Chapter 17

EARNING PER SHARE (IAS –33)

OBJECTIVE

The objective of this IAS is to prescribe principles for the determination and presentation of earning per share.

SCOPE

This IAS shall apply to the entities (Individual or Group), already listed on the stock exchanges or in the process of listing.

DEFINITIONS

Anti-dilution is an increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

A contingent share agreement is an agreement to issue shares that is dependent on the satisfaction of specified conditions.

Contingently issue-able ordinary shares are ordinary shares issue-able for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement.

Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

Options, warrants and their equivalents are financial instruments that give the holder the right to purchase ordinary shares.

An ordinary share is an equity instrument that is subordinate to all other classes of equity instruments.

A potential ordinary share is a financial instrument or other contract that may entitle its holder to ordinary shares.

Common Examples of Potential Ordinary Shares

- convertible debt;
- convertible preferred shares;
- share warrants;
- share options;
- share rights;
- employee stock purchase plans;
- contractual rights to purchase shares; and
- contingent issuance contracts or agreements (such as those arising in business combination).

Put option on ordinary shares are contracts that give the holder the right to sell ordinary shares at a specified price for a given period.

REQUIREMENTS TO PRESENT EPS

An entity whose securities are publicly traded (or that is in process of public issuance) must present, on the face of the income statement, basic and diluted earnings per share for:

- profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity; and
- profit or loss attributable to the ordinary equity holders of the parent entity for the period for each class of ordinary shares that has a different right to share in profit for the period.

Basic and diluted earnings per share must be presented with equal prominence for all periods presented.

Basic and diluted EPS must be presented even if the amounts are negative (that is, a loss per share).
If an entity reports a discontinued operation, basic and diluted amounts per share must be disclosed for the discontinued operation either on the face of the income statement or in the notes to the financial statements.

MEASUREMENT

BASIC EPS

Basic EPS should be calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Earnings

Earnings include all items of income and expense (including tax, extraordinary items and minority interests) less net profit attributable to preference shareholders, including preference dividends.

Preference dividends, which shall be deducted from net profit consist of:

(a) preference dividends on non-cumulative preference shares declared in respect of the period; and
(b) the full amount of the required preference dividends for cumulative preference shares for the period, whether or not they have been declared (excluding those paid/declared during the period in respect of previous periods).

Per share

- The number of ordinary shares used should be the weighted average number of ordinary shares outstanding during the period. This figure for all periods presented should be adjusted for events, other than the conversion of potential ordinary shares that have changed the number of shares outstanding without a corresponding change in resources. ***Examples include a bonus issue, bonus element in a rights issue, a share split and a consolidation of shares.***
- The time-weighting factor is the number of days the shares were outstanding compared with the total number of days in the period; a reasonable approximation is usually adequate.
- Shares are usually included in the weighted average number of shares from the date their proceeds is receivable which is usually the date of issue. In certain other cases consideration should be given to the specific terms and conditions attached to the issue i.e. the substance of a contract associated in the issue. The treatment for the issue of ordinary shares in different circumstances is as follows.

• In exchange for cash	• When cash is receivable
• On the voluntary reinvestment of dividends on ordinary or preferred shares	• The dividend payment date
• As a result of the conversion of a debt instrument to ordinary shares	• Date interest ceases accruing
• In place of interest or principal on other financial instruments	• Date interest ceases accruing
• In exchange for the settlement of a liability of the enterprise	• The settlement date
• As consideration for the acquisition of an asset other than cash	• The date on which the acquisition is recognized
• For the rendering of services to the enterprise	• As services are rendered

- Ordinary shares issued as purchase consideration in an acquisition should be included as of the date of acquisition because the acquired entity's results will also be included from that date onward.
- If ordinary shares are partly paid, they are treated as a fraction of an ordinary share to the extent they are entitled to dividends during the financial period relative to fully paid ordinary shares.
- Contingently issue able shares including those subject to recall are included in the computation from the date when all necessary conditions for issue have been satisfied.

