



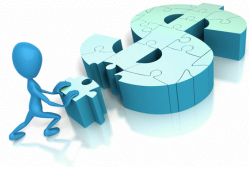
Date: 27 & 29 January 2021

**VIRTUAL COACHING CLASSES
ORGANIZED BY BOARD OF STUDIES, ICAI**

**Final Level – 2nd batch May-2021 Exams
PAPER 1: FINANCIAL REPORTING**

TOPIC: IND AS 33 - EARNINGS PER SHARE (PROBLEMS)

Faculty: CA. Aditya Kulkarni



Measurement of Basic EPS



Basic EPS shall be calculated as under

General
Situation

Profit or Loss attributable
to Ordinary Equity Holders
of the Parent Entity



If there is profit/loss from Discontinuing
Operations as per Ind AS 105

- (a) Profit / Loss attributable to Ordinary Equity Holders of the Parent entity (i.e. from both continuing and discontinuing operations), **AND**
- (b) Profit / Loss from **continuing operations** attributable to those Equity Holders

Computation of Basic EPS =

$$\frac{\text{Net Profit or Loss for the period attributable to Ordinary Equity Holders of Parent Entity}}{\text{Weighted Average Number of Ordinary Shares outstanding during the period}}$$



Measurement of Basic EPS



Net Profit or Loss for the period attributable to Ordinary Equity Holders of Parent Entity

Net Profit or loss for the period, i.e.

- (a) Profit/Loss attributable to the Parent entity (both continuing and discontinuing) /
- (b) Profit / Loss from continuing operations attributable the Parent Entity

Adjusted for -

- (a) After Tax Amounts of Preference Dividend (i.e. Preference Dividend + Dividend Distribution Tax thereon),
- (b) Differences arising on settlement of Pref. Shares,
- (c) Similar effects of Pref. Shares classified as Equity

Scope of Net Profit or Loss for the period attributable to Ordinary Equity Holders of Parent Entity

Numerator
All items of Income and Expense, attributable to ordinary equity holders of the parent entity, *including* tax expense and dividends on Pref. Shares classified as liabilities

Direct Adjustment in Reserves
 Where any item of income / expense which is otherwise required to be recognised in profit / loss as per Ind AS, is debited or credited to securities premium / other reserves, such amount shall be deducted from profit or loss from continuing operations for calculating basic EPS

For Parent Entity
 For calculating EPS based on consolidated financial statements, profit / loss attributable to parent entity refers to profit or loss of the consolidated entity after adjusting for NCI



Measurement of Basic EPS



Treatment of Certain Items in Computation of Numerator for Basic EPS

1. After Tax Amounts of Preference Dividends (Para 14):



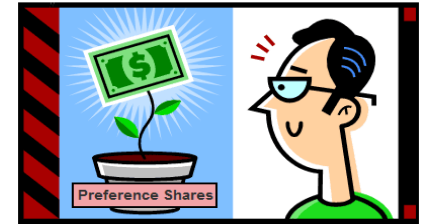
Includes

- (a) After-tax Preference Dividend *declared in respect of the period*, on non-cumulative preference shares.
- (b) After-tax Preference Dividend *required* for current period on Cumulative Preference Shares, whether or not dividends have been provided for.

Excludes



Dividends on Cumulative Preference Shares paid or declared during the current period, *in respect of previous periods*.





Concept Illustrated

Question 1:

The Net Profit Before Tax of Mitra Ltd. was ₹ 200 Lakhs and the Income Tax rate was 37%. The Company's Preference Share Capital has the following classes –

12% Non-Cumulative Preference Share Capital	₹ 200 Lakhs
10% Cumulative Preference Share Capital	₹ 300 Lakhs

In its accounts, Mitra Ltd has provided / paid following dividends on Preference Capital:

On Non-Cumulative Preference Shares - fully declared for the current year.

On Cumulative Preference Shares - fully provided for the past three years.

The Company also provided for Dividend Distribution Tax at 12.75% and transferred ₹ 10 Lakhs to General Reserve.

You are required to calculate the Net Profit for the period, attributable to Equity Shareholders.



Measurement of Basic EPS



Treatment of Certain Items in Computation of Numerator for Basic EPS

2. Increasing Rate Preference Shares (Para 15):

Meaning

Preference Shares that provide for -

- (a) **Low initial dividend** to compensate an entity for selling preference shares at a discount, *or*
- (b) An **above-market dividend in later periods** to compensate investors for purchasing preference shares at a premium



Treatment

An Original Issue Discount or Premium on increasing rate preference shares is -

- (a) **Amortised to Retained Earnings** using the Effective Interest Method, *and*
- (b) Treated as a **Preference Dividend** for the purposes of calculating EPS

Irrespective of whether such discount or premium is debited or credited to securities premium

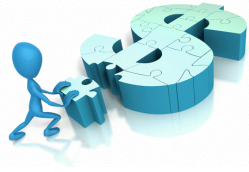


Concept Illustrated

Question 2:

A company issued Non-Convertible, Non-Redeemable Class A Cumulative Preference Shares of ₹ 100 par value at the beginning of Year 1. These shares are entitled to a cumulative annual dividend of ₹ 7 per share starting in Year 4. at the time of issue, the Market Rate Dividend Yield on such shares was 7% per year. Compute the following:

- Issue Price of the Preference Shares
- Treatment for Computation of EPS



Measurement of Basic EPS



Treatment of Certain Items in Computation of Numerator for Basic EPS

3. Repurchase of Preference Shares at Premium (Para 16): under tender offer to the Holders

Premium



Effect on computing Basic EPS



Treatment

Excess of Fair Value of consideration paid to the Preference Shareholders over the carrying amount of the Preference Shares represents –

- (a) A **return** to the Holders of the Preference Shares, **and**
- (b) A **charge** to the **Retained Earnings** for the entity

This amount is **deducted** in calculating Profit or Loss attributable to Ordinary Equity Holders of the Parent Entity

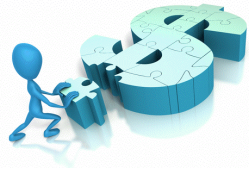


Page 11.38: Example 5 (Modified)

ABC Ltd. had issued preference shares at ₹ 100 each 10 years ago. Now ABC Ltd. buy backs the shares for ₹ 120 each. ₹ 20 premium for each share is charged to retained earnings. No amount is recorded in the statement of profit and loss for this transaction.

Discuss the treatment of the above for the purposes of calculating EPS in accordance with Ind AS 33.

ICAI Examples



Measurement of Basic EPS



Treatment of Certain Items in Computation of Numerator for Basic EPS

4. Early Conversion of Preference Shares (Para 17): may be induced by an entity through (a) **favourable changes** to original conversion terms, or (b) payment of **additional** consideration

Excess Amount

Excess of Fair Value of consideration of the ordinary shares or other consideration paid over the fair value of the Ordinary Shares issuable under the **original** conversion terms is a **return** to the Preference Shareholders.



Effect on computing Basic EPS



Treatment

This amount is **deducted** in calculating Profit or Loss attributable to Ordinary Equity Holders of the Parent Entity

5. Carrying Amount > Fair Value for Settlement (Para 17): Excess of carrying amount of preference shares over the fair value of the consideration paid to settle them is added in calculating Profit or Loss attributable to Ordinary Equity Holders of the Parent Entity.



