

# Earning Per Share

## LKAS 33

### 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	$\frac{\text{Number of shares in issue post bonus issue}}{\text{Number of shares in issue pre bonus issue}}$
Rights issue	$\frac{\text{Pre-rights issue price of shares}}{\text{Theoretical ex-rights price (TERP)}}$

Typhoon Tea PLC had a profit after tax of Rs81 million in the year ended 31 December 20X3. This increased to Rs83 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 Rs16.20; the exercise price was Rs12.50.

**Required**

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

**y/e 31 December 20X3 - as initially reported**

Earnings		Rs81 million
Weighted average number of shares		100 million
Therefore basic EPS	$\frac{81,000,000}{100,000,000}$	Rs0.81

**y/e 31 December 20X4**

Earnings		Rs83 million
Weighted average number of shares (see below)		123,188,703
Therefore basic EPS	$\frac{83,000,000}{123,188,703}$	Rs0.67

*Weighted average number of shares:*

	<b>Time factor</b>	<b>Adj 1</b>	<b>Adj 2</b>	<b>No. shares</b>
1.1.X4 - 28.2.X4	100m × 2/12m	x 11/10	× 16.20/15.58	19,062,901
Bonus issue	<u>10m</u>			
1.3.X4 - 30.6.X4	110m × 4/12m	-	× 16.20/15.58	38,125,802
Rights issue	<u>22m</u>			
1.7.X4 - 31.12.X4	132m × 6/12m	-	-	<u>66,000,000</u>
				123,188,703

**Adjustment 1: Bonus issue**

<u>Number of shares in issue post bonus issue</u>	=	<u>11</u>
Number of share in issue pre bonus issue		10

**Adjustment 2: Rights issue**

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

**y/e 31 December 20X3 - adjusted EPS**

$Rs0.81 \times 10/11 \times 15.58/16.20$	=	Rs0.71
--	---	--------

03. Diluted EPS  
(i) Share Option

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

Net profit for year	Rs30,500,000
Weighted average number of ordinary shares outstanding during year	10,500,000 shares
Average fair value of one ordinary share during year	Rs25
Weighted average number of shares under option during year	500,000 shares
Exercise price for shares under option during year	Rs14

**Required**

Calculate both basic and diluted earnings per share.

**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**

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

*Effect of options on number of shares:*

Total funds raised from exercise of options (500,000 × Rs14)	Rs7,000,000
Number of shares issued at full market price to raise Equivalent funds (Rs7m/Rs25)	280,000
Therefore shares deemed 'free' (500,000 – 280,000)	220,000

## 03. Diluted EPS

## (ii) Convertible Loan Stocks

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

- (a) Rs20,000,000 of 18% convertible loan stock, convertible in three years' time at the rate of 9 shares per Rs 100 of stock;
- (b) Rs35,000,000 of 12% convertible loan stock, convertible in one year's time at the rate of 12 shares per Rs100 of stock.

The total earnings in 20X4 were Rs175,000,000.

The rate of income tax is 28%.

1	Calculate basic EPS:		
	$175,000,000 / 100,000,000 =$		Rs1.75
2	Consider whether the loan stock is dilutive or antidilutive:		
	18% loan stock:		
	Incremental earnings =	$20,000,000 \times 18\% \times (1-28\%)$	
	=		Rs 2,592,000
	Incremental shares =	$20,000,000 / 100 \times 9$	
	=		1,800,000
	Therefore EPS =	$Rs2,592,000 / 1,800,000$	
	=		Rs1.44 so dilutive
	12% loan stock:		
	Incremental earnings =	$35,000,000 \times 12\% \times (1-28\%)$	
	=		Rs 3,024,000
	Incremental shares =	$35,000,000 / 100 \times 12$	
	=		4,200,000
	Therefore EPS =	$Rs3,024,000 / 4,200,000$	
	=		Rs0.72, so dilutive