Effect on basic EPS of changes in capital structure

New issues/buy backs

- When there has been an issue of new shares or a buy-back of shares, the corresponding figures for EPS for the previous year will be comparable with the current year because, as the weighted average of shares has risen or fallen, there has also been a corresponding increase or decrease in resources. Money has been received when shares were issued, and money has been paid out on the repurchased shares. It is assumed that the sale or purchase has been made at full market price.
- However, there are other events, which change the number of shares outstanding, without a corresponding change in resources. In these circumstances it is necessary to make adjustments to EPS reported in prior years so that the current and prior period's EPS figures become comparable.

Bonus issue/share split/consolidation

- These three types of event can be considered together as they have a similar effect. In all cases, new ordinary shares are issued to existing shareholders for no additional consideration and as such the number of ordinary shares has changed without an increase or decrease in resources.
- The problem is solved by adjusting the number of ordinary shares outstanding before the event for the proportionate change in the number of shares outstanding as if the event had occurred at the beginning of the earliest period reported.

Rights issue

- A rights issue of shares is an issue of new shares to existing shareholders at a price below the current market value. The offer of new shares is made on the basis of x new shares for every y shares currently held; e.g. a 1 for 3 rights issue is an offer of 1 new share at the offered price for every 3 shares currently held. The offer of new share at a price below the current market value means that there is a bonus element included.
- To arrive at figures for EPS when a rights issue is made, one should first calculate the theoretical ex-rights price. This is a weighted average value per share.
- The procedures for calculating the EPS for the current year and a corresponding figure for the previous year are as follows.
  (a) The EPS for the corresponding previous period should be multiplied by the following fraction. (Note. The market price on the last day of quotation is taken as the fair value immediately prior to exercise of the rights, as required by the standard.)

$$\frac{\text{Theoretical ex - rights price}}{\text{Market price on last day of quotation (with rights)}}$$

  (b) To obtain the EPS for the current year one should:
    (i) Multiply the number of shares before the rights issue by the fraction of the year before the date of issue and by the following fraction.

$$\frac{\text{Market price on last day of quotation with rights}}{\text{Theoretical ex - rights price}}$$

(ii) Multiply the number of shares after the rights issue by the fraction of the year after the date of issue and add to the figure arrived at in (i).
The total earnings should then be divided by the total number of shares so calculated.

DILUTED EPS

At the end of an accounting period, a company may have in issue some securities, which do not at present have any 'claim' to share equity earnings, but may give rise to such a claim in the future. These securities include:

a) A separate class of equity shares which at present is not entitled to any dividend, but will be entitled after some future date;
b) Convertible loan stock or convertible preferred shares which give their holders the right at some future date to exchange their securities for ordinary shares of the company, at a pre-determined conversion rate; and
c) Options or warrants.

In such circumstances, the future number of 'shares ranking for dividend might increase, which in turn results in a fall in the EPS. In other words, a future increase in the number of equity shares will cause a dilution or 'watering down' of equity earning, and it is therefore, appropriate to calculate a diluted earnings per share i.e. the EPS that would have been obtained during the financial period if the dilution had already taken place. This will indicate to investors the possible effects of a future dilution.

Earnings

The earnings calculated for basic EPS should be adjusted by the post-tax including deferred tax effect of:

a) any dividends on dilutive potential ordinary shares that were deducted to arrive at earnings for basic EPS;
b) interest recognized in the period for the dilutive potential ordinary shares; and
c) any other changes in income or expenses, fees and discount, premium accounted for as yield adjustments that would result from the conversion of the dilutive potential ordinary shares.

The conversion of some potential ordinary shares may lead to changes in other income or expenses. For example, the reduction of interest expense related to potential ordinary shares and the resulting increase in net profit for the period may lead to an increase in the expense relating to a non-discretionary employee profit-sharing plan. When calculating diluted EPS, the net profit or loss for the period is also adjusted for any such consequential changes in income or expense.