Page 11.38-11.39: Illustration 1

ABC Ltd. issues 9% preference shares of fair value of ₹ 10 each on 1.4.20X1. Total value of the issue is ₹ 10,00,000. The shares are issued for a period of 5 years and would be redeemed at the end of 5th year. The shares are to be redeemed at ₹ 11 each.

At the end of the year 3, i.e. on 31.3.20X4, company finds that it has earned good returns than expected over last three years and can make the redemption of preference shares early. To compensate the shareholders for two years of dividend which they need to forego, company decided to redeem the shares at ₹ 12 each instead of original agreement of ₹ 11. Comment on the impact of early conversion of preference shares at a premium on earnings for the year 20X3-20X4 attributable to ordinary equity holders of ABC Ltd. for basic EPS. Ignore the EIR impact in the solution and answer on the basis of Ind AS 33 only.

ICAI Illustrations



Page 11.39: Illustration 2

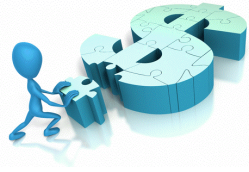
An entity has following preference shares in issue at the end of 20X4:

- 5% redeemable, non-cumulative preference shares: These shares are classified as liabilities. During the year, a dividend was paid on the 5% preference shares – ₹ 100,000.
- Increasing-rate, cumulative, non-redeemable preference shares issued at a discount in 20X0, with a cumulative dividend rate from 20X5 of 10%: The shares were issued at a discount to compensate the holders, because dividend payments will not commence until 20X5. The accrual for the discount in the current year, calculated using the effective interest method amounted to, say, ₹ 18,000. These shares are classified as equity – ₹ 200,000.
- 8% non-redeemable, non-cumulative preference shares: At the beginning of the year, the entity had ₹ 100,000 8% preference shares outstanding but, at 30 June 20X4, it repurchased ₹ 50,000 of these at a discount of ₹ 1,000 – ₹ 50,000.
- 7% cumulative, convertible preference shares (converted in the year): These shares were classified as equity, until their conversion into ordinary shares at the beginning of the year. No dividend was accrued in respect of the year, although the previous year's dividend was paid immediately prior to conversion. To induce conversion, the terms of conversion of the 7% convertible pref. shares were also amended, and the revised terms entitled the preference shareholders to an additional 100 ordinary shares on conversion with a fair value of ₹ 300 – Nil.

The profit after tax for the year 20X4 is ₹ 150,000.

Determine the adjustments for the purpose of calculating EPS.

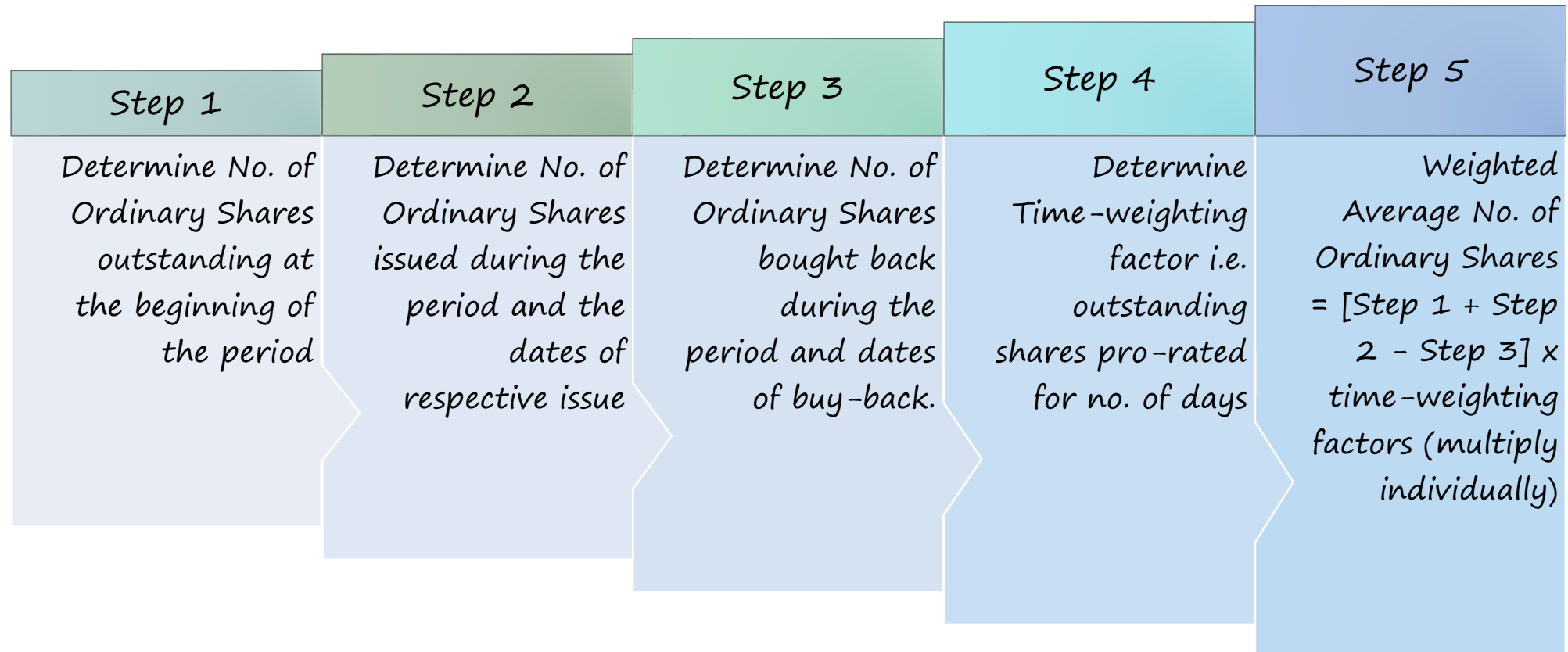
ICAI Illustrations



Measurement of Basic EPS



Denominator = Weighted Average No. of Ordinary Shares outstanding during the period





Page 11.42: Illustration 3

Following is the data for company XYZ in respect of number of equity shares during the financial year 20X1-20X2. Find out the number of shares for the purpose of calculation of basic EPS as per Ind AS 33.

Sr. No.	Date	Particulars	No. of Shares
1	1-Apr-20X1	Opening balance of outstanding equity shares	100,000
2	15-Jun-20X1	Issue of Equity Shares	75,000
3	8-Nov-20X1	Conversion of convertible preference shares to Equity	50,000
4	22-Feb-20X2	Buy back of Shares	(20,000)
5	31-Mar-20X2	Closing balance of outstanding Equity Shares	2,05,000

ICAI Illustrations



Concept Illustrated

Question 3:

In a financial year, Ravi Ltd. issue ₹ 80 lakhs Equity Shares at par on 15 December. It had also bought back ₹ 20 lakhs Equity Capital (at par) on 1 March. The Equity Capital was ₹ 150 lakhs at the end of the year 31 March. Calculate the Weighted Average Number of Equity Shares outstanding during period, if the face value of each share is ₹ 100. Compute basic EPS if the Net Profit attributable to Equity Shareholders is ₹ 10 lakhs.

