
IND AS 33

Earning Per Share

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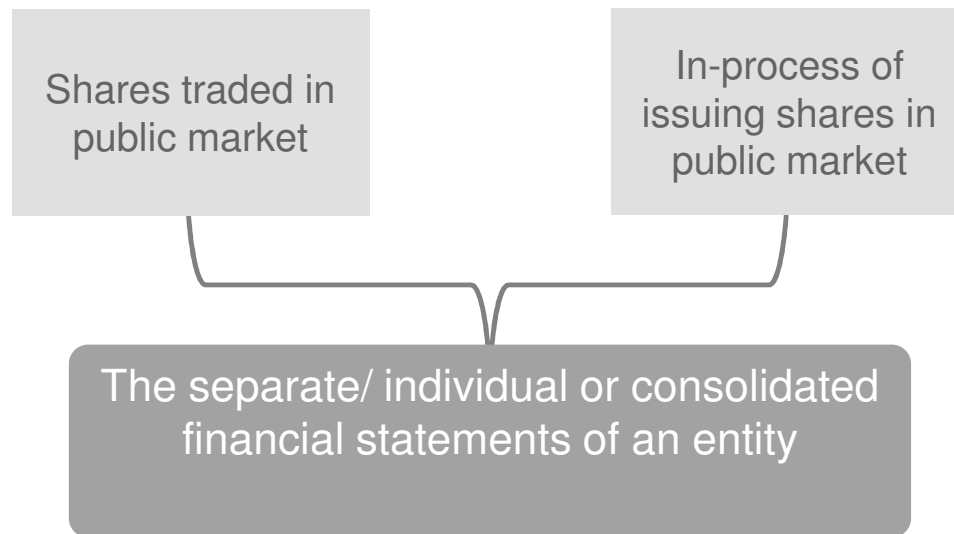
Key Differences

Objectives

The objective of this standard is to prescribe:

- ▶ Principles for the determination and presentation of earnings per share so as to improve the performance comparisons between:
 - ▶ Different entities in the same reporting period, and
 - ▶ Different reporting periods for the same entity

Scope



Basic EPS

Basic EPS

Definition:

Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period

Formula:

$$\frac{\text{Profit \& Loss attributable to equity holders of the parent entity}}{\text{Weighted average number of ordinary shares outstanding}}$$

Basic EPS – earnings

Earnings: The earnings should be the consolidated net profit or loss for the year after adjusting:

- ▶ Tax,
- ▶ Non-controlling interests, and
- ▶ Returns to preference shareholders that are not already included in net profit.

Basic EPS – earnings

- ▶ For the purpose of calculating Basic EPS, the amounts attributable to ordinary equity holders of the parent entity in respect of:
 - ▶ Profit or loss from continuing operations; and
 - ▶ Profit or loss attributable to the parent entity
- ▶ Shall be adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.

Basic EPS – shares

Weighted average number of equity shares:

Ordinary shares outstanding at the beginning

XXXX

Less: Ordinary shares bought back*

XXXX

Add: Ordinary shares*

XXXX

Ordinary shares outstanding during the period

XXXX

*to be multiplied by time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period.

Matters affecting the numerator

Following adjustments have to be considered:

- ▶ Preference dividends
- ▶ Retrospective adjustments: Where comparative figures have been restated EPS for all periods presented should also be restated
- ▶ Participating equity instruments and two class shares: Entities having more than one class of ordinary shares are required to calculate and present EPS for each class

Matters affecting the denominator

Weighted average number:

- ▶ Ordinary shares outstanding at the beginning of the period
- ▶ Adjusted by ordinary shares bought back or issued
- ▶ Time-weighting factor: days outstanding as a proportion of the total number of days in the period
- ▶ Reasonable approximation (weeks or months) is adequate in many circumstances

Example

Illustration: Calculation of weighted average number of shares

		Shares issued	Treasury shares*	Shares outstanding
1 January 2014	Balance at beginning of year	4,000	600	3,400
31 May 2014	Issue of new shares for cash	1,600	-	5,000
1 December 2014	Purchase of treasury shares for cash	-	500	4,500
31 December 2014	Balance at year end	5,600	1,100	4,500

Calculation of weighted average:

$$(3,400 \times 5/12) + (5,000 \times 6/12) + (4,500 \times 1/12) = 4,292 \text{ shares } or$$

$$(3,400 \times 12/12) + (1,600 \times 7/12) - (500 \times 1/12) = 4,292 \text{ shares}$$

* Treasury shares are equity instruments reacquired and held by the issuing entity itself or by its subsidiaries.