Per share

The number of ordinary shares is the weighted average number of ordinary shares calculated for basic EPS plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

It should be assumed that dilutive ordinary shares were converted into ordinary shares at the beginning of the period or, if later, at the actual date of their issue. There are following other points, which also need to be considered in connection with diluted EPS.

a) The computation assumes the most advantageous conversion rate or exercise rate from the standpoint of the holder of the potential ordinary shares.
b) Contingently issue able (potential) ordinary shares are treated as for basic EPS; if the conditions have not been met, the number of contingently issue able shares included in the computation is based on the number of shares

that would be issue able if the end of the reporting period was the end of the contingency period. However, restatement is not allowed if the conditions are not met when the contingency period expires.

c) A subsidiary, joint venture or associate may issue potential ordinary shares. that are convertible into either ordinary shares of the subsidiary, joint venture or associate, or ordinary shares of the reporting entity. If these potential ordinary shares have a dilutive effect on the consolidated basic EPS of the reporting entity, they are included in the calculation of diluted EPS.

Treatment of options

- It should be assumed that options are exercised and that the assumed proceeds would have been received from the issue of shares at fair value. Fair value for this purpose is calculated on the basis of the average price of the ordinary shares during the period.
- Options and other share purchase arrangements are dilutive when they would result in the issue of ordinary shares for less than fair value. The amount of the dilution is fair value less the issue price. In order to calculate diluted EPS, each transaction of this type is treated as consisting of two parts.
  a) A contract to issue a certain number of ordinary shares at their average fair value during the period. These shares are fairly priced and are assumed to be neither dilutive nor anti-dilutive. They are, as such, ignored in the computation of diluted earnings per share.
  b) A contract to issue the remaining ordinary shares for no consideration. Such ordinary shares generate no proceeds and have no effect on the net profit attributable to ordinary shares outstanding. Therefore such shares are dilutive and they are added to the number of ordinary shares outstanding in the computation of diluted EPS.

To the extent that partly paid shares are not entitled to participate in dividends during the period, they are considered the equivalent of warrants or options.

Dilutive potential ordinary shares

- According to IAS 33, potential ordinary shares should be treated as dilutive when, and only when, their conversion to ordinary shares would decrease net profit per share from continuing ordinary operations. How is this determined?
- The net profit from continuing ordinary activities is 'the control number', used to establish whether potential ordinary shares are dilutive or anti-dilutive. The net profit from continuing ordinary activities is the net profit from ordinary activities after deducting preference dividends and after excluding items relating to discontinued operations; it also excludes extraordinary items and the effects of changes in accounting policies and of corrections of fundamental errors.
- Potential ordinary shares are anti-dilutive when their conversion to ordinary shares would increase earnings per share from continuing ordinary operations or decrease loss per share from continuing ordinary operations. The effects of anti-dilutive potential ordinary shares are ignored in calculating diluted EPS.
- In considering whether potential ordinary shares are dilutive or anti-dilutive, each issue or series of potential ordinary shares is considered separately, not in aggregate. The sequence in which potential ordinary shares are considered may affect whether or not they are dilutive. Therefore, in order to maximize the dilution of basic EPS, each issue or series of potential ordinary shares is considered in sequence from the most dilutive to the least dilutive. This may sound very confusing, but the following example may help.
- Potential ordinary shares are weighted for the period they were outstanding. If any that were cancelled or allowed to lapse during the reporting period are included in

the computation of diluted EPS only for the portion of the period during which they were outstanding. Potential ordinary shares that have been converted into ordinary shares during the reporting period are included in the calculation of diluted EPS from the beginning of the period to the date of conversion; from the date of conversion, the resulting ordinary shares are included in both basic and diluted EPS.

