{12} + \frac{2826 \times 12}{12}}$$

$$= \frac{7500000}{250000 + 72880 + 2826}$$

$$= \frac{7500000}{325706}$$

$$= 23.02$$

Question 7:- Basic EPS for 16-17 = $\frac{\text{NP AESH}}{\text{WANES}} = \frac{2200000}{1000000}$

= 2.2

Basic EPS for 17-18 = $\frac{\text{NP AESH}}{\text{WANES}} = \frac{3000000}{\frac{1000000 \times 12}{12} + \frac{162180 \times 8}{12} + \frac{37820 \times 12}{12}}$

= $\frac{3000000}{1000000 + 108120 + 37820} = 2.60$

1) Calculation of fair Value /share after Right Issue

= $\frac{(1000000 \times 32) + (200000 \times 25)}{1200000}$

= 30.83

2) Calculation of Bonus Shares Issued

- | | |
|--|------------------------------|
| a) Total amount raised through Right Issue : | $200000 \times 25 = 5000000$ |
| b) fair Value /sh. after right issue | = 30.83 |
| c) No. of shares to be issued | = 162180 E.S. |
| d) No. of shares actually issued | = 200000 E.S. |
| e) Bonus shares issued | = <u>37820</u> E.S. |

Calculation of Restated basic EPS f.t.y. 16-17

16-17 = $\frac{2200000}{\frac{1000000 \times 12}{12} + \frac{37820 \times 12}{12}}$

= 2.12

P/E : $\frac{\text{MP}}{\text{EPS}} = \frac{20}{2.12} = \underline{9.43} \rightarrow \underline{\text{premium}}$

1 ₹ earn
9.43 invest

Illustration 4

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.

$$\text{EPS for 2021} = \frac{1100000}{500000}$$

$$= 2.2$$

$$\begin{aligned} \text{EPS for 2022} &= \frac{1500000}{\frac{500000 \times \frac{12}{12} + \underbrace{75000 \times \frac{10}{12}}_{\text{RI}} + \underbrace{25000 \times \frac{12}{12}}_{\text{BI}}} \\ &= 2.55 \end{aligned}$$

i) Calculation of fair value after Right Issue :-

$$\begin{aligned} &= \frac{(500000 \times 21) + (100000 \times 15)}{600000} \\ &= 20 \end{aligned}$$

2) Bonus Shares Issued:

- a) Total amount raised :- $100000 \times 15 = 1500000$
- b) fair value after RI = 20
- c) Number of shares to be issued = 75000
- d) Actual shares issued = 100000
- e) Bonus shares issued = 25000

Restated EPS for 2021

$$\begin{aligned} \text{EPS} &= \frac{1100000}{500000 + 25000} \\ &= 2.10 \text{ (2.095)} \end{aligned}$$

Question 11 :- ICM SM

PRESENTATION & DISCLOSURES BASED ACCOUNTING STANDARDS

4.123

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

12. 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

When nothing is mentioned in the question regarding dividends, then assume partly paid shares are entitled to dividends only to extent of paidup amount as compared to fully paid

↓

Based on the above partly paid shares will be considered as a fraction of fully paid shares.

$$\text{EPS} = \frac{2196000}{457500} = \underline{\underline{4.80/\text{sh.}}}$$

$$600000 \times \frac{5}{10} \times \frac{12}{12} = 300000$$

$$540000 \times \frac{5}{10} \times \frac{7}{12} = 157500$$

$$\underline{\underline{457500}}$$

$$\begin{array}{l} \text{600000} \\ \begin{array}{l} \frac{5}{10} \\ (1.4) \end{array} \\ + \frac{540000 \times \frac{5}{10} \times \frac{12}{12}}{60000 \times \frac{5}{10} \times \frac{12}{12}} \end{array} \quad \begin{array}{l} \frac{5}{10} \\ (1.9) \\ + \frac{540000 \times \frac{5}{10} \times \frac{7}{12}}{x} \end{array}$$

Question 8:

