

42 Lecture - MGT401

Important Subjective

- 1. What is the difference between basic EPS and diluted EPS?**
Answer: Basic EPS is calculated based on the number of outstanding common shares while diluted EPS takes into account the potential dilutive effect of convertible securities and other instruments that could increase the number of shares outstanding.
- 2. What is a potential ordinary share?**
Answer: A potential ordinary share is a security or instrument that has the potential to be converted into ordinary shares and affect the calculation of EPS.
- 3. What is a convertible security?**
Answer: A convertible security is a financial instrument, such as a bond or preferred share, that can be converted into common shares, potentially diluting the number of shares outstanding and affecting the calculation of EPS.
- 4. How do stock dividends and stock splits affect the calculation of EPS?**
Answer: Stock dividends and stock splits can affect the calculation of EPS by increasing the number of shares outstanding, thereby reducing the EPS figure.
- 5. Why is EPS important for investors and analysts?**
Answer: EPS is important for investors and analysts because it measures the profitability of a company on a per-share basis and provides insight into a company's earnings potential and financial health.
- 6. What is the difference between basic EPS and diluted EPS in terms of potential ordinary shares?**
Answer: Basic EPS only considers outstanding ordinary shares, while diluted EPS takes into account both outstanding ordinary shares and potential ordinary shares.
- 7. What is the difference between a simple capital structure and a complex capital structure?**
Answer: A simple capital structure has only common shares outstanding, while a complex capital structure has potential ordinary shares, such as convertible securities or stock options.
- 8. What are the disclosure requirements under IAS 33 for companies reporting EPS?**
Answer: Companies reporting EPS under IAS 33 must disclose both basic and diluted EPS figures, the number of potential ordinary shares outstanding, and the dilutive effect of potential ordinary shares.
- 9. What are the limitations of using EPS as a measure of a company's profitability?**
Answer: The limitations of using EPS as a measure of a company's profitability include potential manipulation of earnings through share buybacks and the exclusion of important factors such as operating expenses and capital expenditures.
- 10. What is the impact of convertible securities on the calculation of EPS?**
Answer: Convertible securities can dilute the number of shares outstanding and increase the

denominator used in the EPS calculation, potentially reducing the EPS figure.