Question 4:

Compute Weighted Average Number of Equity Shares in the following case:

		No. of Shares
1 April	Balance of Equity Shares	5,00,000
30 June	Equity Shares issued for Cash	1,00,000
15 January	Equity Shares bought back	50,000
31 March	Balance of Equity Shares	5,50,000



Concept Illustrated

Question 5:

Compute Basic EPS for the financial year ending 31 March from the following data:

1 April	Equity Shares outstanding - Face value ₹ 100 fully paid (opening balance)	10,000
1 June	Issue of Shares - Face value ₹ 100, Paid up amount ₹ 70	10,000
1 July	Buy back of Shares (fully paid)	4,000
1 Nov	Issue of Shares - Face value ₹ 100 fully paid	6,000
	Net Profit before Tax for the year (Tax Rate = 35%)	₹ 12 lakhs
	Preference Dividend	₹ 5.85 lakhs

Question 6:

At the beginning of a financial year, a company issued 1,20,000 Equity Shares of ₹ 100 each, ₹ 50 per share was up on that date which was paid by all shareholders. The remaining ₹ 50 was called up on 1 September. All shareholders paid the sum except one shareholder having 24,000 shares. The Net Profit for the relevant financial year is ₹ 2,64,000 after dividend on Preference Shares ₹ 64,000. Compute basic EPS for the year as per Ind AS 33.



Measurement of Basic EPS



Deciding the Date for Issue of Shares: Normal Situations (Para 21-23)

When Ordinary Shares are issued...

Timing effective from the...

In exchange for Cash.



Date when Cash is receivable.

On voluntary re-investment of dividends on Ordinary or Preference Shares



Date when dividends are reinvested.

As a result of conversion of a Debt Instrument to Ordinary Shares.



Date when Interest ceases to accrue.

In lieu of Interest or Principal on other Financial Instruments.



Date when Interest ceases to accrue.



Measurement of Basic EPS



Deciding the Date for Issue of Shares: Normal Situations (Para 21-23)

When Ordinary Shares are issued...

Timing effective from the...

In exchange for settlement of a liability.



Date of settlement.

As consideration for acquisition of an Asset other than cash.



Date on which acquisition is recognized.

For rendering of services to the entity.



Date when services are rendered.

As part of the consideration transferred in a Business Combination.



Date of Acquisition (since acquirer incorporates target's P/L into its P/L)

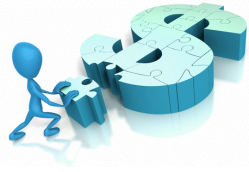


Concept Illustrated

Question 7:

On 30 June, Bharat Ltd. merged into Anand Ltd. From the following relevant information for the year ended 31 March next, compute the EPS of Anand Ltd. at the year end i.e. 31 March:

Particulars	Anand Ltd.	Bharat Ltd.
Net Profit from date of Merger till year end	₹ 5,00,000	₹ 2,00,000
Net Profit earned until Merger	₹ 8,00,000	
Number of Shares (₹ 10 each)		
At the start of the year	6,000	4,000
On date of Merger	6,000	4,000
At year end (31 March)	10,000	



Measurement of Basic EPS



Deciding the Date for Issue of Shares: Normal Situations (Para 21-23)

When Ordinary Shares are issued...

Timing effective from the...

Upon the conversion of a mandatorily Convertible Instrument.



Date when the contract is entered into.

By way of Bonus Issue / Share Split.



Beginning of the earliest period reported



Measurement of Basic EPS

Special Situations (Para 24)

Situation	Treatment
Contingently Issuable Shares	<p>(a) Treated as outstanding and included in calculation of Basic EPS only from the date when all necessary conditions are satisfied (i.e. the events have occurred).</p> <p>(b) Shares issuable solely after passage of time are not Contingently Issuable Shares, because passage of time is a certainty.</p>
Contingently Returnable Shares	<p>Outstanding ordinary shares that are contingently returnable (i.e. subject to recall) are not treated as outstanding and are excluded from the calculation of basic earnings per share until the date the shares are no longer subject to recall.</p>

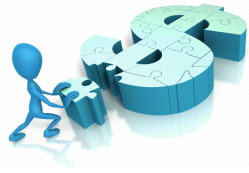


Page 11.46: Example 6 (Modified)

ABC Ltd. acquires a company in 20X1 for consideration paid in shares. If the profits for calendar years 20X1 and 20X2 meet budget, ABC Ltd. will issue more shares to the vendor in February 20X3.

Assuming the reporting date to be 31 December, from which date would the additional shares be included in the weighed-average calculation if the targets are met by the year 20X2.

ICAI Examples



Measurement of Basic EPS

Special Situations (Para 24)

Situation	Treatment
Partly paid Ordinary Shares (Para A15)	For computing Basic EPS, these shares are treated as a fraction of an Ordinary Share, to the extent they are entitled to participate in dividends relative to a Fully Paid Ordinary Share during the reporting period.
Completely Vested Options	<ul style="list-style-type: none">(a) Vested Options cannot be regarded as Shares remaining outstanding, hence not included in computation of Basic EPS.(b) Options are similar to Contingently issuable shares, which is recognized only when all conditions should be satisfied. Since option to purchase is not yet exercised, they are not included in Basic EPS computation.(c) For diluted EPS, options are considered.



Concept Illustrated

Question 8:

During the year ended 31 March, Jayant Ltd. makes a public issue of 1,00,000 Equity Shares of ₹ 10 each which was fully subscribed. The calls were made as -

- ₹ 5 on application and allotment made on 1 July
- ₹ 2 on First Call made on 30 September
- ₹ 3 on Second and Final Call made on 1 January

Partly-paid shares are entitled to participate in the dividend to the extent of amount paid. The company had 5,00,000 shares outstanding at the beginning of the year and apart from the public issue of shares made above, there were no other changes in the Share Capital. Compute the Weighted Average Number of Equity Shares for calculation of Basic EPS.

Question 9:

Bhaskar Ltd. issued 8,00,000 Equity Shares of ₹ 100 each on 15 October. During the year ending 31 March, the company acquired an asset on 1 December for ₹ 25 lakhs and issued 1,00,000 Equity Shares treated as ₹ 25 paid up. At the beginning of the Financial Year (1 April), Bhaskar's Equity Capital was 5 lakh Shares of ₹ 100 each. Compute the Basic EPS if the Net Profit for the period is 37.50 lakhs.

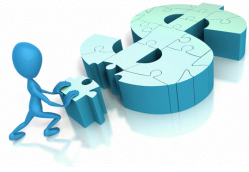


Page 11.75: Illustration 17

An entity issues 100,000 ordinary shares of Re 1 each for a consideration of ₹ 2.50 per share. Cash of ₹ 1.75 per share was received by the balance sheet date. The partly paid shares are entitled to participate in dividends for the period in proportion to the amount paid.

Calculate number of shares for calculation of Basic EPS.

ICAI Illustrations



Measurement of Basic EPS



Issue / Reduction of Shares without a corresponding change in resources (Para 26, 27)

Situations e.g.