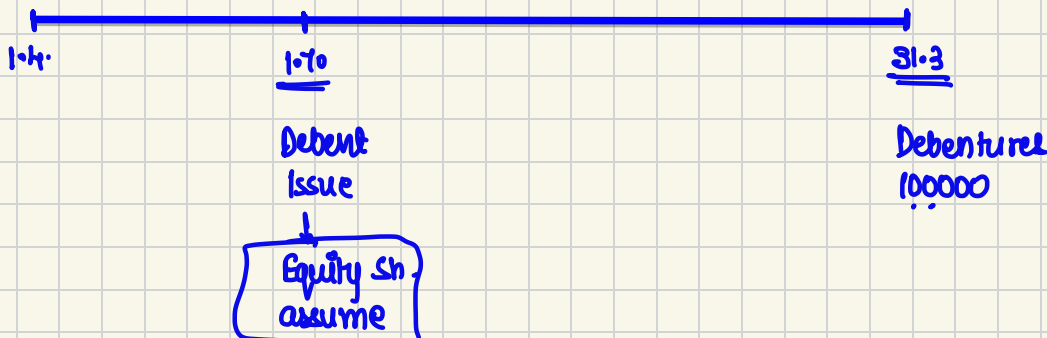
$$\begin{aligned}\text{Basic EPS} &= \frac{\text{NP/ESH}}{\text{W/ANES}} = \frac{8550000}{2000000 \times \frac{12}{12}} \\ &= 4.275\end{aligned}$$

$$\begin{aligned}\text{Diluted EPS} &= \frac{8550000 + \text{Interest} (1 - \text{tax rate})}{2000000 \times \frac{12}{12} + 1000000 \times \frac{x}{12}} \\ &= \frac{8550000 + 600000 (1 - 0.30)}{2000000 + 1000000 \times \frac{9}{12}} \\ &= \frac{8550000 + 420000}{2750000} \\ &= 3.26\end{aligned}$$

⇒ Interest when paid provides tax benefit (reduction in tax). Hence, if the same is not paid it will lead to increase in tax. Therefore, only the net amount of interest after deducting incremental tax is added back.

$$\begin{aligned}\text{Annual Interest} &= 10000000 \times 8\% = 800000 \xrightarrow{12m} \\ &\quad 600000 \xrightarrow{x = 9m}\end{aligned}$$

$$\begin{aligned}\text{NP} &= 8550000 \\ + \text{Interest} &= 600000 \\ \text{Adj NP} &= 9150000 \\ \text{Tax } 30\% &\rightarrow \begin{array}{r} 8550000 \\ \times 30\% \\ \hline 2565000 \end{array} \quad \begin{array}{r} 600000 \\ \times 30\% \\ \hline 180000 \\ \hline 420000 \end{array}\end{aligned}$$



Example :- Convertible P.S.

Net Profit = 85,50,000

No. of ES = 20,00,000

7% Convertible P.S. = 1,00,000 shares (FV=100)

Each preference share is convertible into 10 E.S.

Calculate diluted EPS.

Solution :-

$$\text{Basic EPS} = \frac{85,50,000}{20,00,000}$$
$$= 4.275$$

$$\text{Diluted EPS} = \frac{85,00,000 + \text{PD (7,00,000)}}{20,00,000 + \frac{1,00,000 \times 12}{12}}$$
$$= 3.083$$

→ Pref Div when paid does not provide any tax benefit. Hence when it will not be paid it will not lead to any additional tax. Therefore, entire amt of P.D. is added back.

