

**AS-20: SUMMARY CHART**

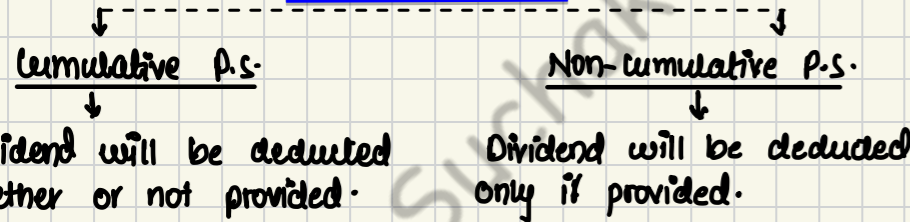
Presentation :- Both basic and diluted EPS should be presented on face of P&L with equal prominence for each class of Equity shares.

Basic EPS :- 
$$= \frac{\text{Net Profit attributable to ESH (NPAESH)}}{\text{Weighted Average No. of Equity Shares (WANES)}}$$

NPAESH :- Profit before tax  
 - Tax expense (current/deferred)  
 Profit after tax  
 - Preference Dividend  
NPAESH

Preference Dividend :-

Preference shares



WANES :-

Equity shares are multiplied by the period based on their existence.

Equity Shares issued against cash :- from the date cash is receivable.

Equity shares issued against an asset :- from the date the asset is recognised.

Equity shares issued against settlement of a liability :- from the date the liability is settled.

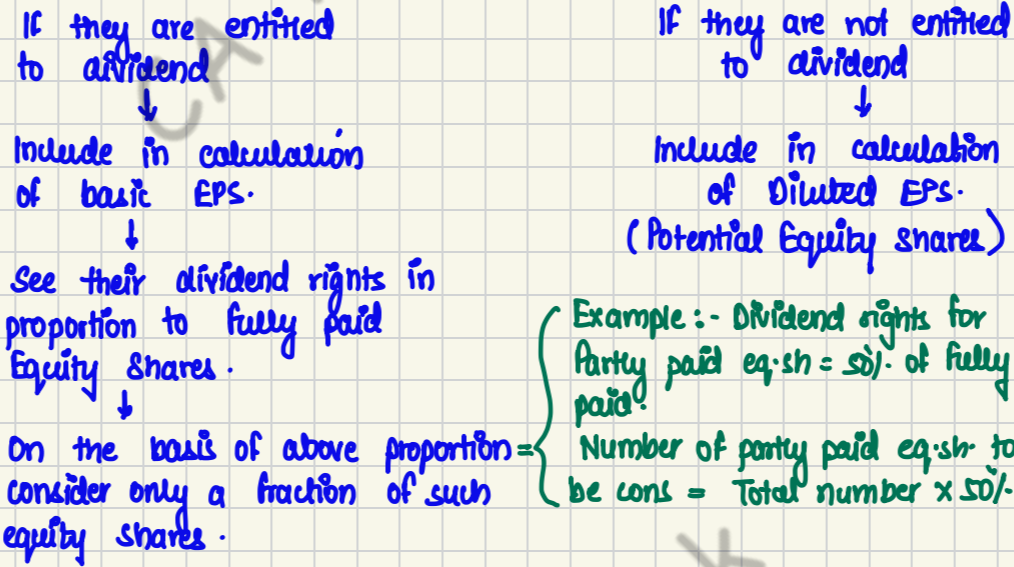
Equity shares issued against interest and principal due :- from the date the interest ceases to accrue.

Equity shares issued against conversion of a debt instrument :- from the date of conversion of the instrument.

Equity shares issued against rendering of service :- from the date of completion of service.

Calculation of EPS increase of Partly paid Equity Shares

Dividend Entitlement



Calculation of EPS increase of Different class of Equity shares

Different class = Different voting rights  
 Different dividend rights

Example :- TATA motors ordinary share, TATA motors DVR.

1. focus on the dividend rights of each class of Equity share.
2. Distribute / apportion net profit on the basis of dividend rights of each class of equity share.

Example :-

	Class A	Class B
1. Dividend Right	1	2.5
2. Net Profit app.	NP x 1/3.5	NP x 2.5/3.5
3. EPS	= 2/No.	2/No.

Calculation of EPS increase of Amalgamation of companies

Nature of Amalgamation

Nature of Purchase

NPAESH :- Net Profit of C.Y. of vendor co. will not be included.  
WANES :- The ES so issued will be assigned weighted from the Date of Acq. of Vendor co.

Nature of Merger

NPAESH :- Net Profit for the C.Y. of vendor co. will be included.  
WANES :- The ES so issued will be assigned weight from the beginning of the f.y.