Restatement

- If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split i.e. consolidation of shares, the calculation of basic and diluted EPS for all periods presented should be adjusted retrospectively.
- If these changes occur after the balance sheet date but before issue of the financial statements, the calculations per share for the financial statements and those of any prior period should be based on the new number of shares and this should be disclosed.
- In addition, basic and diluted EPS of all periods presented should be adjusted for
  - a) the effects of fundamental errors, and adjustments resulting from changes in accounting policies, dealt with in accordance with IAS 8; and
  - b) the effects of a business combination that is a uniting of interests
- An enterprise does not restate diluted EPS of any prior period for changes in the assumptions used or for the conversion of potential ordinary shares into ordinary shares outstanding.

PRESENTATION

Basic and diluted EPS should be presented by an enterprise on the face of the income statement for each class of ordinary share that has a different right to share in the net profit for the period. The basic and diluted EPS should be presented with equal prominence for all periods presented.

Disclosure must be made even where the EPS figures (basic and/or diluted) are negative ie a loss per share.

DISCLOSURE

An enterprise should disclose the following.

(a) The amounts used as the numerators in calculating basic and diluted EPS, and a reconciliation of those amounts to the reported net profit or loss for the period

(b) The weighted average number of ordinary shares used as the denominator in calculating basic and diluted EPS, and a reconciliation of these denominators to each other.

Example # 1-Bonus Issue

Net Profit 20X0	200
Net Profit 20X1	400
Ordinary shares outstanding until 30 September 20X 1	200
Bonus issue 1 October 20X1	2 ordinary shares for each ordinary share Outstanding at 30 September 20X1 200 X 2 = 400

Example #2-Right issue

M Ltd. has produced the following net profit figures.

	Rs.m
19X6	2.1
19X7	2.5
19X8	2.8

On 1 January 19X7 the number of shares outstanding was 1,000,000. During 19X7 the company announced a rights issue with the following details.

Rights: 1 new share for each 5 outstanding

Exercise price:	Rs.5.00
Last date to exercise rights:	1 March 19X7

The market (fair) value of one share in M Ltd. immediately prior to exercise on 1 March 19X7 = Rs.11.00.

Required

Calculate the EPS for 19X6, 19X7 and 19X8.

Example # 3-Dilutive EPS

In 19X7 Faraz Ltd. had a basic EPS of 1.05 based on earnings of Rs.105,000 and 100,000 ordinary Rs.1 shares. It also had in issue Rs.40,000 15% Convertible Loan Stock which is convertible in two years' time at the rate of 4 ordinary shares for every Rs. 5 of loan stock. The rate of tax is 30%.

Required

Calculate the diluted EPS.

Example# 4- Options

Beta Ltd has the following results for the year ended 31 December 19X7.

Net profit for year	Rs.2,200,000
Weighted average number of ordinary shares outstanding during year	500,000 shares
Average fair value of one ordinary share during year	Rs. 20.00
Weighted average number of shares under option during year	100,000 shares
Exercise price for shares under option during year	Rs.15.00

Required

Calculate both basic and diluted earnings per share.

Example# 5-Dilutive potential ordinary shares

Imran Ltd. has the following results for the year ended 31 December 19X7.

Earnings: net profit attributable to ordinary shareholders	Rs. 10,000,000
Ordinary shares outstanding	2,000,000
Average fair value of one ordinary share during the year	Rs. 75.00
Tax rate	40%

Potential ordinary shares are as follows.

(a) The profit for the year is net off 20% profit attributable to employees's profit sharing schemes.

(b) Options: 100,000 with exercise price of Rs.60

(c) Convertible preference shares: 800,000 shares entitled to a cumulative dividend of Rs.8 per share; each preference share is convertible to two ordinary shares

(d) 5% Convertible bond: nominal amount Rs.100,000,000; each 1,000 bond is convertible to 20 ordinary shares; there is no amortization of premium or discount affecting the determination of interest expense.