Pref. Sh.
Issued
↓
Equity Sh.
Issued
assume

$$\begin{array}{r} \text{NPBT} \\ - \text{Tax} \\ \hline \text{NPAT} \\ - \text{PD} \\ \hline \text{NPATSH} \end{array}$$

$$\begin{array}{r} \text{Gross Profit} \\ - \text{all indirect exp} \\ - \text{Interest} \\ \hline \text{NPBT} \\ - \text{Tax exp (30\%)} \\ \hline \text{NPAT} \\ - \text{PD} \end{array}$$

$$\begin{array}{r} 1000 \\ 0 \\ 100 \rightarrow \text{Tax benefit} \\ \hline 900 \\ (270) \\ \hline 630 \\ \hline \rightarrow \text{No tax benefit} \end{array}$$

Illustration 6

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

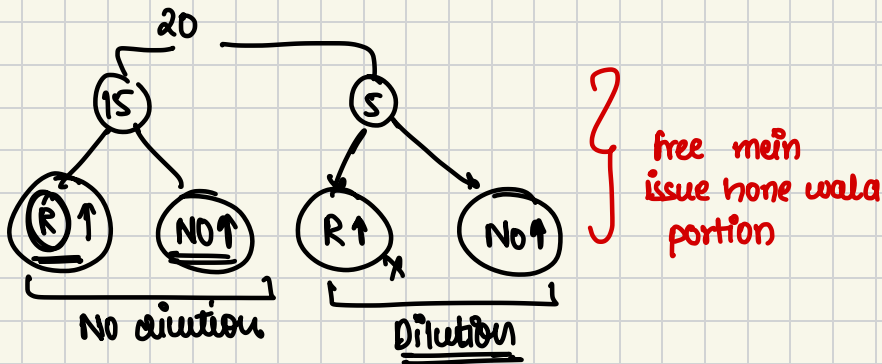
Compute Basic and Diluted Earnings Per Share.

$$\text{Basic EPS} = \frac{12,00,000}{5,00,000} = 2.4$$

Diluted EPS : Options :

- a) Total amount to be raised : $100000 \times 15 = 1500000$
- b) fair Value 1sh = 20
- c) Number of shares to be issued = 75000
- d) Actual shares issued = 100000
- e) Shares issued for no considered = 25000

$$\begin{aligned}\text{Diluted EPS} &= \frac{1200000 + 0}{500000 \times \frac{12}{12} + 25000 \times \frac{12}{12}} \\ &= 2.29\end{aligned}$$



Next Test
3rd November :

AS- 17, 18, 20 Financial Statements

Question 9:- Calculation of Incremental Earning / Share

1. Options:-
- | | | |
|----------------------------------|--------------------|-----------------------|
| a) Total amount to be raised :- | 100000×60 | $= 6000000$ |
| b) fair Value / option | | $= 75$ |
| c) No. of shares to be issued | | $= 80000$ |
| d) No. of shares actually issued | | $= 100000$ |
| e) Excess shares issued | | $= \underline{20000}$ |

$$\text{Incremental Earnings} = \frac{0}{20000} = 0$$

2. Preference Shares :

$$\begin{aligned}\text{Incremental Earnings} &= \frac{(800000 \times 8) + 640000}{1600000} \\ &= 4.4\end{aligned}$$

$$\begin{aligned}D &= 100 \rightarrow 64L \\ \text{CDT} &= \frac{10}{110} \rightarrow \frac{x}{70-40L} \\ &= \frac{10}{110} \rightarrow \frac{x}{30L}\end{aligned}$$

3. Debentures :-

$$\begin{aligned}\text{Incremental Earnings} &= \frac{12000000 \times 0.70}{4000000} \\ &= 2.1\end{aligned}$$

Rankings on the basis of maximum dilution

1. Option - Rank 1
2. Debentures - Rank 2
3. Preference Sh. - Rank 3

Calculation of Diluted EPS

Considering Options

$$\begin{aligned}&= \frac{10000000}{2000000 \times \frac{12}{12} + 20000 \times \frac{12}{12}} + 0 \\ &= 4.95\end{aligned}$$

Options have diluted the EPS.

Considering Debentures

$$= \frac{10000000}{2000000 \times \frac{12}{12} + 20000 \times \frac{12}{12} + 4000000 \times \frac{12}{12}} + 0 + \frac{8400000}{4000000 \times \frac{12}{12}}$$

= 3.056

Debentures have diluted the EPS

Considering Preference Shares

$$= \frac{10000000 + 0 + 8400000 + 7040000}{\frac{2000000 \times 12}{12} + \frac{20000 \times 12}{12} + \frac{4000000 \times 12}{12} + \frac{1600000 \times 12}{12}}$$

$$= \frac{25440000}{7620000}$$

= 3.34

Preference shares are anti dilutive.

