❖ **What the difference between basic earnings per share (EPS) and diluted EPS**

- **EPS** The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

  Calculated as:

  $$\text{EPS} = \frac{\textit{NET PROFIT}\ \text{AFTER INTERST AND TAX} - \text{DIVIDEND ON PSC}}{\text{NO.OF EQUITY SHARES BEFORE CONVERSION}}$$

- **A DILUTED EPS** gives what the EPS of a company would be if all convertible bonds, convertible warrants, convertible preference shares and stock options outstanding on the company's books are converted into shares. This will give the equity share holder the correct picture when investing in the company.

  $$\text{Hence diluted EPS} = \frac{\textit{NET PROFIT} + \text{INTERST /DIVIDEND ON CONVERTIBLE DEBENTURE OR PSC}}{\text{NO.OF EQUITY SHARES AFTER CONVERSION}}$$

- *However, there are certain points to be noted when calculating diluted EPS.*

Firstly,
when accounting for convertible bonds, after tax interest expense is not considered an interest expense for diluted EPS. Hence interest adjusted for tax should be added back to the net profit.

Secondly,
in case of convertible preference shares, the dividend has to be added back to the net profit.

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