### 3 Calculate 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 Rs1.71, then Rs1.71 would be diluted EPS.

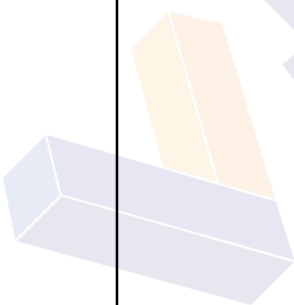
### 04. Contingently Issuable Shares

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

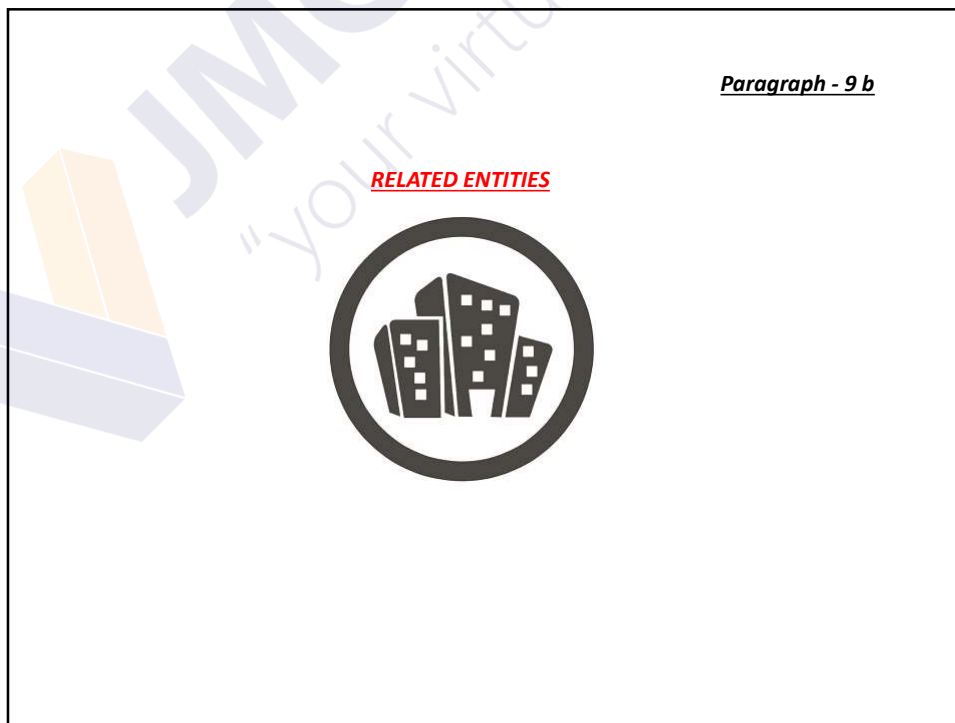
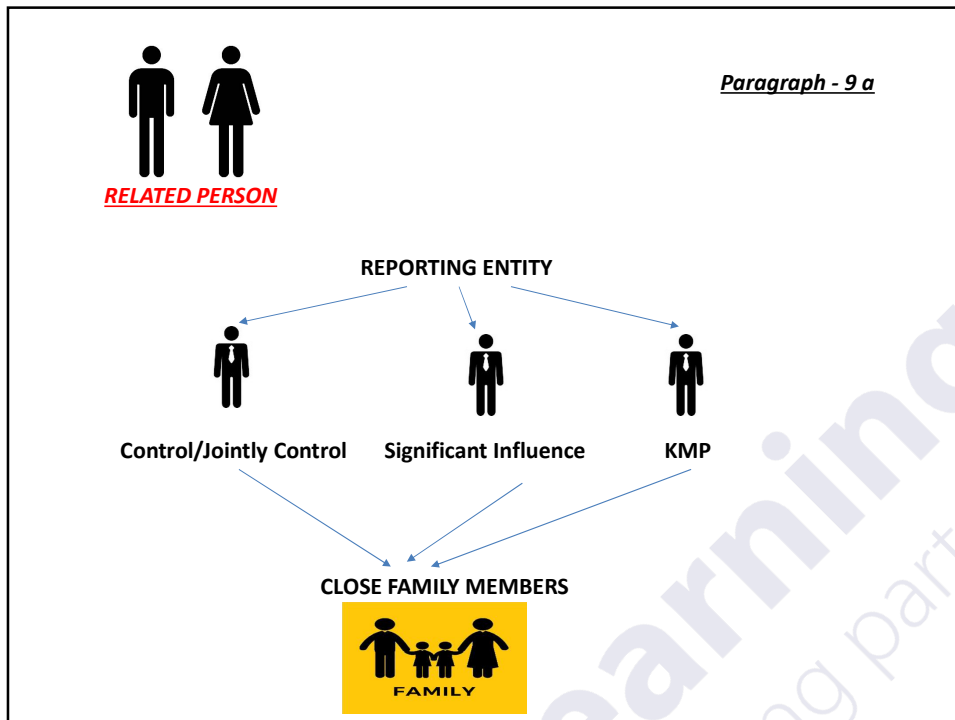
- P Co acquired 75% of the shares in S Co on 1 March 20X4 in exchange for cash consideration and 200,000 of its own shares that will be issued only if S Co achieves revenue of Rs60m in the first year of ownership. At 31 December 20X4 revenue is Rs51m.
- P Co also acquired 80% of C Co in May 20X4. Part of the consideration for business combination is shares in P Co that will be issued only if the share price of P Co reaches Rs20 by the anniversary of the acquisition date. The share price has fluctuated significantly since the acquisition date, recording a low of Rs8.70 and a high at the year-end of Rs21.