Hence, the diluted EPS = 3.056

In simple words, we can conclude as under:

Particulars	Remarks	Is it to be taken as a part of Diluted EPS or not?
Conversion to equity shares would decrease earnings per share from continuing ordinary activities.	Dilutive	Yes
Conversion to equity shares would increase earnings per share from continuing ordinary activities.	Anti-dilutive	No
Conversion to equity shares would increase loss per share from continuing ordinary activities.	Dilutive	Yes
Conversion to equity shares would decrease loss per share from continuing ordinary activities.	Anti-dilutive	No

Illustration 7

X Limited, during the year ended March 31, 20X1, has income from continuing ordinary operations of ₹ 2,40,000, a loss from discontinuing operations of ₹ 3,60,000 and accordingly a net loss of ₹ 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?

$$\text{Basic EPS} = \frac{(120000)}{1000} = (120)$$

Diluted EPS

Whether potential equity shares are diluted or not

considering only continuing operations

$$\text{Basic EPS} = \frac{240000}{1000} = 240$$

$$\text{Diluted EPS} = \frac{240000}{1000 + 200} = 200$$

} The EPS has decreased.

→ While testing consider only continuing operations.

The potential equity shares are dilutive

Presentation of Diluted EPS

$$= \frac{240000 - 360000}{1000 + 200}$$

$$= (100)$$

} While presentation consider continuing and discontinuing operations both.



5.10 RESTATEMENT

If the number of equity or potential equity shares outstanding increases as a result of a bonus issue or share split or decreases as a result of a reverse share split (consolidation of shares), the calculation of basic and diluted earnings per share should be adjusted for all the periods presented. If these changes occur after the balance sheet date but before the date on which the financial statements are approved by the board of directors, the per share calculations for those financial statements and any prior period financial statements presented should be based on the new number of shares. When per share calculations reflect such changes in the number of shares, that fact should be disclosed.

Diluted EPS

Options → Dilutive in nature

$$= \frac{10000000 + 0}{2000000 + 20000}$$

$$= 4.95 \checkmark$$

Debentures → Dilutive in nature

$$= \frac{10000000 + 0 + 8400000}{2000000 + 20000 + 4000000}$$

$$= 3.056 \checkmark$$

Preference Shares

$$= \frac{10000000 + 0 + 8400000 + 7040000}{2000000 + 20000 + 4000000 + 1600000}$$

$$= \frac{25440000}{7620000}$$

$$= 3.34 \leftarrow \text{increase}$$

Preference Shares are anti dilutive.

$$\text{Diluted EPS} = \underline{\underline{3.056}}$$



AS-20: EARNING PER SHARE

STUDENT NOTES

Equity Shares issued during amalgamation

Nature of merger:- The duration for the equity shares issued during the merger should be from the beginning of the reporting period.

Nature of purchase :- The duration for the equity shares issued during purchase should be from the DATE OF ACQUISITION of the vendor company till the end of reporting period.

Calculation of EPS during amalgamation:-

FY= 21-22 ; Date of Amalgamation = 30.9.21

A- NP upto 30.9.21 = 5,00,000 ✓

NP from 1.10.21 = 8,00,000 ✓

No. of Equity = 10,000

B = NP upto 30.9.21 = 4,00,000 ✓

A Ltd. Tookover B Ltd. On 30.9.21 and issued 5,000 Equity shares. Calculate EPS in A Ltd's books as on 31.3.22.

