Accounting Standard 20: Earning Per Share

1. This AS is mandatory in nature and is applicable to
   (i) All Companies (Listed or not, Private or Public)
   (ii) Non-Companies whose category is of Level I.

2. Level I means those Entities which are listed, Banks, Insurance company, Financial Institutions or Sale exceeding `50 crores in previous year or Borrowing exceeding `10 crores at any time during previous year.

3. Earning Per Share means earnings attributable to Equity Share Holder, calculated on per share basis. EPS is of two types:
   (a) Basic EPS
   (b) Diluted EPS

4. Basic EPS is calculated as follows:

$$\text{Basic EPS} = \frac{\text{Earning attributable to EShareholder}}{\text{W.Avg. of O/s EShares}}$$

Where Earnings attributable to ESH means

	Profit Before extraordinary items Tax	xxx	
+/-	Extraordinary item	xxx	
	PBT	xxx	
-	Tax Expenses	xxx	
	PAT	xxx	
-	Pref. Dividend on cumulative PShare	xxx	Ques. Silent than also deducted
-	Pref. Dividend on non-cumulative PShare	xxx	If specified in Ques.
	Earnings attributable to ESH	xxx	

*Do not deduct any reserve above
*If any dividend distribution tax/DDT or CDT is given, it will be deducted from Profit.

5. Special Treatments
   (i) Bonus shares are not considered of any special share. It increases number of share irrespective of date of Bonus. Whenever Bonus shares are given, Basic EPS of previous year will be recalculated, considering Bonus Issue.
   (ii) Whenever share issued as public issue, date of issue is relevant is for calculating of weighted average.

(iii) Whenever Shares are of different paid up amount, then solve EPS on per Rupee Basis.

(iv) Right Share paid part will be considered as public issue and date of issue is relevant for EPS. Bonus part in Right share is calculated and date of issue of right share for bonus is not relavant.

(v) Buy back of share will be reduced from number of share while calculating Basic Earning Per Share (BEPS). Date is considered relevant.

NOTE: If Ques. Is silent on Cumulative or Non-Cumulative Preference Share. Always assume Cumulative Preference Share.

6. Right Issue It means shares issued to Equity Share Holder at concessional price. This is given to Existing Shareholders. Right Share are split into 2 parts:
   (i) Paid part
   (ii) Bonus part

Paid part means equivalent value of number of share, which should have been issued at fair value.

$$\text{Paid part} = \frac{\text{Right sahre X Right price}}{\text{Fair value after right}}$$

Bonus part = Right share – paid part

Fair Value after Right

$$= \frac{\text{(Number of share before right X Price before right) + Roght Proceeds}}{\text{Total number of share after right}}$$

NOTE: Due to bonus part in right share, basic EPS of previous years will be recalculated.

7. Diluted Earning Per Share (DEPS)

DEPS is basic EPS, calculated after adjusting effects of potential Equity Shares.

DEPS

$$= \frac{\text{Earing for Equity Share Holder after effects of Potential Share}}{\text{Weighted average after effects of potential shares}}$$

Potential Equity Share means instruments which entitled its holder, Equity Share in future.
For Example:

- Convertible debenture
- Convertible Preference Share
- Share warrant
- Employee Stock Option

Following steps are applied for Calculation of DEPS:

- Identify Potential Equity Share

  For ESOP; Potential Equity Share would be

  $$= \text{ESOP} - \frac{\text{ESOP X Exercise Price}}{\text{Fair value of share}}$$

  For others; potential Equity Shares would be number of Equity Share expected to be issued.

- Calculated Savings in Earnings due to potential Equity Shares

  Convertible Debenture= Interest net of taxes
  OR Interest (1 – Tax Rate)

  Convertible Preference Share= Preference Divident + CDT on Preference Dividend.

  Share Warrant= NIL saving

  Employee Stock Option= NIL saving

- Calculate DEPS

  DEPS

  $$= \frac{\text{Earings as per BEPS + Saving (Step 2)}}{\text{W. Avg. of share as per BEPS + Share (Step 1)}}$$

  DEPS should always be lower than BEPS. If DEPS is more than BEPS, then assume BEPS as DEPS.

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