



Savoir

- (a) The issued share capital of Savoir, a publicly listed company, at 31 March 20X3 was \$10 million. Its shares are denominated at 25 cents each. Savoir's earnings attributable to its ordinary shareholders for the year ended 31 March 20X3 were also \$10 million, giving an earnings per share of 25 cents.

Year ended 31 March 20X4

On 1 July 20X3 Savoir issued eight million ordinary shares at full market value. On 1 January 20X4 a bonus issue of one new ordinary share for every four ordinary shares held was made. Earnings attributable to ordinary shareholders for the year ended 31 March 20X4 were \$13,800,000.

Year ended 31 March 20X5

On 1 October 20X4 Savoir made a rights issue of shares of two new ordinary shares at a price of \$1.00 each for every five ordinary shares held. The offer was fully subscribed. The market price of Savoir's ordinary shares immediately prior to the offer was \$2.40 each. Earnings attributable to ordinary shareholders for the year ended 31 March 20X5 were \$19,500,000.

Required:

Calculate Savoir's earnings per share for the years ended 31 March 20X4 and 20X5 including comparative figures. (9 marks)

- (b) On 1 April 20X5 Savoir issued \$20 million 8% convertible loan stock at par. The terms of conversion (on 1 April 20X8) are that for every \$100 of loan stock, 50 ordinary shares will be issued at the option of loan stockholders. Alternatively the loan stock will be redeemed at par for cash. Also on 1 April 20X5 the directors of Savoir were awarded share options on 12 million ordinary shares exercisable from 1 April 20X8 at \$1.50 per share. The average market value of Savoir's ordinary shares for the year ended 31 March 20X6 was \$2.50 each. The income tax rate is 25%. Earnings attributable to ordinary shareholders for the year ended 31 March 20X6 were \$25,200,000. The share options have been correctly recorded in the income statement.

Required:

Calculate Savoir's basic and diluted earnings per share for the year ended 31 March 20X6 (comparative figures are not required).

You may assume that both the convertible loan stock and the directors' options are dilutive. (4 marks)

(Total = 13 marks)