

Illustrations

Note: These illustrations do not form part of the Accounting Standard. Their purpose is to illustrate the application of the Accounting Standard.

Illustration I

Example - Weighted Average Number of Shares (Accounting year 01-01-20X1 to 31-12-20X1)

		<i>No. of Shares Issued</i>	<i>No. of Shares Bought Back</i>	<i>No. of Shares Outstanding</i>
1 st January, 20X1	Balance at beginning of year	1,800	-	1,800
31 st May, 20X1	Issue of shares for cash	600	-	2,400
1 st Nov., 20X1	Buy Back of shares	-	300	2,100
31 st Dec., 20X1	Balance at end of year	2,400	300	2,100

Computation of Weighted Average:
 $(1,800 \times 5/12) + (2,400 \times 5/12) + (2,100 \times 2/12) = 2,100$ shares.

The weighted average number of shares can alternatively be computed as follows:
 $(1,800 \times 12/12) + (600 \times 7/12) - (300 \times 2/12) = 2,100$ shares

Illustration II

Example – Partly paid shares (Accounting year 01-01-20X1 to 31-12-20X1)

		<i>No. of shares issued</i>	<i>Nominal value of shares</i>	<i>Amount paid</i>
1 st January, 20X1	Balance at beginning of year	1,800	Rs. 10	Rs. 10
31 st October, 20X1	Issue of Shares	600	Rs. 10	Rs. 5

Assuming that partly paid shares are entitled to participate in the dividend to the extent of amount paid, number of partly paid equity shares would be taken as 300 for the purpose of calculation of earnings per share.

Computation of weighted average would be as follows:
 $(1,800 \times 12/12) + (300 \times 2/12) = 1,850$ shares.

Illustration III

Example - Bonus Issue

(Accounting year 01-01-20XX to 31-12-20XX)

Net profit for the year 20X0	Rs. 18,00,000
Net profit for the year 20X1	Rs. 60,00,000
No. of equity shares outstanding until 30 th September 20X1	20,00,000
Bonus issue 1 st October 20X1	2 equity shares for each equity share outstanding at 30 th September, 20X1 $20,00,000 \times 2 = 40,00,000$
Earnings per share for the year 20X1	$\frac{\text{Rs. } 60,00,000}{(20,00,000 + 40,00,000)} = \text{Re. } 1.00$
Adjusted earnings per share for the year 20X0	$\frac{\text{Rs. } 18,00,000}{(20,00,000 + 40,00,000)} = \text{Re. } 0.30$
Since the bonus issue is an issue without consideration, the issue is treated as if it had occurred prior to the beginning of the year 20X0, the earliest period reported.	

Illustration IV

Example - Rights Issue

(Accounting year 01-01-20XX to 31-12-20XX)

Net profit	Year	20X0 :	Rs. 11,00,000
	Year	20X1 :	Rs. 15,00,000
No. of shares outstanding prior to rights issue	5,00,000 shares		
Rights issue	One new share for each five outstanding (i.e. 1,00,000 new shares) Rights issue price : Rs. 15.00 Last date to exercise rights: 1 st March 20X1		
Fair value of one equity share immediately prior to exercise of rights on 1 st March 20X1	Rs. 21.00		

Computation of theoretical ex-rights fair value per share		
Fair value of all outstanding shares immediately prior to exercise of rights+total amount received from exercise		
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Number of shares outstanding prior to exercise + number of shares issued in the exercise		
$\frac{(\text{Rs. } 21.00 \times 5,00,000 \text{ shares}) + (\text{Rs. } 15.00 \times 1,00,000 \text{ shares})}{5,00,000 \text{ shares} + 1,00,000 \text{ shares}}$		
Theoretical ex-rights fair value per share = Rs. 20.00		
Computation of adjustment factor		
<u>Fair value per share prior to exercise of rights</u> = Rs. (21.00) = 1.05		
Theoretical ex-rights value per share Rs. (20.00)		
Computation of earnings per share		
	Year 20X0	Year 20X1
EPS for the year 20X0 as originally reported: Rs.11,00,000/5,00,000 shares	Rs. 2.20	
EPS for the year 20X0 restated for rights issue: Rs.11,00,000/ (5,00,000 shares x 1.05)	Rs. 2.10	
EPS for the year 20X1 including effects of rights issue Rs. 15,00,000 <hr/> (5,00,000 x 1.05 x 2/12)+ (6,00,000 x 10/12)		Rs. 2.55

Illustration V
Example - Convertible Debentures
(Accounting year 01-01-20XX to 31-12-20XX)

