Part 1

The following is an extract from the unaudited statement of comprehensive income which was prepared by John Bryan, financial advisor to Fergusson Limited for the year ended 31 October 2015:

	2015
	$'000
Income after tax	14 680
Dividends declared	
• Cumulative preference	360
• Participating preference	?

You have been approached by Andrew Windsor, the managing director of Fergusson Limited, to vouch for the acceptability of John Bryan's income statement disclosure and to prepare the required earnings per share information.

The relevant information regarding Fergusson Limited's issued share capital at 31 October 2015 was as follows:

Ordinary shares of 25 cents each	$5 005 000
8% Cumulative Preference Shares of $1 each	$1 500 000
10% Non-cumulative Participating Preference Shares of $2 each	$ 600 000

The participating preference shareholders are entitled to a dividend of 5 cents per participating preference share for every one cent by which the dividend per share payable to ordinary shareholders exceeds 10 cents. The fixed portion of the participating preference dividend has always been paid in cash in the previous years and in the current year.

On 1 May 2015 the company raised additional capital through a rights issue which offered the ordinary shareholders two additional shares for every 9 held. In order that all the rights would be taken up, the issue had to be priced at 75% of the fair value of the shares which was estimated to be $3.00 at 01 May 2015.

In June 2014 the company wrote 10 000 put options on its shares at $3.80, exercisable on 1 June 2016.

On 1 November 2011 senior executives of the company were granted the right to subscribe for 2 000 000 ordinary shares at $1.10 per share at any time from 1 November 2014 to 31 October 2016.

The average price of the company's ordinary shares quoted on the JSE for the year ended 31 October 2015 was $3.75 per share. None of the company's executives has as yet exercised any options in terms of this offer. All the executives had been in the service of the company for many years and were all expected to exercise their options in due course.

YOU ARE REQUIRED TO:

a) Calculate the earnings per share information required by IAS 33 for Fergusson Limited for the financial year ended 31 October 2015. Notes and comparative figures are not required.

b) Discuss the usefulness of diluted earnings per share.

Part II

Consider the particular circumstances where although a company's shares are listed on the stock exchange, they are family held and seldom traded. The company follows an accounting policy whereby its assets are revalued on a yearly basis.

The company decides to have a rights issue at a price equivalent to the net asset value per share which is materially below market price. The funds raised through the rights issue will continue to earn the same rate of return on shareholders' equity.

YOU ARE REQUIRED TO:

Discuss the effect that the rights issue should have on the earnings per share.

WITS - 1992
(50 MINUTES)