- Bonus Issue,
- Bonus element in other issue e.g. Rights Issue
- Share Split
- Reverse Share Split



Treatment

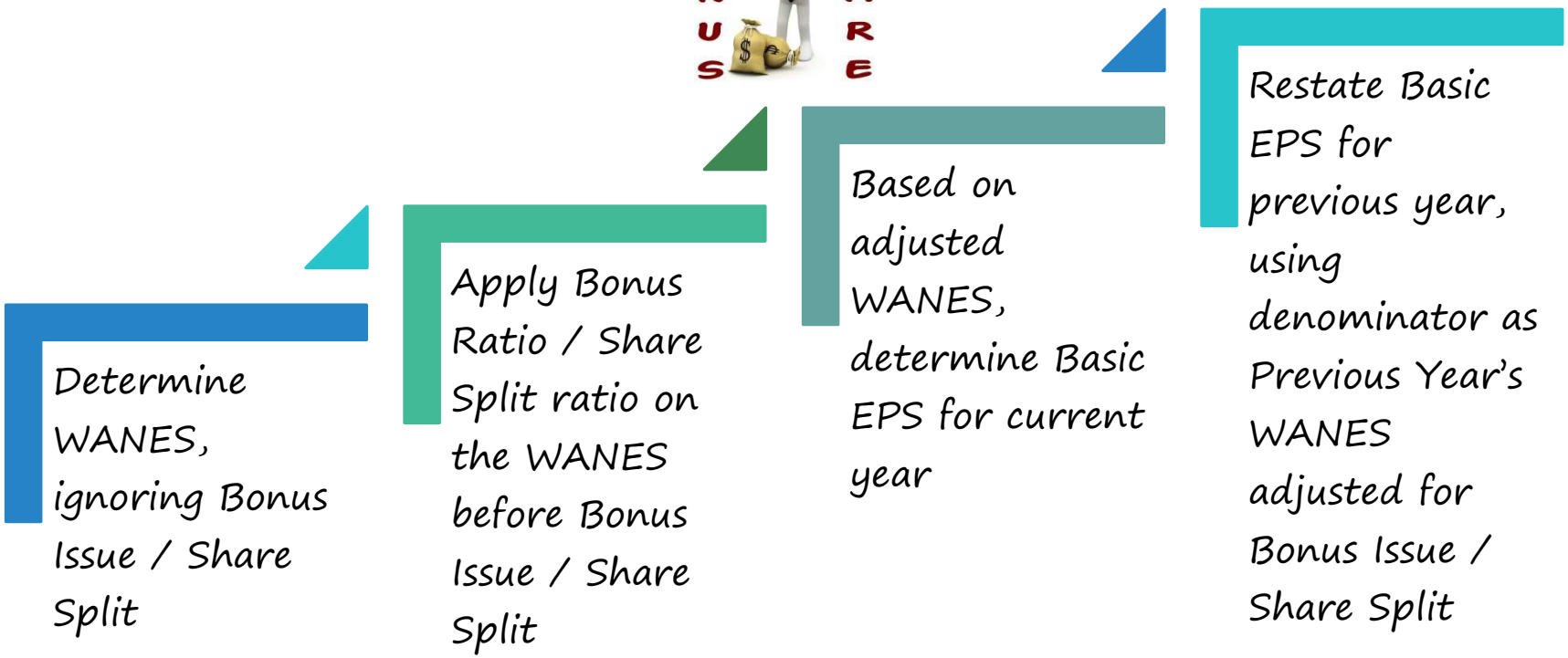
The weighted average number of ordinary shares outstanding during the period and for all periods presented shall be adjusted for events, other than the conversion of potential ordinary shares, that have changed the number of ordinary shares outstanding without a corresponding change in resources.



Measurement of Basic EPS



Weighted Average No. of Shares (WANES) in case of Bonus Issue or Share Split (Para 28)





Concept Illustrated

Question 10:

Compute Basic EPS as per Ind AS 33 based on the following information –

No. of Equity Shares outstanding as at beginning of the period = 5,00,000

Bonus Issue on 1 October of current financial year = 3 shares for every 1 share held

Net Profit for current financial year = ₹ 160 lakhs

Net Profit for previous financial year = ₹ 50 lakhs

Question 11:

At the beginning of the reporting period, Advait Ltd.'s Equity Share Capital was ₹ 10 Crores divided into shares of ₹ 10 each. During the financial year, it has issued Bonus Shares in the ratio 1:1. The Net Profit after Tax attributable to the Equity Shareholders for the previous and current financial year is ₹ 8.50 Crores and ₹ 11.50 Crores respectively. EPS disclosed in the accounts for two years is ₹ 8.50 and ₹ 5.75 respectively.

Comment on the EPS calculated above.



Page 11.47: Illustration 4

On 31 March, 20X2, the issued share capital of a company consisted of ₹ 10,00,00,000 in ordinary shares of ₹ 25 each and ₹ 5,00,000 in 10% cumulative non-redeemable preference shares (classified as equity) of Re 1 each. On 1 October, 20X2, the company issued 10,00,000 ordinary shares fully paid by way of capitalisation of reserves in the proportion 1:4 for the year ended 31 March, 20X3.

Profit for 20X1-20X2 and 20X2-20X3 is ₹ 4,50,000 and ₹ 5,50,000 respectively.

Calculate the basic EPS for 20X1-20X2 and 20X2-20X3.

Page 11.48: Illustration 5

X Ltd.

1 January	10,00,000 shares in issue
28 February	Issued 2,00,000 shares at fair value
31 August	Bonus issue 1 share for 3 shares held
30 November	Issued 2,50,000 shares at fair value

Calculate the number of shares which would be used in the basic EPS calculation. Consider reporting date as December end.

ICAI Illustrations



Measurement of Basic EPS



Weighted Average No. of Shares (WANES) in case of Rights Issue (Para A2)



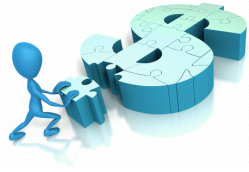
Compute Theoretical Ex-Rights Fair Value / Price

Compute Adjustment Factor (or Rights Multiplier)

Restate all shares **prior** to the date of rights issue, after multiplying with Adjustment Factor and then compute WANES

Compute Basic EPS for Current Year

Restate EPS for Previous Year



Measurement of Basic EPS



Weighted Average No. of Shares (WANES) in case of Rights Issue (Para A2)

$$\begin{aligned} \text{Theoretical Ex-Rights Fair Value / Price} &= \\ & \frac{(\text{Base Shares Quantity} \times \text{Fair Value per Share before Rights}) + (\text{Rights Issue} \times \text{Rights Issue Price})}{\text{Base Shares Quantity} + \text{Rights Share Quantity}} \\ & \text{OR} \\ & \frac{\text{Fair Value before Rights Issue} + (\text{Rights Ratio} \times \text{Rights Issue Price})}{1 + \text{Rights Ratio}} \end{aligned}$$

$$\begin{aligned} \text{Adjustment Factor (or Rights Multiplier)} &= \\ & \frac{\text{Fair Value before Rights Issue}}{\text{Theoretical Ex-Rights Price}} \end{aligned}$$



Concept Illustrated

Question 12:

The following information is furnished by Samantha Ltd. for the Financial Year 2019-20 and 2020-21.

Net Profit for 2019-20	₹ 22,00,000	Rights Issue: One Share for each five Shares outstanding
Net Profit for 2020-21	₹ 30,00,000	
No. of Shares Outstanding prior to Rights Issue	10,00,000	Right Issue Price ₹ 25
Fair Value of one Share immediately prior to exercise of rights	₹ 32	Last date to exercise rights (31.7.2020)

You are required to compute –

- Basic Earnings per Share for 2019-20
- Restated Basic Earnings per Share for 2019-20 for Rights Issue
- Basic Earnings per Share for 2020-21



Concept Illustrated

Question 13:

Compute basic and adjusted EPS from the following information:

Net Profit for 20X1-X2	₹ 22,00,000	Rights Issue Ratio	One for every Four held
Net Profit for 20X2-X3	₹ 33,00,000	Rights Issue Price	₹ 180
No. of Shares before Rights Issue	1,10,000	Date of Exercising Rights	31 July 20X2-X3
Fair Value of Share before Rights	₹ 270		(fully subscribed on this date)



Page 11.49: Illustration 6

At 31 December 20X1, the issued share capital of a company consisted of 1.8 million ordinary shares of ₹ 10 each, fully paid. The profits for the year ended 31 December 20X1 and 20X2 amounted to ₹ 6,30,000 and ₹ 8,75,000 respectively. On 31 March 20X2, the company made a rights issue on a 1 for 4 basis at ₹ 30. The market price of the shares immediately before the rights issue was ₹ 60.

