

SREERAM COACHING POINT

ACCOUNTING STANDARD - 20

Earnings Per Share

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EPS information is so vital for the equity shareholders in the decision making process.

EPS information is to be communicated not only every year end but also for every interim period

EPS is to be reported even though the reporting enterprises report loss.

EPS CAN BE OF TWO TYPES 1) BASIC EPS AND 2) DILUTED EPS

BASIC EPS = [Net Profit or loss for the period attributable to Equity shareholders/Weighted average number of equity shares outstanding during the period]

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BASIC EPS NUMERATOR PART:

Net profit or loss for the period LESS: Dividend on non-cumulative preference shares provided it is declared for that period LESS: Dividend on cumulative preference shares even if it not declared for that period LESS: Corporate Dividend Tax on the above (if any)

Arrears of preference dividend should not be considered in the arrival of EPS.

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Basic EPS – Denominator Part

Weighted Average number of equity shares is the “Number of equity shares outstanding at the beginning of the period, adjusted by the number of shares bought back or issued during the period multiplied by the time-weighting factor

Time-weighting factor is the number of days for which specific shares are outstanding as a proportion of the total number of days during the period. Reasonable approximation of the weighted average is adequate in many circumstances

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WANES → *Special Issues*

S. No.	Situation [Equity Shares]	From which period, these equity shares are included in the WANES ?
1	Issued for Cash	Date when Cash is receivable
2	Conversion of debt	Date of conversion
3	Issued in exchange for acquisition of asset or settlement of Liability	Date of Acquisition / Date of Settlement
4	Issued as a part of consideration in an amalgamation in the nature of purchase	Date of acquisition
5	Issued as a part of consideration in an amalgamation in the nature of merger	From the beginning of the period

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Only such capital which is ranking for dividend alone shall be considered for the purpose of arriving at weighted average no of equity shares.

Treatment of Partly Paid Equity Shares

Partly paid equity shares should be treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period

Treatment of Bonus Shares

Bonus issue effected shall be considered as if the bonus shares were in existence from the earliest reporting period.

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Restatement

44. If the number of equity or potential equity shares outstanding increases as a result of a bonus issue or share split or decreases as a result of a reverse share split (consolidation of shares), the calculation of basic and diluted earnings per share should be adjusted for all the periods presented. If these changes occur after the balance sheet date but before the date on which the financial statements are approved by the board of directors, the per share calculations for those financial statements and any prior period financial statements presented should be based on the new number of shares. When per share calculations reflect such changes in the number of shares, that fact should be disclosed.

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Treatment of Right Shares

In a rights issue, on the other hand, the exercise price is often less than the fair value of the shares. Therefore, a rights issue usually includes a bonus element. The number of equity shares to be used in calculating basic earnings per share for all periods prior to the rights issue is the number of equity shares outstanding prior to the issue, multiplied by the following factor:

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

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Bonus Factor = M/X

M = Market price prior to RI

X = Theoretical Ex-Rights Price

X =

$(M \times N) + (R \times S)$

$N + R$

N=No. of EQ Prior to RI
R=No. of Rights issued
S=Sub. Price of RI

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Diluted EPS

Diluted EPS is basically a sort of writing on the wall to the equity shareholders that the EPS might likely fall down/go up in case of negative EPS, when the potential equity shares are issued on the assumption that the same results would be reported in the future

Potential Equity Share

It is defined as financial instrument or other contract that entitles, or may entitle, its holder to equity shares

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Important:

It is felt that only in case dilution it is to be reported and no reporting is required in case of upward dilution. [i.e. Anti dilution]

When more than one instrument gives room for potential equity shares, then the company should prioritize the instrument in the order of most dilutive, next most dilutive and so on. In case any instrument which is likely to cause anti dilution, then that instrument shall be excluded in the computation of Diluted EPS.

More than one class of Equity Share

When shares are issued with differential rights, the EPS should reflect the rights towards dividend.

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