Part I

(a)

Ordinary shares in issue 31 October 2015 ($5 005 000/ 25 cents)	20 020 000
Rights issue 2 for 9 (20 020 000 / 11 x 2)	3 640 000
Ordinary shares in issue 1 November 2014	16 380 000

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

		Total		20x5
Beginning of year		16 380 000		16 380 000
Bonus element of rights issue	$\frac{3}{2.864}$	17 163 814		17 163 814
Shares issued for full value		2 856 186	x$^{6}/_{12}$	1 428 093
Weighted average no. Of shares – basic		20 020 000		**18 591 907**
Options for no value				
$\frac{2\,000\,000}{3{,}75}$ x 1,10 =	2 000 000			
	586 667			
	1 413 333			1 413 333
Written put options				
10 000 x 3,8 = 38 000 / 3,75 = 10 133 issued				
	10 000 purchased			133
Weighted average no. Of shares – diluted				**20 005 373**

***NB:** Your weighted averages may differ from the suggested solution due to rounding. However, the EPS figures should be similar in the end.*

CALCULATION OF ADJUSTMENT FACTORS

Theoretical ex rights value per share – rights issue

$$\frac{49\ 140\ 000 + 8\ 190\ 000}{20\ 020\ 000}$$

$$\frac{57\ 330\ 000}{20\ 020\ 000}$$

2,864

EARNINGS	**$'000**
Net income after taxation	14 680
Cumulative preference dividend	(120)
	14 560
Fixed dividend participating preference shares	(60)
10c dividend ordinary shareholders	(2 002)
	12 498

Ordinary and participating preference shares after the first 10 cents in the following ratio:

	Total income	Ordinary shares	Preference shares
Dividends	$2 062 000	2 002 000	60 000
Retained income	12 498 000	11 624 766	873 234
	$14 560 000	$13 626 766	$933 234

	Earnings	Shares	E.P.S
Basic earnings (same as control number)	13 626 766	18 591 907	73,29c
Options		1 413 333	
	13 626 766	20 005 240	68,11c
Written put options		133	
	13 626 766	20 005 373	68,12c

Basic earnings per ordinary share	73,29 cents
Diluted earnings per ordinary share	68,12 cents

(b) USEFULNESS OF DILUTED EARNINGS PER SHARE

- Provides quantified information about RISK.
- RISK in this context is the possible future variability in EPS caused by changes in capital and changes in earnings caused as a direct result of such capital changes.
- Provides information on the availability of earnings.

Note:
Although it is **future** and **not past** earnings that will be diluted, we still make no attempt to use forecasted earnings. While this is conceptually flawed, it removes the uncertainty surrounding the forecasting of future earnings.

Part II

IAS 33 requires that the bonus element of a rights issue be identified with reference to fair value.

Under the suggested circumstances net asset value per share is the best approximation of fair value on condition that inherent goodwill is recognised. The company revalues assets on a yearly basis. The market price is unreliable as the company's shares are seldom traded and the market price will apply only to small parcels of shares. The majority of shares are family held and will probably not be traded on the stock exchange.

No bonus element exist on the rights issue as the shares were issued at net asset value which equates to fair value. The rights issue will therefore have no effect on the basic EPS because the funds raised on the rights issue will earn the existing rate of return on equity.