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.



## **RELATED PARTY LKAS 24**





**QUESTION****Identification of related parties**

Capital Contracts (Pvt) Ltd is a building contractor based in Colombo. Its directors are Fathima Perera, Kasun Dias and Udari Da Silva. Udari is married to Chamath, the Procurement Manager at SLF Supermarkets PLC. Kasun's brother Gayan owns 55% of the shares in Asia Bathrooms (Pvt) Ltd.

Capital Contracts has the following shareholdings:

- 10% of the shares in a supplier, Pacific Pipes (Pvt) Ltd
- 35% of the shares in Basin Builders (Pvt) Ltd

A further 35% of the shares in Basin Builders (Pvt) Ltd are owned by Rathnayake Construction (Pvt) Ltd.

**Required**

Which of the above are related parties to Capital Contracts (Pvt) Ltd?

**ANSWER**

- Fathima Perera, Kasun Dias and Udari Da Silva are all directors of Capital Contracts (Pvt) Ltd and so are related by virtue of being key management personnel.
- Chamath Da Silva is related by virtue of being a close family member of Udari Da Silva.
- SLF Supermarkets PLC is not related to Capital Contracts (Pvt) Ltd. The two companies would only be related if Chamath Da Silva controlled or jointly controlled SLF Supermarkets PLC [(b)(vi) of the definition of a related party] or if Udari Da Silva controlled or jointly controlled Capital Contracts (Pvt) Ltd [(b)(vii) of the definition of a related party].
- Gayan Dias is related to Capital Contracts (Pvt) Ltd only if he is classified as a close family member of Kasun. Application of the definition of a close family member requires judgement and therefore without further information this is unclear.
- If Gayan Dias is deemed to be a related party of Capital Contracts (Pvt) Ltd, then Asia Bathrooms (Pvt) Ltd is also a related party of Capital Contracts (Pvt) Ltd.

- Capital Contracts (Pvt) Ltd is not related to Pacific Pipes (Pvt) Ltd as Pacific Pipes (Pvt) Ltd is (based on a 10% shareholding) not a subsidiary, joint venture or associate of Capital Contracts (Pvt) Ltd. This status is not changed by the fact that Pacific Pipes (Pvt) Ltd is a supplier of Capital Contracts (Pvt) Ltd.
- Based on the information provided, Basin Builders (Pvt) Ltd is a joint venture of Capital Contracts (Pvt) Ltd. The two companies are therefore related.
- Rathnayake Construction (Pvt) Ltd and Capital Contracts (Pvt) Ltd are not related simply by virtue of the fact that both are joint venturers in Basin Builders (Pvt) Ltd. Therefore unless any other relationship exists, they are not related.

**QUESTION****Related party disclosure**

The following information relates to the Columbo Group companies and transactions with other parties:

- Mrs C, a director of Kandy, a 90% subsidiary of Columbo has borrowed RS1,000,000 from Columbo
- Mrs B, one of the directors of Columbo is paid by Moratuwa, a 75% subsidiary Kandy to act as an independent consultant. She is paid an annual sum of RS400,000
- Galle, a company controlled by the brother of a director of Columbo is a customer of Kandy. During the year ended 31 December 20X4, Galle purchased RS100,000 goods from Kandy; at the year end, RS60,000 is outstanding. RS10,000 of this amount is 6 months overdue and the directors of Kandy have decided to provide for this amount in full.
- Kandy has provided a bank guarantee to its main customer in order to ensure continuing trading.

Directors of group companies are remunerated as follows:

<b>Columbo</b>	<b>Salary RS</b>	<b>Bonus RS</b>	<b>Pension RS</b>
Mr A	1,200,000	300,000	500,000
Mrs B	780,000	260,000	500,000
<b>Kandy</b>			
Mrs C	890,000	400,000	440,000
Mrs D	880,000	380,000	530,000
<b>Moratuwa</b>			
Mr E	820,000	370,000	420,000
Mr F	790,000	370,000	420,000

**Required**

Prepare the related party disclosure note for the Columbo Group financial statements for the year ended 31 December 20X4.