Required: - Calculate both basic and dilutive EPS for all the years?

Example # 6

Numerator information	**$**	**Denominator information**	
Income from ordinary activities before extraordinary loss	100,000	Common shares outstanding at 1/1/05	100,000
		Shares issued for cash 1/4/05	20,000
Net income	100,000	Shares issued in 10% stock dividend declared on July 01 2005	12,000
6% cumulative preference shares	100,000	Shares of treasury stocks purchased 1/10/05	10,000
		Shares issued and bought back are at market value.	

Required: - Calculate both basic and dilutive EPS?

PRACTICE QUESTIONS IAS 33

Q.1 The profit after tax earned by AAZ Limited during the year ended December 31, 2007 amounted to Rs. 127.83 million. The weighted average number of shares outstanding during the year was 85.22 million.

Details of potential ordinary shares as at December 31, 2007 are as follows:

- The company had issued debentures which are convertible into 3 million ordinary shares. The debenture holders can exercise the option on December 31, 2009. If the debentures are not converted into ordinary shares they shall be redeemed on December 31, 2009. The interest on debentures for the year 2007 amounted to Rs. 7.5 million.
- Preference shares issued in 2004 are convertible into 4 million ordinary shares at the option of the preference shareholders. The conversion option is exercisable on December 31, 2010. The dividend paid on preference shares during the year 2007 amounted to Rs. 2.45 million.
- The company has issued options carrying the right to acquire 1.5 million ordinary shares of the company on or after December 31, 2007 at a strike price of Rs. 9.90 per share. During the year 2007, the average market price of the shares was Rs. 11 per share.

The company is subject to income tax at the rate of 30%.

Required:

(a) Compute basic and diluted earnings per share.

(b) Prepare a note for inclusion in the company's financial statements for the year ended December 31, 2007 in accordance with the requirements of International Accounting Standards.

Q.2 The following information relates to Afridi Industries Limited (AIL) for the year ended December 31, 2008:

(i) The share capital of the company as on January 1, 2008 was Rs. 400 million of Rs. 10 each.

(ii) On March 1, 2008, AIL entered into a financing arrangement with a local bank. Under the arrangement, all the current and long-term debts of AIL, other than trade payables, were paid by the bank. In lieu thereof, AIL issued 4 million Convertible Term Finance Certificates (TFCs) having a face value of Rs. 100, to the bank. These TFCs are redeemable in five years and carry mark up at the rate of 8% per annum. The bank has been allowed the option to convert these TFCs on the date of redemption, in the ratio of 10 TFCs to 35 ordinary shares.

(iii) On April 1, 2008, AIL issued 30% right shares to its existing shareholders at a price which did not contain any bonus element.

(iv) During the year, AIL earned profit before tax amounting to Rs. 120 million. This profit includes a loss before tax from a discontinued operation, amounting to Rs. 20 million.

(v) The applicable tax rate is 35%.

Required:

Prepare extracts from the financial statements of Afridi Industries Limited for the year ended December 31, 2008 showing all necessary disclosures related to earnings per share and diluted earnings per share.

(Ignore corresponding figures)

Q.3 The following information pertains to ABC Limited, in respect of year ended March 31, 2010.

	Rs. (000)
Consolidated profit for the year (including minority interest)	15,000
Profit attributable to minority interest	2,000

Dividend paid during the year to ordinary shareholders	4,000
Dividend paid on 10% Cumulative Preference shares for the year 2009	2,000
Dividend paid on 10% Cumulative Preference shares for the year 2010	2,000
Dividend declared on 12% Non Cumulative Preference shares for the year 2010	2,400