EPS increase of Equity shares of different nominal values

Calculate :- Equivalent number of Equity shares.

Suppose, Equity Shares

FV = 10 Number = 10000      FV = 50 Number = 20000

Assume that all shares for one have same FV.

lets say all shares have FV = 10.

FV = 10 Number = 10000      FV = 50 Number = 20000  
 Total FV = 1000000  
 Assumed FV = 10  
 Assumed No. = 100000

Equivalent Number of sh = 110000

$$EPS = \frac{NPAESH}{\text{Weighted Av. Equivalent no. of shares}}$$

EPS increase of Bonus Issue / Share split / Reverse split

The new shares will be given weight from the beginning of the period.

In this case also restate the preceeding year EPS figures for comparison.

EPS increase of Right Issue

Right Issue is generally at a price below the market price. Hence RI includes a bonus element in it.

Therefore the EPS will be calculated as follows :-

$$EPS = \frac{NPAESH}{\text{Original shares} \times \frac{12}{12} + \text{Non bonus RI} \times \frac{12}{12} + \text{Bonus RI} \times \frac{12}{12}}$$

from the date the Right shares are issued.

Just like Bonus shares.

## How to calculate Bonus Element in Right Issue?

### 1) Calculate fair value after Right Issue

$$= \frac{(\text{Shares before Issue} \times \text{MP}) + \text{Right Issue Shares} \times \text{R.I. price}}{\text{Shares before RI} + \text{Right Issue Shares}}$$

### 2) Calculate Bonus shares (element) in Right Issue

a. Total amount raised	xx
b. fair Value as per (i)	xx
c. No. of shares to be issued (a/b)	x
d. Actual shares issued	x
e. Bonus shares issued (d-c)	x

$$\text{Non bonus Right Issue element} = \text{Total shares issued} - \text{Bonus element}$$

### Diluted EPS

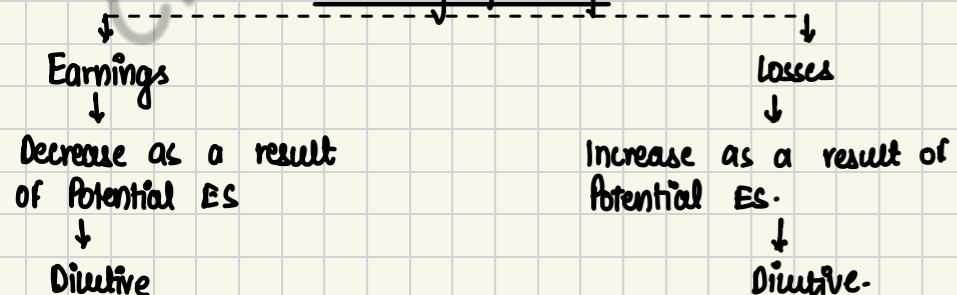
$$= \text{Basic EPS} + \text{effect of potential equity shares.}$$

Potential Equity Shares :- Which will be converted into ES in future.

\* They are not Equity shares as on the date of calculation of EPS.

### Whether Potential Equity Shares are dilutive

#### Continuing Operating



\* While presenting diluted EPS make sure to include both continuing and discontinuing operations income.

### When there are more than 1 Potential Equity shares

1. Calculate Incremental Earning for each potential Equity share.
2. The PES with the least incremental earnings has highest dilution scope and will be first considered for calculating diluted EPS.

3. PES with highest incremental earnings has least dilution scope and hence will be considered last for calculation of Diluted EPS.

\* Don't consider all PES for calculation of Diluted EPS at once.

### Convertible Debentures

$$\text{Diluted EPS} = \frac{\text{NPAESH} + \text{Interest (Net of Tax)}}{\text{Original Shares} \times \frac{12}{12} + \text{PES} \times \frac{x}{12}}$$

\* from when the debentures existed.

\* If interest is saved the income increases, but also the taxes go up. Hence net earnings increased = Interest - taxes.

### Convertible Preference shares

$$\text{Diluted EPS} = \frac{\text{NPAESH} + \text{Preference Dividend}}{\text{Original shares} \times \frac{12}{12} + \text{PES} \times \frac{x}{12}}$$

\* from when the P.S. existed.

\* If preference dividend is saved the income increases, but this is the after tax income, hence there will be no incremental tax. Therefore no need to deduct tax from preference dividend.

\* If corporate dividend tax is given in the question then add it with the amount of preference dividend because if preference dividend is not paid then CDT will also be saved.

### Options :-

Consider only the bonus element of these options for calculating Diluted EPS.

Bonus element will be calculated just like we did in case of Right Issue.