Solution:

In the nature of merger :-

$$\text{EPS :- NPAESH / WANES} = \frac{5,00,000 + 8,00,000 + 4,00,000}{10,000 \times \frac{12}{12} + 5,000 \times \frac{12}{12}} = \frac{17,00,000}{15,000} = 113.83$$

In the nature of purchase:-

$$\text{EPS :-} \frac{5,00,000 + 8,00,000}{10,000 \times \frac{12}{12} + 5,000 \times \frac{6}{12}} = \frac{13,00,000}{12,500} = 104$$

Partly Paid Equity Shares $NV = 10$ $FPES = 10$ $PPES = 6$

- Such equity shares are treated as a fraction of an equity share,
- to the extent they were entitled to participate in the dividends relative to fully paid equity shares.

$$\begin{array}{l} \text{5000} \quad \text{5000} \\ \downarrow \quad \downarrow \\ \text{Dividend} = 1 \quad \text{Dividend} = 0.6 \end{array}$$

Example:-

1. 5,000 fully paid equity of Rs. 10 each.
2. 5,000 partly paid equity shares of Rs. 10 each Rs. 6 / shares paid up.
3. Dividend to partly paid equity shares will be paid in proportion to amount paid up as compared to fully paid equity shares.
4. NPAESH = 10,00,000.
5. Calculate EPS.





AS-20: EARNING PER SHARE

STUDENT NOTES

- Solution:-**
- | | FPV | PPU |
|-----------------|---|-------|
| 1. No. | 5,000 | 5,000 |
| 2. Dividend | 1 | 0.6 |
| 3. Equity Share | in proportion of dividend = 5,000 and 3,000 | |

$$\text{EPS} = \frac{10,00,000}{5,000 \times \frac{12}{12} + 3,000 \times \frac{12}{12}} = 125 \text{ (fully paid up)}$$

$$\text{PPU} = 125 \times 0.6 = 75$$

$$\text{FPV} = 10 \text{ lakh} \times 1/1.6 = 6,25,000/5,000 = 125$$

$$\text{PPU} = 10 \text{ l} \times 0.6/1.6 = 375,000/5000 = 75$$

BONUS ISSUE / SHARE SPLIT / REVERSE SHARE SPLIT

The change in the no. of equity shares will be treated as if it had occurred from the beginning of the period.

Bonus weight → **original share ko jama weight**

EPS

RIGHT ISSUE

utna bonus ko weight

Calculate theoretical ex-right value/share=

(Aggregate Value of shares prior to right issue + proceed from right issue)/no. of shares outstanding after right issue.

2. Calculate adjustment factor=

Fair value before right issue/theoretical ex-right price.

3. Compute basic EPS

(This will be done by multiplying no. of shares prior to right issue by the adjustment factor.)

= net profit attributable to ESH

Old sh.*adj.fac*x/12 + new sh.*x/12

Adjusting factor

In Right Issue, the exercise price of the shares is lower than the fair value of the shares.

- Hence the increase in proceeds is not proportionately equal to the increase in the no. of shares from right issue.

- This gives rise to a bonus element which is represented by the adjustment factor calculated in step 3.

Bonus alc

300

Cr.

100

Dr.

200

Cr.

Reserve

CA Tejas Suchak

A-N
30/6
9m
Bonus → 31/12
9m
N E
(S) = 1
EPS ?
WANE
EPS = NP/ESH

$$\frac{1 \times 12 + 5 \times 12}{12 + 5 \times 12}$$

200
1
100
100





AS-20: EARNING PER SHARE

STUDENT NOTES

Calculation of EPS after Right issue

1) Fair value of equity share after issue

$$= \frac{(1,00,000 \times 50) + (2,00,000 \times 25)}{12,00,000} = 30.85$$

2) Bonus element

Total money generated through right issue = 50,00,000

Money that would have been generated/ share = 30.83

No. of shares that should have been issued = 162180 shares

No. of shares actually issued = 2,00,000 shares

Bonus shares issued = 37,620 shares (2,00,000 - 1,62,180)

$$3. \text{EPS} = \frac{30,00,000}{10,00,000 \times \frac{12}{12} + 37820 \times \frac{12}{12} + 1,62,160 \times \frac{8}{12}} = 2.62 / \text{shares}$$

$$\text{Restated EPS} = \frac{22,00,000}{10,00,000 \times \frac{12}{12} + 37820 \times \frac{8}{12}} = 2.11$$

Diluted Earning per Share → Basic EPS + Effect of Potential ES

To calculate Diluted EPS,

- Net profit attributable to Esh and
 - Weighted average no. of ES outstanding during the period,
- Both should be adjusted for the effects of potential equity shares.