(i) The dividend declared on the non-cumulative preference shares, as referred above, was paid in April 2010.
(ii) The cumulative preference shares were issued at the time of inception of the company.
(iii) The company had 10 million ordinary shares at March 31, 2009.
(iv) The 12% non-cumulative preference shares are convertible into ordinary shares, on or before December 31, 2011 at a premium of Rs. 2 per share. 0.50 million non cumulative preference shares were converted into ordinary shares on July 1, 2009.
(v) 1.20 million right shares of Rs. 10 each were issued at a premium of Rs. 1.50 per share on October 1, 2009. The market price on the date of issue was Rs. 12.50 per share.
(vi) 20% bonus shares were issued on January 1, 2010.
(vii) Due to insufficient profit no dividend was declared during the year ended March 31, 2009.
(viii) The average market price for the year ended March 31, 2010 was Rs. 15 per share.

Required:

Compute basic and diluted earnings per share and prepare a note for inclusion in the consolidated financial statements for the year ended March 31, 2010.

Q.4 Extracts from statement of comprehensive income of Rahat Limited (RL) for the year ended March
31, 2011 are as under:

	2011	**2010**
	Rs. (000)	
Profit after taxation	150,000	110,000
Exchange gain on foreign operations, net of tax	10,000	8,000
Total comprehensive income	160,000	118,000

Following further information is available:

(i) As of April 1, 2010 share capital of the company consisted of:
- 5 million ordinary shares of Rs. 10 each
- 0.2 million convertible 15% cumulative preference shares of Rs. 100 each

(ii) Each preference share is convertible into 7 ordinary shares at the option of the shareholders. 10,000 preference shares were converted into ordinary shares on July 1, 2010.
(iii) On September 10, 2010 a right issue of one million ordinary shares had been announced at an exercise price of Rs. 12 per share. By October 1, 2010 which was the last date to exercise the right, all the shares had been subscribed and paid. The market price of an ordinary share on September 10 and October 1, 2010 was Rs. 15.50 and Rs. 15 respectively.
(iv) On April 30, 2011 the Board of Directors had declared a final cash dividend of 20% (2010:18%) for the year ended March 31, 2011.
(v) There was no movement in share capital during the previous year.

Required:

Prepare a note related to earnings per share, for inclusion in the company's financial statements for the year ended March 31, 2011 in accordance with International Financial Reporting Standards. Show comparative figures.

Q.5 One of your clients has contacted you to calculate earnings per share in accordance with the requirements of International Accounting Standards and has provided you the following information:

(i) At the beginning of the year 2006 the company's share capital was Rs 50 million consisting of 5,000,000 ordinary shares of Rs 10 each. Ten percent bonus shares were issued on April 1, 2006. Market price of ordinary shares at the beginning of the year was Rs 33 per share. On June 30, 2006 the price was Rs 38 per share and at the end of the year, the price was Rs 36 per share.

(ii) Profit attributable to ordinary shareholders of the company for the year 2006 is Rs 20 million.

(iii) The company had issued convertible Term Finance Certificates (TFCs) of Rs 120 million carrying markup at the rate of 13 percent per annum. The certificate holders have the option to convert TFCs into ordinary shares in the ratio of 25 ordinary shares for each TFC of Rs 1,000.

(iv) The company is subject to income tax at the rate of 35%.

Required:

Calculate the basic and diluted earnings per share for the year 2006 in each of the following situations:

(a) if none of the TFC holders opt to convert TFCs into ordinary shares;

(b) if a TFC holders who owns 40% of the total TFCs exercises his right of conversion on the first day of July 1, 2006.

Q.6 Market Searchers Limited (MS) had 5.0 million ordinary shares at the beginning of the year 2002. In the month of February 2003, it announced a right issue of one new share for each five shares issued at the exercise price of Rs.5.00 per share with the last date of exercise of right being March 1, 2003. Fair value of one ordinary share prior to exercise on March 1, 2003 was Rs.11.

Moreover, it issued 500,000 convertible bonds on January 1, 2004. Each block of 10 bonds is convertible into 3 ordinary shares. Interest expense for the year 2004 relating to the liability component of the convertible bond is Rs.10.0 million.