Calculate EPS.

ICAI Illustrations



Question 4: Page 11.80

Calculate Basic EPS for the period ending 20X0, 20X1 and 20X2, when

	20X0	20X1	20X2
Profit attributable to ordinary Equity Holders of the Parent Entity	₹ 1,100	₹ 1,500	₹ 1,800

Shares outstanding before rights issue	500 shares
Rights Issue	One new share for each five outstanding shares
Exercise Price	₹ 5.00
Date of Rights Issue	1 January 20X1
Last date to exercise rights	1 March 20X1
Market price of one ordinary share immediately before exercise on 1 March 20X1	₹ 11.00
Reporting Date	31 December

ICAI Test Your Knowledge



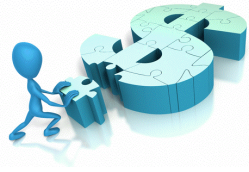
Concept Illustrated

Question 14 (Buy-back):

During 2020-21, Platinum Ltd. announced a scheme to buyback a maximum of 5% of its Equity Shares (of ₹ 10 each) at a price of ₹ 25 per Share. The Market Price of the Shares immediately prior to the buyback is ₹ 22. The following additional information is given.

Particulars	2020-21	2019-20
Net Profit	₹ 8,00,000	₹ 6,00,000
Number of Shares on 1 April (period beginning)	1,00,000	1,00,000
Bought-back and cancelled on 31 December	4,000	
Number of Shares at 31 March (period end)	96,000	1,00,000

Compute Basic EPS.



Measurement of Diluted EPS



Meaning of Dilution, and Anti-Dilution

Dilution



- Reduction in EPS, or
- An Increase in Loss per share

Anti-Dilution

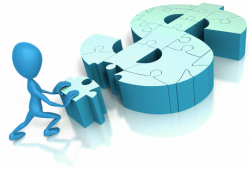


- Increase in EPS, or
- A Reduction in Loss per share

Resulting from the assumption that –

- Convertible Instruments are converted, or
- Options or Warrants are exercised, or
- Ordinary Shares are issued upon the satisfaction of specified conditions

Potential Ordinary Share – a Financial Instrument or other contract that may entitle its Holder to Ordinary Shares e.g. Convertible Preference Shares / Debentures, Options and Warrants, Contingently issued Shares



Measurement of Diluted EPS



Computation of Diluted EPS

Computation of Diluted EPS =

Adjusted Net Profit or Loss for the period attributable to Equity Shareholders

Adjusted Weighted Average Number of Equity Shares outstanding during the period

Components of Diluted EPS

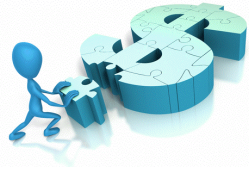
General
Situation

Profit or Loss attributable
to Ordinary Equity Holders
of the Parent Entity



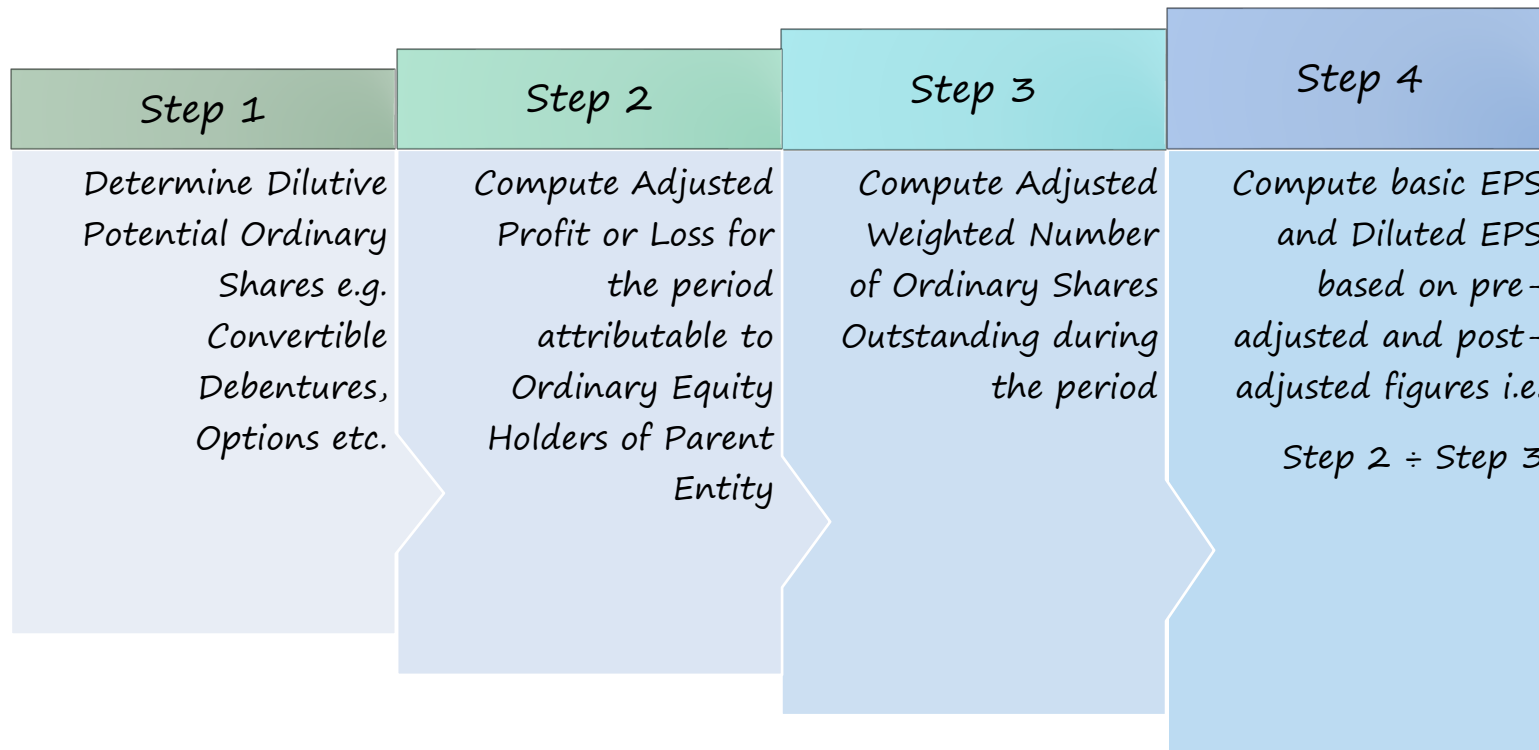
If there is profit/loss from Discontinuing
Operations as per Ind AS 105

- (a) Profit / Loss attributable to Ordinary Equity Holders of the Parent entity (i.e. from both continuing and discontinuing operations), **AND**
- (b) Profit / Loss from **continuing operations** attributable to those Equity Holders



Measurement of Diluted EPS

Procedures for Computation of Diluted EPS





Page 11.53: Illustration 7

Entity A has in issue 25,000 4% debentures with a nominal value of Re 1. The debentures are convertible to ordinary shares at a rate of 1:1 at any time until 20X9. The entity's management receives a bonus based on 1% of profit before tax.

