

Q4(b) Kappa is a listed entity that made a profit after tax of \$35 million for the year ended 30 September 2010. There were no discontinued operations. At 1 October 2009 Kappa had 70 million ordinary shares and 30 million preferred shares in issue. The preferred shares were correctly presented in equity within the statement of financial position. In the year ended 30 September 2010 Kappa declared and paid a dividend of 12 cents per share to the ordinary shareholders and 6 cents per share to the preferred shareholders.

On 31 December 2009 Kappa made a fully subscribed rights issue of two ordinary shares for every seven held at \$1.35 per share. The fair value of an ordinary share at 31 December 2009 was \$1.80.

Throughout the financial year Kappa had 20 million convertible loan notes on which interest of 5 cents per note was payable annually in arrears. The carrying value of the liability element of the loan note at 1 October 2009 was \$23 million and the effective rate of interest was 7%. The rate of income tax in the jurisdiction in which Kappa operates is 20% and the finance cost that is charged in the statement of comprehensive income is subject to income tax at that rate.

The notes are convertible into ordinary shares from 1 October 2011 at the option of the note-holder. The conversion terms are one ordinary share for every loan note held.

Required:

Compute the basic and diluted EPS of Kappa for the year ended 30 September 2010.