Current and deferred tax relating to that interest expense is Rs.4.0 million. Interest expense includes Rs.1.0 million being the amortization of discount arising on initial recognition of the liability component as per IAS 32.

Net profits for the year ended on December 31 of each year are as follows:

- 2002 – Rs.1,100 million
- 2003 – Rs.1,500 million
- 2004 – Rs.1,800 million

Required:

(a) Compute earnings per share for the years 2002, 2003 and 2004 as per IAS 33.

(b) Discuss whether or not the financial instruments or other contracts that may be settled by payment of financial assets or issuance of ordinary shares of the reporting enterprise, at the option of the issuer or the holder are deemed to be potential ordinary shares under IAS 33.

Q.7 Durable Electronics Limited is a manufacturing concern specializing in the manufacturing and marketing of home appliances. The trading results for the year ended December 31, 2005 are as follows:

	Rupees in million
Profit before taxation	60
Income Tax	12
Profit after taxation	**48**

The details of movement in the share capital of the company during the year are as follows:

- As on January 1, 2005, 10 million ordinary shares of Rs. 10 each were outstanding having a market value of Rs. 350 million.
- The board of directors of the company announced an issue of right share in the proportion of 1 for 5 at Rs. 40 per share. The entitlement date of right shares was April 30, 2005. The market price of the shares immediately before the entitlement date was Rs. 40 per share.
- The company announced 20% bonus shares for its shareholders on June 1, 2005. The shareholders were informed that the share transfer books of the company would remain closed from July 1 to July 10, both days inclusive. Transfers received up to June 30, 2005 will be considered in time for entitlement of bonus shares. However, right shares issued in the month of April 2005 will not be entitled for the bonus shares. The ex-bonus market value per share was Rs. 32.
- A further right issue was made in the proportion of 1 for 4 on October 31, 2005 at a premium of Rs. 15 per share. The market value of the shares before the right entitlement was Rs. 33 per share.

Required:

Calculate the basic and diluted earnings per share for the year ended December 31, 2005 in accordance with IAS 33 (Earnings per share).

Q.8 The following financial statement extracts for the year ending 31 May 1999 relate to Mayes, a public limited company.

	Rs.000	Rs.000
Operating profit		
Continuing operations	26,700	
Discontinued operations	(1,120)	25,580
Continuing operations		
Profit on disposal of tangible non- current assets		2,500
Discontinued operations		
(Loss) on sale of operations		(5,080)
		23,000
Interest payable		(2,100)
Profit before tax		20,900
Income tax expense		(7,500)
Profit after tax		13,400
Minority interest		(540)
Profit attributable to members of parent company		12,860
Dividends:		
Preference dividend on non-equity shares	210	
Ordinary dividend on equity shares	300	(510)
Other appropriations - non equity shares (note iii)		(80)
Net profit for the period		12,270

Capital as at 31 May 1999.	
Issued and fully paid ordinary shares of Re.1 each	12,500
7% convertible cumulative redeemable preference shares of Re.1	3,000
	15,500

Additional Information

(i) On 1 January 1999, 3.6 million ordinary shares were issued at Rs.2.50 in consideration of the acquisition of Junes for Rs.9 million. These shares do not rank for dividend in the current period. Additionally the company purchased and cancelled Rs.2.4 million of its own Rs.1 ordinary shares on 1 April 1999. On 1 July 1999, the company made a bonus issue of 1 for 5 ordinary shares before the financial statements were issued for the year ended 31 May 1999.

(ii) The company has a share option scheme whereby certain directors can subscribe for company shares. The following details relate to the scheme.
Options outstanding 31 May 1998:
   (i) 1·2 million ordinary shares at Rs.2 each
   (ii) 2 million ordinary shares at Rs.3 each
Both sets of options are exercisable before 31 May 2000.
Options granted during year 31 May 1999
   (i) One million ordinary shares at Rs.4 each exercisable before 31 May 2002 granted 1 June 1998.
   (ii) During the year to 31 May 1999, the options relating to the 1·2 million ordinary shares at Rs.2 were exercised on 1 March 1999.
   (iii) The average fair value of one ordinary share during the year was Rs.5.