Entity A's results for 20X2 showed a profit before tax of ₹ 80,000 and a profit after tax of ₹ 64,000 (for simplicity, a tax rate of 20% is assumed in this question).

Calculate Earnings for the purpose of diluted EPS.

ICAI Illustrations



Concept Illustrated

Question 15:

For the purpose of computation of Diluted EPS, what should be assumed as the Exercisable Price of Options that are exercisable at a price which is not fixed? For example, in a case where it is known that such options are to be exercised at a price which ranges between ₹ 45 and ₹ 55, what Exercise Price should be used for computing Diluted EPS?



Concept Illustrated

Question 16:

Darbhanga Ltd. gives you the following information. Compute Diluted EPS.

Net Profit for the year	₹ 2,00,00,000
Number of Equity Shares Outstanding	40,00,000
Basic EPS	₹ 5.00
No. of 11% Convertible Debentures of ₹ 100 each (Each Deb. is convertible into 8 Equity Shares)	50,000
Interest Expense for the current year	₹ 5,50,000
Tax Saving relating to Interest Expense (30%)	₹ 1,65,000



Concept Illustrated

Question 17:

While calculating Diluted EPS, effect is given to all dilutive Potential Ordinary Shares that were outstanding during that period. Accordingly, calculate Diluted EPS from the following information:

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



Concept Illustrated

Question 18:

Calculate Basic and Diluted EPS of Meghna Ltd from the following particulars:

Equity Shares (₹ 10 each) as at the beginning of the financial year = 50,00,000 Shares

Net Profit after Tax for the year = ₹ 2,00,00,000

Issue of Shares for Cash on 1 July = 10,00,000 Shares (₹ 10 each)

Issue of Bonus Shares on 1 October = 1:5 as at the beginning of the year, i.e. 10,00,000 Shares

Convertible Debentures outstanding at the beginning of the year = 10% Debentures for ₹ 1,00,00,000.

Conversion Ratio: 1 share for 1 convertible debenture

Company Tax Rate is 40%.



Page 11.55: Illustration 8

ABC Ltd. has 10,00,000 ₹ 1 ordinary shares and 1,000 ₹ 100 10% convertible bonds (issued at par), each convertible into 20 ordinary shares on demand, all of which have been in issue for the whole of the reporting period.

ABC Ltd.'s share price is ₹ 4.50 per share and earnings for the period are ₹ 5,00,000. The tax rate applicable to the entity is 21%.

Calculate basic EPS, earnings per incremental share for the convertible bonds and diluted EPS.

ICAI Illustrations



Page 11.55: Illustration 8

ABC Ltd. has 10,00,000 ₹ 1 ordinary shares and 1,000 ₹ 100 10% convertible bonds (issued at par), each convertible into 20 ordinary shares on demand, all of which have been in issue for the whole of the reporting period.

ABC Ltd.'s share price is ₹ 4.50 per share and earnings for the period are ₹ 5,00,000. The tax rate applicable to the entity is 21%.

Calculate basic EPS, earnings per incremental share for the convertible bonds and diluted EPS.

ICAI Illustrations



Page 11.55: Illustration 9

At 30 June 20X1, the issued share capital of an entity consisted of 15,00,000 ordinary shares of ₹ 1 each. On 1 October 20X1, the entity issued ₹ 12,50,000 of 8% convertible loan stock for cash at par. Each ₹ 100 nominal of the loan stock may be converted, at any time during the years ended 20X6 to 20X9, into the number of ordinary shares set out below:

30 June 20X6: 135 ordinary shares;

30 June 20X7: 130 ordinary shares;

30 June 20X8: 125 ordinary shares; and

30 June 20X9: 120 ordinary shares.

If the loan stocks are not converted by 20X9, they would be redeemed at par.

This illustration assumes that the written equity conversion option is accounted for as a derivative liability and marked to market through profit or loss. The change in the options' fair value reported in 20X2 and 20X3 amounted to losses of ₹ 2,500 and ₹ 2,650 respectively. It is assumed that there are no tax consequences arising from these losses.

The profit before interest, fair value movements and taxation for the year ended 30 June 20X2 and 20X3 amounted to ₹ 8,25,000 and ₹ 8,95,000 respectively and relate wholly to continuing operations. The rate of tax for both periods is 33%.

Calculate Basic and Diluted EPS.

ICAI Illustrations



Concept Illustrated

Question 19:

Calculate Basic and Diluted EPS of Meghna Ltd from the following particulars:

Equity Shares (₹ 10 each) as at the beginning of the financial year = 50,00,000 Shares

Net Profit after Tax for the year = ₹ 2,00,00,000

Issue of Shares for Cash on 1 July = 10,00,000 Shares (₹ 10 each)

Issue of Bonus Shares on 1 October = 1:5 as at the beginning of the year, i.e. 10,00,000 Shares

Convertible Debentures outstanding at the beginning of the year = 10% Debentures for ₹ 1,00,00,000.

Company Tax Rate is 40%.



Question 2: Page 11.80

1 January	Shares in issue	10,00,000
	5% Convertible bonds	₹ 1,00,000
	(terms of conversion 120 ordinary shares for ₹ 100)	
31 March	Holders of 25,000 bonds converted to ordinary shares	
	Profit for the year ended 31 December	₹ 2,00,000

Tax rate 30%.

Calculate basic and diluted EPS. Ignore the need to split the convertible bonds into liability and equity elements.

ICAI Test Your Knowledge



May 2020: Question 15

CAB Limited is in the process of preparation of the consolidated financial statements of the group for the year ending 31st March, 20X3 and the extract of the same is as follows:

Particulars	Attributable to CAB Ltd.	NCI	Total (₹ in '000s)
Profit for the year	39,000	3,000	42,000
Other Comprehensive Income	5,000	NIL	5,000
Total Comprehensive Income	44,000	3,000	47,000

The Long-term Finance of the Company comprises of the following:

- i. 20,00,00,000 equity shares at the beginning of the year and the company has issued 5,00,00,000 shares on 1st July, 20X2 at full market value.
- ii. 8,00,00,000 irredeemable preference shares. These shares were in issue for the whole of the year ended 31st March, 20X3. The dividend on these preference shares is discretionary.

ICAI RTP



May 2020: Question 15 (continued)

- iii. ₹ 18 crores of 6% convertible debentures issued on 1st April, 20X1 and repayable on 31st March, 20X5 at par. Interest is payable annually. As an alternative to repayment at par, the holder on maturity can elect to exchange their convertible debentures for 10 crores ordinary shares in the company. On 1st April, 20X1, the prevailing market interest rate for four-year convertible debentures which had no right of conversion was 8%. Using an annual discount rate of 8%, the present value of ₹ 1 payable in four years is 0.74 and the cumulative present value of ₹ 1 payable at the end of years one to four is 3.31.
- iv. In the year ended 31st March, 20X3, CAB Limited declared an ordinary dividend of ₹ 0.10 per share and a dividend of ₹ 0.05 per share on the irredeemable preference shares.

Compute the following:

- The finance cost of convertible debentures and its closing balance as on 31st March, 20X3 to be presented in the consolidated financial statements.
- the basic and diluted earnings per share for the year ended 31st March, 20X3.

Assume that income tax is applicable to CAB Limited and its subsidiaries at 25%.