Net profit for the current year	Rs. 1,00,00,000
No. of equity shares outstanding	50,00,000
Basic earnings per share	Rs. 2.00
No. of 12% convertible debentures of Rs. 100 each	1,00,000
Each debenture is convertible into 10 equity shares	
Interest expense for the current year	Rs. 12,00,000
Tax relating to interest expense (30%)	Rs. 3,60,000
Adjusted net profit for the current year	Rs. (1,00,00,000 + 12,00,000 - 3,60,000) = Rs. 1,08,40,000
No. of equity shares resulting from conversion of debentures	10,00,000
No. of equity shares used to compute diluted earnings per share	50,00,000 + 10,00,000 = 60,00,000

Diluted earnings per share	$1,08,40,000/60,00,000 = \text{Re. } 1.81$
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Illustration VI

Example - Effects of Share Options on Diluted Earnings Per Share (Accounting year 01-01-20XX to 31-12-20XX)

Net profit for the year 20X1	Rs. 12,00,000
Weighted average number of equity shares outstanding during the year 20X1	5,00,000 shares
Average fair value of one equity share during the year 20X1	Rs. 20.00
Weighted average number of shares under option during the year 20X1	1,00,000 shares
Exercise price for shares under option during the year 20X1	Rs. 15.00

Computation of earnings per share

	<i>Earnings</i>	<i>Shares</i>	<i>Earnings per share</i>
Net profit for the year 20X1	Rs. 12,00,000		
Weighted average number of shares outstanding during year 20X1		5,00,000	
<i>Basic earnings per share</i>			Rs. 2.40
Number of shares under option		1,00,000	
Number of shares that would have been issued at fair value: (100,000 x 15.00)/20.00	*	(75,000)	
<i>Diluted earnings per share</i>	Rs. 12,00,000	5,25,000	Rs. 2.29
*The earnings have not been increased as the total number of shares has been increased only by the number of shares (25,000) deemed for the purpose of the computation to have been issued for no consideration {see para 37(b)}			

Illustration VII

Example - Determining the Order in Which to Include Dilutive Securities in the Computation of Weighted Average Number of Shares

(Accounting year 01-01-20XX to 31-12-20XX)

Earnings, i.e., Net profit attributable to equity shareholders	Rs. 1,00,00,000
No. of equity shares outstanding	20,00,000
Average fair value of one equity share during the year	Rs. 75.00
Potential Equity Shares	
Options	1,00,000 with exercise price of Rs. 60
Convertible Preference Shares	8,00,000 shares entitled to a cumulative dividend of Rs. 8 per share. Each preference share is convertible into 2 equity shares.
Attributable tax, e.g., corporate dividend tax	10%
12% Convertible Debentures of Rs. 100 each	Nominal amount Rs. 10,00,00,000. Each debenture is convertible into 4 equity shares.
Tax rate	30%

Increase in Earnings Attributable to Equity Shareholders on Conversion of Potential Equity Shares

	<i>Increase in Earnings</i>	<i>Increase in no. of Equity Shares</i>	<i>Earnings per Incremental Share</i>
Options			
Increase in earnings	Nil		
No. of incremental shares issued for no consideration $\{ 1,00,000 \times (75 - 60) / 75 \}$		20,000	Nil
Convertible Preference Shares			
Increase in net profit attributable to equity shareholders as adjusted by attributable tax $[(Rs. 8 \times 8,00,000) + 10\%(8 \times 8,00,000)]$	Rs. 70,40,000		
No. of incremental shares $\{ 2 \times 8,00,000 \}$		16,00,000	Rs. 4.40
12% Convertible Debentures			
Increase in net profit $\{ Rs. 10,00,00,000 \times 0.12 \times (1 - 0.30) \}$	Rs. 84,00,000		
No. of incremental shares $\{ 10,00,000 \times 4 \}$		40,00,000	Rs. 2.10

It may be noted from the above that options are most dilutive as their earnings per

incremental share is nil. Hence, for the purpose of computation of diluted earnings per share, options will be considered first. 12% convertible debentures being second most dilutive will be considered next and thereafter convertible preference shares will be

	<i>Net Profit Attributable (Rs.)</i>	<i>No. of Equity Shares</i>	<i>Net profit attributable Per Share (Rs.)</i>	
As reported	1,00,00,000	20,00,000	5.00	
Options		20,000		
	1,00,00,000	20,20,000	4.95	Dilutive
12% Convertible Debentures	84,00,000	40,00,000		
		60,20,000	3.06	Dilutive
Convertible Preference Shares	70,40,000	16,00,000		
	2,54,40,000	76,20,000	3.34	Anti- Dilutive

considered (see para 42).

Computation of Diluted Earnings Per Share

Since diluted earnings per share is increased when taking the convertible preference shares into account (from Rs. 3.06 to Rs 3.34), the convertible preference shares are anti-dilutive and are ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share is Rs. 3.06.