(iii) The 7% convertible cumulative redeemable preference shares are convertible at the option of the shareholder or the company on 1 July 2000, 2001, 2002 on the basis of two ordinary shares for every three-preference share. The preference share dividends are not in arrears. The shares are redeemable at the option of the shareholder on 1 July 2000, 2001, 2002 at Rs.1.50 per share. The 'other appropriations - non equity shares' item charged against the profits relates to the amortization of the redemption premium and issue costs on the preference shares.

(iv) Mayes issued Rs.6 million of 6% convertible bonds on 1 June 1998 to finance the acquisition of Space, an unlisted company. Each bond is convertible into 2 ordinary shares of Rs.1. Assume an income tax rate of 35% and that interest on the bonds receives tax relief at this rate of tax.

(v) The interest payable relates entirely to continuing operations and the taxation charge relating to discontinued operations is assessed at Rs.100,000 despite the accounting losses. The loss on discontinued operations relating to the minority interest is Rs.600,000.

Required:

Calculate the basic and diluted earnings per share for the year ended 31 May 1999 for Mayes utilizing IAS33 'Earnings per share'.

Q.9 The issued share capital of Classic Limited at December 31, 2007 and 2008 comprises 2,000,000 ordinary shares of Rs. 10 each. The company granted potions over 100,000 ordinary shares in 2006. The options can be exercised between 2009 and 2011 at Rs. 60 per share. The average market price of Classic Limited shares during the year was Rs. 75.

In addition Classic Limited has 800,000 Rs. 10 convertible cumulative preference shares (treated as an equity instrument under IAS-32) and Rs. 1,000,000, 5% convertible bonds in issue throughout 2008. Each convertible bond and preference share is convertible into two ordinary shares.

The company's results for the year ended December 31, 2008 comprised operating profit from continuing operations of Rs. 300,000 and operating profit from discontinued operations of Rs. 100,000. Interest and tax at 30% amounted to Rs. 100,000 and Rs. 90,000 respectively. The profit for the year was Rs. 210,000.

Required: -

Calculate Basic and Diluted Earnings Per Share for Classic Limited?

Q. 10 The following information relates to Que Limited (QL) for the year ended 31 December 2011:

(i) Issued share capital on 1 January 2011 consisted of 80 million ordinary shares of Rs. 10 each.

(ii) Profit after tax amounted to Rs. 130 million. It includes a loss after tax from a discontinued operation, amounting to Rs. 40 million.

(iii) On 30 September 2011, QL issued 20% right shares at a price of Rs. 11 per share. The market value of the shares immediately before the right issue was Rs. 12.50 per share.

(iv) There are 25,000 share options in existence. Each option allows the holder to acquire 120 shares at a strike price of Rs. 10 per share. The options have already vested and will expire on 30 June 2013. The average market price of ordinary shares in 2011 was Rs. 12 per share.

(v) QL had issued debentures in 2008 which are convertible into 6 million ordinary shares. The debentures shall be redeemed on 31 December 2012. The conversion option is exercisable during the last six months prior to redemption. The interest on debentures for the year 2011 amounted to Rs. 11 million.

(vi) Preference shares issued in 2009 are convertible (at the option of the preference shareholders) into 4 million ordinary shares on 31 December 2013. The dividend paid on preference shares during 2011 amounted to Rs. 5.75 million.

(vii) The company is subject to income tax at the rate of 35%.

Required:

Prepare extracts from the financial statements of Que Limited for the year ended 31 December 2011 showing all necessary disclosures related to earnings per share. (Ignore comparative figures) (17 marks)