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Earning Per Share
LKAS 33

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Special Considerations

1. Profit attributable to Ordinary Share Holders
   If the irredeemable preference shares were non-cumulative, profit would only be adjusted for the dividend if it were declared.
2. Weighted average number of Ordinary Shares
   Effect of BONUS / RIGHT issue

Event	Adjustment factor applied to ordinary shares before the event
Bonus Issue	Number of shares in issue post bonus issue Number of shares in issue pre bonus issue
Rights Issue	Pre-rights issue price of shares Theoretical ex-rights price (TERP)

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Typhoon Tea PLC had a profit after tax of Rs. 81 million in the year ended 31 December 20X3. This increased to Rs. 83 million in the year ended 31 December 20X4. The company had 100 million ordinary shares in issue at 1 January 20X3 and 20X4 and made the following issues in 20X4:

1. A bonus issue of 1 for 10 on 1 March 20X4
2. A 1 for 5 rights issue on 1 July 20X4. The market price of one share immediately before the rights issue was Rs. 16.20; the exercise price was Rs. 12.50.

Required

What is the basic earnings per share for the year ended 31 December 20X3 and 20X4?

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y/e 31 December 20X3 – as initially reported

Earnings		Rs. 81 million
Weighted average number of shares		Rs. 100 million
Therefore basic EPS	$\frac{81,000,000}{100,000,000}$	Rs. 0. 81

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y/e 31 December 20X4

Earnings		Rs. 83 million
Weighted average number of shares		123,188,703
Therefore basic EPS	$\frac{83,000,000}{123,188,703}$	Rs. 0. 67

Weighted average number of shares:

	Time factor	Adj 1	Adj 2	No. shares
1.1X4 - 28.2X4	100m x 2/12m	x1/10	x16.20/15.58	19,062,901
Bonus issue	10m			
1.3X4 – 30.6X4	110m x 4/12m	-	x16.20/15.58	38,125,802
Rights issue	22m			
1.7X4 - 31.12X4	132m x 6/12m	-	-	66,000,000
				123,188,703

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Adjustment 1: Bonus issue

Number of shares in issue post bonus issue	=	11
Number of share in issue pre bonus issue		10

Adjustment 2: Bonus issue

Pre-rights issue price of shares	=		16.20
Theoretical ex-rights price (TERP)			15.58
TERP: 5 existing shares @ 16.20			81.00
1 new share @ 12.50			12.50
6			93.50
Therefore 93.50/6			15.58

y/e 31 December 20X3 – adjusted EPS

Rs 0.81 x 10/11 x 15.58/16.20 = Rs. 0.71

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03. Diluted EPS

(i) Share Option

Adanti PLC has the following results for the year ended 31 December 20X2

Net profit for year	Rs. 30,500,000
Weighted average number of ordinary shares shares Outstanding during year	10,500,000
Average fair value on one ordinary share during year	Rs. 25
Weighted average number of shares under option During year	500,000 shares
Exercise price for shares under option during year	Rs. 14

Required

Calculate both basic and diluted earnings per share.

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Basic earnings per share

$$\frac{\text{Profit attributable to ordinary shareholders}}{\text{Weighted average number of ordinary shares}} = \frac{30,500,000}{10,500,000} = \text{Rs. } 2.90$$

Diluted earnings per share

$$\frac{\text{Profit per EPS+effect of options}}{\text{No shares per EPS+effec of options}} = \frac{30,500,000+0}{10,500,000+220,000} = \text{Rs. } 2.85$$

Effect of options on number of shares:

Total funds raised from exercise of options (500,000 x Rs 14)	Rs. 7,000,000
Number of shares issued at full market price to raise Equivalent funds (Rs. 7m/Rs 25)	280,000
Therefore shares deemed 'free' (500,000 – 280,000)	220,000

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03. Diluted EPS

(ii) Convertitble Loan Stocks

Alahakoon PLC has 100,000,000 ordinary shares in issue, and also had in issue in 20X4:

(a) Rs. 20,000,000 of 18% convertible loan stock, convertible in three years' time at the rate of 9 shares per Rs. 100 of stock;

(b) Rs. 35,000,000 of 12% convertible loan stock, convertible in one year's time at the rate of 12 shares per Rs. 100 of stock.

The total earnings in 20X4 were Rs. 175,000,000.

The rate of income tax is 28%

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1. Calculate basic EPS:

75,000,000/100,000,000	=	Rs. 175

2. Consider whether the loan stock is dilutive or antidilutive:

18% loan:

Incremental earnings	=	20,000,000 x 18% x (1-28%)
	=	Rs. 2,592,000
Incremental shares	=	20,000,000/100 x 9
	=	1,800,000
Therefore EPS	=	Rs. 2,592,000/1,800,000
	=	Rs. 144 so dilutive

12% loan stock:

Incremental earnings	=	35,000,000 x 12% x (1-28%)
	=	Rs. 3,024,000
Incremental shares	=	35,000/100 x 12
	=	4,200,000
Therefore EPS	=	Rs. 3,024,000/4,200,000
	=	Rs. 0.72 so dilutive

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03. Calculated Diluted EPS

(a) add in most dilutive loan stock (12%)

$$\frac{(175,000,000 + 3,024,000)}{(100,000,000 + 4,200,000)} = \text{Rs. } 1.71$$

(b) add in 18% loan stock as well as 12%

$$\frac{(175,000,000 + 3,024,000 + 2,592,000)}{(100,000,000 + 4,200,000 + 1,800,000)} = \text{Rs. } 1.70$$

Therefore diluted Eps is Rs.1.70, being the lowest diluted Eps calculated.

Note that if, on addition of the 18% loan stock diluted Eps had risen above Rs. 1.71, then Rs. 1.71 would be diluted EPS.

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4. Contingently Issuable Shares

Explain whether each of these groups of potential ordinary shares should be taken into account in the calculation of diluted earnings per share.

- P Co acquired 75% of the shares in S Co on 1 March 20X4 in exchange for cash consideration and 200,000 of its own shares that will be issued only if S Co achieves revenue of Rs. 60 m in the first year of ownership. At 31 December 20X4 revenue is Rs. 51m.

- P Co also acquired 80% of C Co in May 20X4. Part of the consideration for business combination is shares in P Co that will be issued only if the share price of P Co reaches Rs. 20 by the anniversary of the acquisition date, recording a low of Rs. 8.70 and a high at the year-end of Rs. 21.

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Where ordinary shares are issuable contingent upon a future event occurring, these shares are included in the calculation of diluted EPS based on the number of shares that would be issuable if the end of the period were the end of the contingency period.

1. The specified level of earnings to be achieved by 1 March 20X5 has not been achieved by the year end and so the contingently issuable shares are not included in the calculation of diluted EPS.
2. The required market price has been achieved at the period end and therefore the contingently issuable shares are included in the calculation of diluted EPS.

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