ICAI RTP



Concept Illustrated

Question 21:

From the following information furnished, compute the basic and diluted EPS of Tamara Ltd. for 20X1-X2 as well as the Adjusted EPS for 20X2-X3. Assume tax rate at 30%.

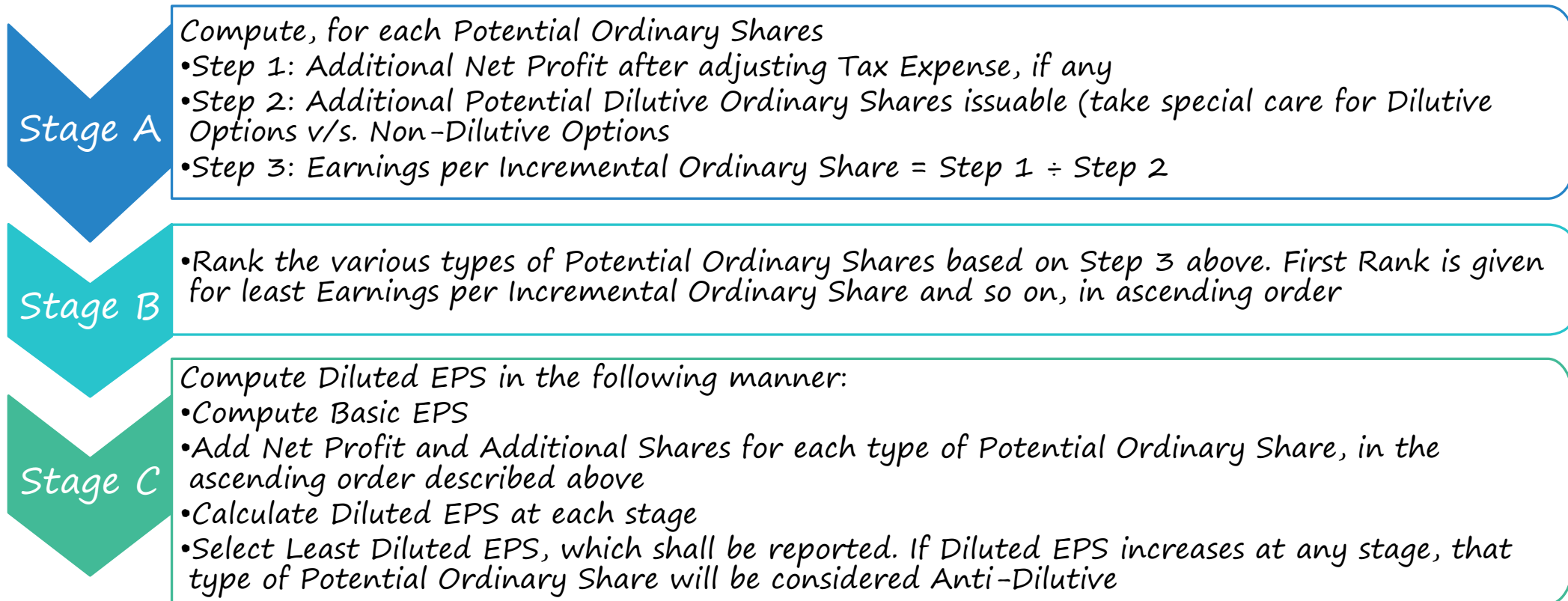
Particulars	
Net Profit for 20X1-X2	₹ 75,50,000
Net Profit for 20X2-X3	₹ 1,00,25,000
No. of Equity Shares as at 1 April 20X1	50,00,250
Bonus Issue on 1 January 20X2	1 Share for every 2 held
No. of 12% Convertible Debentures of ₹ 100 each issued on 1 January 20X2	1,00,000
Conversion Ratio of Debentures	10 Shares per Debenture



Measurement of Diluted EPS



Determining the Sequence for computing Diluted EPS





Concept Illustrated

Question 22:

From the following information of Bhadrachalam Ltd., determine the order in which Dilutive Potential Equity Shares should be considered in the computation of Diluted EPS.

- Net Profit attributable to Equity Shareholders - ₹ 1,50,00,000
- Number of Equity Shares outstanding during the year - 25,00,000
- Average Fair Value of one Equity Share during the year - ₹ 100

Details of Potential Equity Shares:

- (a) Options: 1,20,000 Shares with an exercise price of ₹ 75 per Share
 - (b) Convertible Preference Shares - 10,00,000 Shares, entitled to a Cumulative Dividend of ₹ 8 per share, Conversion Ratio is 4 Equity Shares for every Preference Share held.
 - (c) 15% Convertible Debentures of ₹ 100 each - 12,00,000. Each Debenture is entitled for 2 Equity Shares.
- Assume Corporate Income Tax Rate is 30% and Dividend Distribution Tax Rate is 10%.



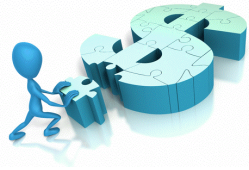
Concept Illustrated

Question 23:

From the books of Janet Ltd., the following information is available:

- Fully paid Equity Shares of ₹ 10 each = 1,00,000
- Partly paid Equity Shares of ₹ 10 each, ₹ 5 paid up = 1,00,000
- Options outstanding at an Exercise Price of ₹ 60 per Equity Share ₹ 10 each = 10,000. Average Fair Value of Equity Shares during both years is ₹ 75.
- 10% Convertible Preference Shares of ₹ 100 each = 80,000. Conversion Ratio is 2 Equity Shares for each Preference Share.
- 12% Convertible Debentures of ₹ 100 each = 10,000. Conversion Ratio is 4 Equity Shares for each Debenture.
- Income Tax Rate is 30% in both years.
- On 1 October 20X1, the partly paid shares were fully paid up.
- On 1 January 20X2, the Company issued 1 Bonus Share for 8 shares held on that date.
- Net Profit attributable to Equity Shareholders for the Financial Years 1 and 2 were ₹ 10,00,000.

Calculate: (a) Basic EPS for 20X0-X1 and 20X1-X2, (b) Diluted EPS for 20X0-X1 and 20X1-X2, (c) Adjusted EPS and Diluted EPS for 20X0-X1, assuming the same information for previous year, also assume that partly paid Shares are eligible for proportionate dividend only.



Measurement of Diluted EPS



Treatment of Options, Warrants and their Equivalents



Page 11.59: Example 8 (Modified)

ABC Ltd. has issued 20 lacs shares. It has also issued 1 lac warrants convertible into shares at ₹ 45 per share. The average market price of shares during the current period was ₹ 45.

How would these shares be treated for computing Diluted EPS?

Page 11.59: Example 9 (Modified)

ABC Ltd. has issued 20 lacs shares. It has also issued 1 lac warrants convertible into shares at ₹ 30 per share. The average market price of shares during the current period was ₹ 37.

How would these shares be treated for computing Diluted EPS?

Page 11.59: Example 10 (Modified)

In 20X1, ABC Ltd. issued some staff share options that can be exercised after 3 years' service.

How would the options be treated for computing Diluted EPS?

ICAI Examples



Concept Illustrated

Question 24:

Amul Ltd. provides the following information:

Net Profit for the year = ₹ 10,00,000

Weighted Average Number of Equity Shares outstanding during the year = 4,00,000

Weighted Average Number of Equity Shares under Option during the year = 2,00,000

Exercise Price (i.e. Issue / Offer Price for conversion of Options) = ₹ 20.00

Average Market Price of Equity Shares for the last six months of the year = ₹ 25.00



Question 3: Page 11.80

1 January	Shares in issue	10,00,000
	Profit for the year ended 31 December	₹ 1,00,000
	Average Fair Value during the period	₹ 8

The company has in issue 2,00,000 options to purchase equal ordinary shares, with Exercise Price of ₹ 6.