NPAESH + PES
WANES + PES

instrument Potential equity shares ✓

Is a financial statement or other contract that entitles or may entitle its holder to equity shares.

Example:-

1. Debt instruments convertible to equity → Convertible Debentures
2. Preference Shares convertible to equity.
3. Share warrants.
4. Share options.

Basic EPS = 5/sh.

PES

→ ES in fut

4.5

Treatment of net profit attributable to ESH (Numerator)

- While calculating diluted EPS, the numerator will be increased by the amount of net cash outflow(interest/dividend) that will cease to be incurred if such potential ES are converted to ES.

Note :- Potential ES should be considered as Dilutive when and only when their conversion to ES would result in decrease in Basic EPS. Otherwise, they are considered anti-dilutive.





AS-20: EARNING PER SHARE

QUESTION 7:

The following information is available for Savitri Ltd for the Accounting year 2016-2017 and 2017-2018:

Net Profit for Year <u>2016-2017</u>	<u>₹ 22,00,000</u>	Right Issue: One Share for each five Shares
Net Profit for Year 2017-2018	<u>₹ 30,00,000</u>	Outstanding, i.e. 2,00,000 Shares
No of Shares Outstanding prior to Right Issue	10,00,000	Right Issue Price ₹ 25
Fair Value of one Share immediately prior to exercise of right	₹ 32	Last date to exercise right <u>31.07.2017</u>

You are required to compute -

(a) Basic Earnings per Share for the year 2016-2017.

(b) Re-stated Basic Earnings per Share for the year 2016-2017 for Right Issue.

(c) Basic Earnings per Share for the year 2017-2018.

Answer:

Sr No.	Computation	Result
1	Determination of Theoretical Ex-Rights Fair Value / Price: = $\frac{(Base\ Shares\ Quantity \times Fair\ Value\ per\ Share\ Before\ Rights) + (Rights\ Issue \times Rights\ Issue\ Price)}{Base\ Shares\ Quantity + Rights\ Shares\ Quantity}$ $= \frac{(10,00,000 \times ₹32) + (2,00,000 \times ₹ 25)}{10,00,000 + 2,00,000}$	₹ 30.83
2	Adjustment Factor (AF) = Fair Value before Rights Issue $\frac{Theoretical\ Ex - Rights\ Price\ (as\ per\ Stage\ 1)}{= ₹ 32 / 30.83}$	1.04
3	Weighted Average Number of Shares (WANES) Outstanding during the period (Note)	11,46,667 Shares
4	Basic EPS for Current Year = Equity Earnings = ₹30,00,000 $\frac{WANES\ as\ per\ Stage\ 3}{11,46,667}$	₹ 2.62

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AS-20: EARNING PER SHARE

QUESTION 8:

While calculating Diluted Earnings Per Share, the effect is given to all dilutive Potential Equity Shares that were outstanding during that period." Explain. Also, calculate the Diluted Earnings per Share from the following information:

Net Profit for the Current Year	₹ 85,50,000
No. of Equity Shares Outstanding	20,00,000
No. of 8% Convertible Debentures of ₹ 100 each (Each Debenture is convertible into 10 Equity Shares)	1,00,000
Interest Expenses for the current year	₹ 6,00,000
Tax relating to Interest Expenses	30%

Issued for 4m only

Answer:

Particulars	For Basic EPS	Adjustment for Dilution	For Adjusted EPS
(1)	(2)	(3)	(4) = (2) + (3)
1. Net Profit for the period attributable to Equity Shareholders	Given ₹ 85,50,000	(Note 1) ₹ 4,20,000	₹ 89,70,000
2. Weighted Avg No. of Equity Shares	Given 20,00,000	$1,00,000 \times 10 \times 9/12 = 7,50,000$	27,50,000
3. $EPS = 1 \div 2$	Basic EPS = ₹4.275		Diluted EPS = ₹3.26

Note:

1. Tax Adjusted Interest on 8% Convertible Debentures = Interest as given $\times$ (100% - Tax Rate)
 $= ₹ 6,00,000 \times (100\% - 30\%) = ₹ 4,20,000$.

