

Chapter 19

Answer to example 1 – Basic EPS

a) Basic EPS = $\frac{250\text{m}}{500\text{m}} = 50\text{c per share}$

b) Basic EPS = $\frac{250\text{m}}{546\text{m (W)}} = 45.8\text{c per share}$

Date	No. shares in issue	Weighting (# months)	Weighted average no. shares
1 July X5	500m	1/12	42m
1 August X5	550m	11/12	504m
		WANS =	546m

New number of shares

Original number	500
New issue	50
New number	<u>550</u>

c) Basic EPS = $\frac{250\text{m}}{625\text{m}} = 40\text{c per share}$

New number of shares

Original number	500
New issue	125
New number	<u>625</u>

d) Basic EPS = $\frac{250\text{m}}{546\text{m}} = 45.8\text{c per share}$

Date	No. shares in issue	Weighting (# months)	Fraction	Weighted average no. shares
1 July X5	500m	7/12	1.40/1.38	296m
1 Feb X6	600m	5/12		250m
		WANS =		546m

New number of shares

$500\text{m} \times 1 \div 8 = 63\text{m extra shares}$

New number of shares = $500\text{m} + 63\text{m} = 563\text{m}$

Theoretical ex-rights price

	\$	\$
5 shares at	1.40	7.00
1 share at	1.25	1.25
<u>6 shares</u>		<u>8.25</u>

TERP = $8.25/6 = \$1.375$

Therefore rights issue fraction = $1.40 / 1.38$



Answer to example 2 – Multiple share issues and prior year comparatives

$$\text{EPS (31 March 2019)} = \frac{\$750,000}{5,250,000(\text{W})} = 14.29\text{c}$$

$$\text{EPS (31 March 2018 - restated)} = 15.5 \times 2/3 = 10.33\text{c}$$

(W)

<i>Date</i>	<i>No. shares in issue</i>	<i>Weighting (# months)</i>	<i>Fraction</i>	<i>Weighted average no. shares</i>
1.4.18 – 30.9.18	2,000,000	6/12	3/2	1,500,000
New issue	3,000,000			
1.10.18 – 30.11.18	5,000,000	2/12	3/2	1,250,000
Bonus issue	2,500,000			
1.12.18 – 31.3.19	7,500,000	4/12		2,500,000
			WANS =	5,250,000

$$\frac{\text{Bonus fraction}}{(1-\text{for-2})} = \frac{\text{No. shares in issue after}}{\text{No. shares in issue after}} = \frac{3}{2}$$

Answer to example 3 – Diluted EPS

i) Convertible loan stock

$$\text{Diluted EPS} = \frac{500\text{m} + 400\text{k}}{1,000\text{m} + 12.5\text{m}} = 49.4\text{c per share}$$

$$(W1) \text{ Extra earnings} = \$500,000 \times (1 - 0.2) = \$400,000$$

$$(W2) \text{ Extra Shares} = \$10\text{m} \times 125 \text{ shares} / \$100 = 12.5\text{m}$$

ii) Share options

$$\text{Diluted EPS} = \frac{500\text{m}}{1,000\text{m} + 37.5\text{m}} = 48.2\text{c per share}$$

No. shares under the option	100m
No. shares at full market value	62.5m
100 x \$2.50/\$4.00	37.5m

Fully diluted EPS

	<i>Earnings (\$m)</i>	<i>Shares (m)</i>	
Basic	500	1,000	
Options	-	37.5	
Convertibles	0.4	12.5	
	500.4	1,050	47.6c

Both the basic EPS of 50c and the fully diluted EPS of 47.6c are to be disclosed.