Bonus shares

- ▶ **Bonus issues**

- ▶ These are treated as if the new shares have been in issue for the whole of the period.

- ▶ **Stock split**

- ▶ Issue of new shares with proportionate reduction in par value
 - ▶ These are treated similar to bonus issue

Example

X Inc

1 January	1,000,000 in issue
28 February	Issued 200,000 at fair value
31 August	Bonus issue 1 for 3
30 November	Issued 250,000 at fair value

Required:

Calculate the number of shares which would be used in the basic EPS calculation.

Solution

- 1 January - 28 February

$$1,000,000 \times 2 / 12 \times 4 / 3 = 222,222$$

- 1 March - 31 August

$$1,200,000 \times 6 / 12 \times 4 / 3 = 800,000$$

- 1 September - 30 November

$$1,600,000 \times 3 / 12 = 400,000$$

- 1 December - 31 December

$$1,850,000 \times 1 / 12 = 154,167$$

1,576,389

Rights issue

- ▶ A rights issue has features in common with a bonus issue and with an issue at fair value
 - ▶ The company will receive a consideration which is available to boost earnings (like an issue at fair value) and
 - ▶ The shareholder receives part of the share for no consideration (like a bonus issue)

Rights issue – formula

► Formula for bonus fraction:

$$\frac{\text{Fair value per share immediately before the exercise of right}}{\text{Theoretical ex-rights fair value per share}}$$

Theoretical ex-rights fair value per share =

$$\frac{\text{Fair value of all outstanding shares before exercise of rights} + \text{Total amount received from exercise of rights}}{\text{Number of shares outstanding before exercise} + \text{Number of shares issued in the exercise}}$$

Example – rights issue

At 31 December 2017, the issued share capital of a company consisted of 1.8m ordinary shares of 10c each, fully paid. The profits for the year ended 31 December 2017 and 2018 amounted to C630,000 and C875,000 respectively. On 31 March 2018, the company made a rights issue on a 1 for 4 basis at C 30. The market price of the shares immediately before the rights issue was C 60

Calculation of theoretical ex rights price:

	No		C
Initial holding	4	Market Value (4 x 60)	240
Rights taken up	<u>1</u>	Cost (1 x 30)	<u>30</u>
New holding	<u>5</u>	Theoretical price	<u>270</u>

Theoretical ex rights price $\frac{270}{5} = 54c$

The market price is the fair value of the shares immediately prior to the exercise of rights, that is, the actual cum-rights price of 60c.

Cost is the amount payable for each new share under the rights issue.

Calculation of bonus element

The bonus element of the rights issue is given by the fraction:

$$\frac{\text{Market price before rights issue}}{\text{Theoretical ex-rights price}} = \frac{60}{54} = \frac{10}{9}$$

Example – rights issue

Therefore, the weighted average number of shares would be:

	2018	2017
1.8m x 10/9 for the whole year		2,000,000
1.8m x 10/9 x 3/12 (before rights issue)	500,000	
2.25m x 9/12 (after rights issue)	1,687,500	
Weighted average number	2,187,500	2,000,000

	2018	2017 (as previously stated)
Calculation of earnings		
<i>Basic EPS</i>	C875,000	C630,000
	2,187,500	1,800,000
	40.0c	35.0c

<i>Basic EPS for 2017 (as restated)</i>	<u>C630,000</u>
	2,000,000

31.5c*

***35c x 9/10 = 31.5c**

Diluted EPS

Diluted EPS

Definition:

For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

Formula:

Profit & Loss attributable to equity holders of the parent entity adjusted for the
effects of all dilutive potential ordinary shares

Weighted average number of ordinary shares outstanding adjusted for the
effects of all dilutive potential ordinary shares

Diluted earnings per share

Why?



