# AS – 20 EARNING PER SHARE

**Basic EPS** = $\dfrac{\text{Earnings attributable to Equity shareholder}}{\text{Weighted Avg. of Equity share outstanding during the Year}}$

❖ **Earnings attributable to equity shareholder means**

| | |
|---|---|
| Profit After Tax | XXX |
| Less- Pref. dividend on Cumulative Preference Shares (Declared or Not) | (xxx) |
| Less- Preference Dividend on Non- Cumulative Preference Share | (xxx) |
| Less- DDT/CDT on Preference Dividend. | (xxx) |
| **Earnings for Equity Shareholder** | **XXX** |

❖ **Weighted Average of outstanding Equity share during the period**

$$\text{No. of Shares (Beginning)} + \text{No. of Shares Issued} * \frac{\text{Outstanding Period}}{\text{Total Period}} - \text{No. of Shares Bought Back} * \frac{\text{Outstanding Period}}{\text{Total Period}}$$

**Points to be considered:**

- ❖ If it is not clear about Preference Share, assume it as cumulative.
- ❖ CDT to be deducted, If specified in question.
- ❖ Consider only share capital to the extent paid-up or if shares are similar paid- up Capital shares

| List of shares issued, which are to be adjusted | Weight to be considered from |
|---|---|
| Equity shares issued in exchange of cash | date of cash receivable |
| Against conversion of debt instrument | date of conversion |
| Acquisition of assets | Acquisition is recognized |
| Services rendered | when service is rendered |
| Bonus Share | from the beginning of the reporting Period |
| Amalgamation –Merger | From the beginning of the reporting Period |
| Amalgamation –Purchase | From date of acquisition |
| Right Share | Adjusted with Right Factor |
| Share Split / Consolidation | from the beginning of the reporting Period |
| Share Buy-Back, Forfeiture | From Date of Buy back or Forfeiture |

### Bonus Shares Treatment

- Since bonus issue does not increase equity of company, date is considered from start of the period
- Whenever question has information regarding Bonus Share or Bonus has been calculated in Right share then ratio of previous year(s) should be Re-calculated/Re-stated/Adjusted/
- This requirement of settlement is for Basic and Diluted EPS.
- Similar calculation are required in share split or share consolidation

### Amalgamation in the nature of Purchase

- Whenever shares are issued in the scheme of Amalgamation in the nature of Purchase, then such issue of shares are treated as public issue.(Date are relevant)

- Whenever partly paid shares are not entitled for dividend rights (until they become fully paid-up). These shares should not be considered in BEPS.

### Amalgamation in the nature of Merger

Since AS-14 requires merger of Assets, Liabilities and Profits in accounting for amalgamation, same concept is applied while calculating BEPS :

- Earnings of Company which has been merged will be clubbed with earnings of transferring Company.
- No. of Shares issued will be for complete period without considering date of issue of shares.

## Rights issue

Rights issue contains a bonus element. Thus bonus element needs to be included from start of issue and rights from date of issue. This can be done with the help of rights factor

Theoretical ex-right fair value =

$$\frac{\text{Aggregate fair value of share immediately prior to the exercise of the right + Proceeds from exercise of the right}}{\text{Number of shares outstanding immediately after the right issue}}$$

$$\text{Right Factor} = \frac{\text{Fair value per share immediately prior to right issue}}{\text{Theoretical ex-right fair value}}$$

# DILUTED EPS

Earnings attributable to equity shareholder after effect of **Diluted Potential equity share**

**Dilutive means**- Those Potential equity shares which reduces BEPS from Continuing Ordinary Operations. Generally, DEPS less than BEPS.

**Potential Equity Share means(Expected Share Holders)**- Instrument on which resources has been received in cash or kind employed in business and which entitled its holder to equity share in **future**.
(Examples :- Convertible Debenture, Convertible Pref. Share, Employee Stock Option)

- The formula for diluted EPS the same as basic EPS
  However the Numerator & the Denominator both need to be adjusted

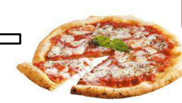
## *Adjustment to **Net Profit** Attributable to Equity Shareholders*

- (+)Add Back Dividend & Dividend Distribution tax (CDT) on Pref. Shares
- (+)Interest on Convertible Deb.
- (-)Loss on tax Shield on Interest on Convertible Deb
- (+/-)Any other in exp. or income that would result from conversion of potential equity shares

## *Adjustment to **Weighted Average** no of Equity share outstanding*

- Add the Equity Shares that would arises on the Conversion of all Potential Equity Shares
- The potential Equity Shares are deemed to have been issued at the **beginning** of the period & if issued later then the date of issue of Potential Equity Shares

Pizza eg.as Discuss in Lecture ☺



**Dilutive & Anti-Dilutive Potential Equity Shares**

**Dilutive** → When Conversion would **Decrease** the EPS

**Anti-Dilutive** → When Conversion would **Increase** the EPS

**If the Diluted EPS is more than the basic EPS than the Potential Equity Shares are Anti – Dilutive & Should NOT be reported in that Case the Basic EPS should be taken as Diluted EPS**