2. Annual Interest on Debentures = $8\% \times ₹ 100 \times 1,00,000$ Debentures = ₹ 8,00,000. However, Interest Expense for the current year is given as ₹ 6,00,000.

Hence, it implies that Debentures are issued during the year. Period = 9 Months, by comparing Annual Interest at 8% ₹ 8,00,000, with the given Interest Expense of ₹ 6,00,000.

STUDENT
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AS-20: EARNING PER SHARE

STUDENT NOTES

QUESTION 9

The following data is relating to X-ray Ltd. Compute Basic and Diluted EPS.

Net profit attributable to equity shareholders ₹1 Crore

No. of equity shares outstanding 20,00,000

The average fair value of one equity share during the year ₹75

Potential Equity Shares

$$\frac{\text{NPATSH}}{\text{WAMES}} + \frac{\text{PE}_1}{\text{PE}_1} + \frac{\text{PE}_2}{\text{PE}_2} + \frac{\text{PE}_3}{\text{PE}_3}$$

Options	1,00,000 with exercise price of ₹60
Convertible Preference Shares	8,00,000 shares entitled to a cumulative dividend of ₹8 per share. Each preference share is convertible into 2 equity shares.
Attributable tax, e.g., corporate dividend tax	10%
12% Convertible Debentures of ₹ 100 each	₹ 10,00,00,000 and each debenture is convertible into 4 equity shares.
Tax rate	30%

Calculate Diluted EPS.

Answer:

Calculation of Incremental earnings and an Incremental number of shares:

1. Options: Increase in earnings = Nil

Number of shares to be issued at fair value = Amount receivable on options issue / fair value

$$= 1,00,000 \times 60/75 = 80,000$$

Number of shares issued for NO consideration = 1,00,000 - 80,000 = 20,000 shares

Incremental in Earning = 0

$$\text{Earnings} = \frac{0}{20,000} = 0$$





AS-20: EARNING PER SHARE

STUDENT NOTES

2. Convertible preference shares:

Increase in earnings on conversion = Preference dividend + dividend distribution tax

= $(8,00,000 \times 8) + 10\% (8,00,000 \times 8) = ₹70,40,000$ Number of shares issued on conversion = $8,00,000 \times 2 = 16,00,000$ shares

3. Convertible debentures:

Increase in earnings on conversion = Interest - tax savings

= $(₹ 10,00,00,000 \times 12\%) - 30\% (₹ 10,00,00,000 \times 12\%)$

= ₹84,00,000

Number of shares issued on conversion = $10,00,000 \times 4 = 40,00,000$ shares
Calculation of Incremental earnings per share and allocation of rank:

Potential equity share	Incremental earnings (A) (₹)	Increase in shares (B)	Incremental EPS (A/B)	Rank
Options	Nil	20,000	0	1
Convertible preference shares	70,40,000	16,00,000	₹4.40	3
Convertible debentures	84,00,000	40,00,000	₹2.10	2

Calculation of diluted EPS:

Quote: As per the provisions of AS-20: Earnings Per Share, the entity should compute the diluted EPS in the ranking sequence

$$\begin{aligned} \text{Earnings Inc} &= \frac{12,00,00,000 \times 0.70}{40,00,000} \\ &= \underline{\underline{2.1}} \end{aligned}$$

Earnings least Inc. → Dilution scope max.

Options = 0 → ①
Debentures = 2.1 → ②
P.S. = 4.4 → ③