Entities often enter into commitments to issue shares in the future which would result in a change in Basic EPS.

- ▶ **Potential shares** actually issued impact EPS:
 - ▶ the number of shares in issue will change;
 - ▶ profits could be affected, for example by lower interest charges or the return made on cash inflows.
- ▶ Examples of potential ordinary shares:
 - ▶ financial liabilities or equity instruments, including preference shares, that are convertible into ordinary shares;
 - ▶ options and warrants (whether accounted for under IAS 32 or IFRS 2);
 - ▶ shares that would be issued upon the satisfaction of conditions resulting from contractual arrangements, such as the purchase of a business or other assets.

Diluted earnings per share – denominator

Potential ordinary share (POS):

- ▶ Financial instrument or other contract that may entitle its holder to ordinary shares
- ▶ E.g. warrants, options, convertible preference shares, convertible bonds
- ▶ Assumption of conversion at beginning of period or, if later, at date of issue
- ▶ Treated as dilutive only when conversion would decrease net profit from continuing operations per share

Earnings

Earnings for calculating Diluted EPS:

- ▶ The earnings should be that used for Basic EPS adjusted to reflect any changes that would arise if the potential shares outstanding in the period were actually issued.
- ▶ Adjustment is to be made for the post-tax effects of:
 - ▶ Any dividends or other items related to dilutive potential ordinary shares deducted in arriving at the earnings figure used for basic EPS;
 - ▶ Any interest recognized in the period related to dilutive potential ordinary shares; and
 - ▶ Any other changes in income or expense resulting from the conversion of the dilutive potential ordinary shares.

Calculation of diluted EPS

- ▶ **Adjustments** for the effects of all potential ordinary shares made to the following:
 - ▶ The profit or loss attributable to ordinary equity holders; and
 - ▶ The weighted average number of shares outstanding.
- ▶ **Number of shares** for calculating Diluted EPS:
 - ▶ The number of shares should be that used in calculating Basic EPS, plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Example

- ▶ ABC Plc has 1,000,000 £1 ordinary shares and 1,000 £100 10% convertible bonds (issued at par), each convertible into 20 ordinary shares on demand, all of which have been in issue for the whole of the reporting period.
- ▶ ABC Plc's share price is £4.50 per share and earnings for the period are £500,000. The tax rate applicable to the entity is 21%.
- ▶ Calculate earnings per incremental share for the convertible bonds

Solution

- ▶ Basic EPS is £ 0.50 per share (500,000/1,000,000)
- ▶ The earnings per incremental share for the convertible bonds is calculated as follows:
- ▶ Earnings effect = No. of bonds x nominal value x interest cost. less tax deduction at 21%
= 1,000 X 100 X 10% X (1-21%)
= £7,900

Solution

Incremental shares calculation

- ▶ Assume all bonds are converted to shares, even though this converts £100 worth of bonds into 20 shares worth only £90 and is therefore not economically rational. This gives $1000 \times 20 = 20,000$ additional shares.
- ▶ Earnings per incremental share = $\frac{£7,900}{20,000} = £ 0.395$
- ▶ Therefore the bonds are dilutive.
- ▶ Diluted EPS = $\frac{£ 500,000 + £7,900}{1,000,000 + 20,000} = £ 0.498$ per share

Example – convertible bonds

1 January	Shares in issue	1,000,000
	Profit for the year ended 31 December	\$200,000

31 March The entity issues \$200,000 6% convertible bonds with terms of conversion:
 (a) 100 shares/\$100 if within five years
 (b) 110 shares/\$100 if after five years

Tax rate 33%

Basic EPS: $200,000 \div 1,000,000 = 20c$

Required:

Calculate diluted EPS. You should ignore the need to split the convertible bond into liability and equity elements.