Calculate the diluted EPS for the period.

ICAI Test Your Knowledge



Page 11.59: Illustration 10

At 31 December 20X7 and 20X8, the issued share capital of an entity consisted of 40,00,000 ordinary shares of ₹ 25 each. The entity has granted options that give holders the right to subscribe for ordinary shares between 20Y6 and 20Y9 at ₹ 70 per share. Options outstanding at 31 December 20X7 and 20X8 were 6,30,000. There were no grants, exercises or lapses of options during the year. The profit after tax, attributable to ordinary equity holders for the years ended 31 December 20X7 and 20X8, amounted to ₹ 5,00,000 and ₹ 6,00,000 respectively (wholly relating to continuing operations).

Average market price of share:

Year ended 31 December 20X7 = ₹ 120

Year ended 31 December 20X8 = ₹ 160

Calculate basic and diluted EPS.

ICAI Illustrations



Page 11.61: Illustration 11

Profit attributable to ordinary equity holders of the parent entity for 20X1	₹ 12,00,000
Weighted average number of ordinary shares outstanding during 20X1	5,00,000 shares
Average market price of one ordinary share during 20X1	₹ 20.00
Weighted average number of shares under option during 20X1	1,00,000 shares
Exercise price for shares under option during 20X1	₹ 15.00
Calculate Basic and Diluted EPS	

ICAI Illustrations



Page 11.63-64: Illustration 12 (Contingently issuable shares)

Ordinary shares outstanding during 20X1 10,00,000 (there were no options, warrants or convertible instruments outstanding during the period)

An agreement related to a recent business combination provides for the issue of additional ordinary shares based on the following conditions:

5,000 additional ordinary shares for each new retail site opened during 20X1

1,000 additional ordinary shares for each ₹ 1,000 of consolidated profit in excess of ₹ 20,00,000 for the year ending 31 December 20X1

Retail sites opened during 20X1 One on 1 May 20X1

One on 1 September 20X1

Consolidated year-to-date profit attributable to ordinary equity holders of the parent entity:

₹ 11,00,000 as of 31 March 20X1;
₹ 23,00,000 as of 30 June 20X1;
₹ 19,00,000 as of 30 September 20X1 (including a ₹ 4,50,000 loss from a discontinued operation);
₹ 29,00,000 as of 31 December 20X1

Calculate basic and diluted EPS.

ICAI Illustrations



Page 11.63-64: Illustration 13 (Discontinued Operations)

Assume the following facts for Company XY:

- *Income from continuing operations:* INR 30,00,000
- *Loss from discontinued operations:* (INR 36,00,000)
- *Net Loss:* (INR 6,00,000)
- *Weighted Average Number of Shares Outstanding:* 10,00,000
- *Incremental Common Shares outstanding relating to stock options:*
2,00,000

You are required to calculate the basic and diluted EPS for Company XY from the above information.

Assume, if in the above case, loss from continued operations is ₹ 10,00,000 and income from discontinued operations is ₹ 36,00,000, calculate the diluted EPS.

ICAI Illustrations



Page 11.67-68: Illustration 14 (Financial Instruments with EPS)

RTP May 2019: Question 16 / MTP October 2020 Question 6(c)

An entity issues 2,000 convertible bonds at the beginning of Year 1. The bonds have a three-year term and are issued at par with a face value of ₹ 1,000 per bond, giving total proceeds of ₹ 20,00,000. Interest is payable annually in arrears at a nominal annual interest rate of 6 percent. Each bond is convertible at any time up to maturity into 250 ordinary shares. The entity has an option to settle the principal amount of the convertible bonds in ordinary shares or in cash,

When the bonds are issued, the prevailing market interest rate for similar debt without a conversion option is 9 percent. At the issue date, the market price of one ordinary share is ₹ 3. Income tax is ignored.

Calculate basic and diluted EPS when:

Profit attributable to ordinary equity holders of the parent entity for Year 1	₹ 10,00,000
Ordinary shares outstanding	12,00,000
Convertible bonds outstanding	2,000

ICAI Illustrations



Page 11.69: Example 11 (Modified)

An entity has 160 written put options outstanding on 160 of its ordinary shares, with an exercise price of ₹ 10 per option. The put obligation is therefore ₹ 1,600. The average market price of the entity's ordinary shares is ₹ 8 for the period.

How would the above written put options be treated for the purpose of calculating diluted EPS?

ICAI Examples



Page 11.72-73: Illustration 15 (participating equity instruments and two-class ordinary shares)

An entity has two classes of shares in issue:

- *5,000 non-convertible preference shares*
- *10,000 ordinary shares*

The preference shares are entitled to a fixed dividend of ₹ 5 per share before any dividends are paid on the ordinary shares. Ordinary dividends are then paid in which the preference shareholders do not participate. Each preference share then participates in any additional ordinary dividend above ₹ 2 at a rate of 50% of any additional dividend payable on an ordinary share.

The entity's profit for the year is ₹ 100,000, and dividends of ₹ 2 per share are declared on the ordinary shares.

Compute the allocation of earnings for the purpose of calculation of Basic EPS when an entity has ordinary shares & participating equity instruments that are not convertible into ordinary shares.

ICAI Illustrations



Page 11.74: Illustration 17/16 (participating equity instruments and two-class ordinary shares)

(This illustration does not illustrate the classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by Ind AS 32).

<i>Profit attributable to equity holders of the parent entity</i>	<i>₹ 1,00,000</i>
<i>Ordinary shares outstanding</i>	<i>10,000</i>
<i>Non-convertible preference shares</i>	<i>6,000</i>
<i>Non-cumulative annual dividend on preference shares (before any dividend is paid on ordinary shares)</i>	<i>₹ 5.50 per share</i>
<i>After ordinary shares have been paid a dividend of ₹ 2.10 per share, the preference shares participate in any additional dividends on a 20:80 ratio with ordinary shares.</i>	

Compute the allocation of earnings for the purpose of calculation of Basic EPS when an entity has ordinary shares & participating equity instruments that are not convertible into ordinary shares.

ICAI Illustrations



Question 5: Page 11.81

Calculate Subsidiary's and Group's Basic and Diluted EPS from given data:

Parent:	
Profit attributable to Ordinary equity Holders of the parent entity	₹ 12,000 (excluding any earnings of, or dividend paid by the subsidiary)
Ordinary Shares outstanding	10,000
Instruments of subsidiary owned by parent	800 ordinary shares
	30 warrants exercisable to purchase ordinary shares of subsidiary
	300 convertible preference shares
Subsidiary:	
Profit	₹ 5,400
Ordinary shares outstanding	1,000
Warrants	150, exercisable to purchase ordinary shares of the subsidiary

ICAI Test Your Knowledge



Question 5: Page 11.81 (continued)

Subsidiary:	
Exercise Price	₹ 10
Average market price of one ordinary share	₹ 20
Convertible preference shares	400, each convertible into one ordinary share
Dividends on preference shares	₹ 1 per share
No inter-company eliminations or adjustments were necessary except for dividends.	
Ignore income taxes. Also, ignore classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by Ind AS 32.	

ICAI Test Your Knowledge



THANK YOU