Solution

	Number of shares	Profit \$
Basic	1,000,000	200,000
Dilution		
Shares: $((200,000/100) \times 110 \times 9/12)$	165,000	
Interest: $(\$200,000 \times 6\% \times 9/12 \times 0.67)$		6,030
	1,165,000	206,030
EPS	17.68 cents	

Example – options

1 January	Shares in issue	1,000,000
	Profit for the year ended 31 December	\$100,000
	Average fair value during period	\$8

The company has in issue options to purchase = 200,000 ordinary shares

Exercise price = \$6

Required:

Calculate the diluted EPS for the period.

Solution

Diluted EPS

	<i>Number of shares</i>	<i>Profit \$</i>	<i>EPS</i>	
Basic	1,000,000	100,000	10c	
Dilution (W)	<u>50,000</u>	—	<u>100,000</u>	9.5c
	<u>1,050,000</u>		<u>100,000</u>	

WORKING

Proceeds of issue	(200,000 × \$6)	1,200,000	
Number that would have been issued at FV / \$8	=	150,000	
Number actually issued		200,000	
		<u>50,000</u>	

Restatement

What?



Restatement of prior period EPS for events that change the number of shares outstanding without a corresponding change in resources.

How?



Basic and diluted EPS for all periods presented should be adjusted for:

- ▶ Events (other than the conversion of potential ordinary shares) which change the number of ordinary shares without a corresponding change in resources
- ▶ The effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively
- ▶ The effects of business combinations that are accounted for as a uniting of interests

Disclosures

- ▶ The **amounts used as the numerators** in calculating basic and diluted EPS;
- ▶ Reconciliation of the amounts used as numerators to profit or loss attributable to the parent entity for the period. The reconciliation should include the individual effect of each class of instruments that affects EPS.
- ▶ The **weighted average number of ordinary shares used as the denominator** in calculating basic and diluted earnings per share, and
- ▶ Reconciliation of these denominators to each other. The reconciliation should include the individual effect of each class of instruments that affects EPS.

Disclosures

- ▶ **Instruments** (including contingently issuable shares) **that could potentially dilute Basic EPS** in the future, but were not included in the calculation because they were antidilutive for the period(s) presented; and
- ▶ **Description of ordinary share transactions or potential ordinary share transactions**, that occur after the end of the reporting period and that would have changed significantly the number of ordinary shares or potential ordinary shares outstanding at the end of the period if those transactions had occurred before the end of the reporting period.

Key differences

Topic	IAS	Indian GAAP
Disclosure in separate financial statements	When an entity present both separate and consolidated financial statements, EPS is required to be presented only in the consolidated financial statement. An entity may disclose EPS in it separate financial statements voluntarily.	AS 20 requires disclosure of basic and diluted EPS information both in the separate and consolidated financial statement of the parent.
Disclosure	IAS 33 requires additional disclosures for EPS from continuing and discontinued operations. Disclosure is also required for instruments {including contingently issuable shares} that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are anti—dilutive for the periods presented.	Certain additional disclosures required under IFRS not mandatory.

Key differences

Topic	IAS	Indian GAAP
Mandatorily convertible Instrument	Ordinary shares to be issued upon conversion of a mandatorily convertible instrument are included in the calculation of basic EPS from the date the contract is entered into.	No specific requirement as in IFRS.
Applicability	Listed entities or entities in the process of listing	AS 20 is mandatory for all companies. However, disclosure of diluted earnings per share is not mandatory for Small and Medium Sized Companies

Key differences

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Disclosure in separate financial statements	When an entity present both separate and consolidated financial statements, EPS is required to be presented only in the consolidated financial statement. An entity may disclose EPS in it separate financial statements voluntarily.	Ind AS 33 requires disclosure of basic and diluted EPS information both in the separate and consolidated financial statement of the parent.
Applicability	Listed entities or entities in the process of listing	Applicability as per Ind AS roadmap issued by MCA

Key differences

Topic	IAS 33	Ind AS 33
Income or expense adjusted to reserves	No such requirement	Where any item of income or expense which is otherwise required to be recognised in profit or loss in accordance with accounting standards is debited or credited to securities premium account/other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating basic earnings per share.

Thank You