TOPIC 25

INDAS 33
EARNINGS PER SHARE

INDEX

S.No.	Topic Name	Page No.
1	Measurement of Basic Earnings per Share	790
2	Numerator for Basic EPS	791
3	Denominator for Basic EPS	793
4	Deciding the date of of Issue	795
5	Bonus/Share Split/Share Consolidation	798
6	Compulsory Convertible Debentures for EPS	799
7	EPS in Business Combination Transactions	800
8	EPS in Right Issue of Shares	801
9	Diluted Earnings Per Share (DEPS)	806
10	Call Options for DEPS	810
11	Contingently Issuable Shares for EPS	811

Quote:-

There's A Difference between Interest and Commitment.

When you're interested in doing something,

you do it only when it's convenient.

When You're Committed to Something, You Accept No Excuse, only result

Note:

This Ind AS shall apply to companies that have issued ordinary shares to which Ind AS notified under the Companies Act apply.

When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with **Ind AS 110, Consolidated Financial Statements**, and **Ind AS 27, Separate Financial Statements**, respectively, the disclosures required by this Standard shall be presented both in the consolidated financial statements and separate financial statements.

The above mentioned provisions are given in short in the following table

Sr. No.	Type of Financial statements	Consolidated EPS	Separate EPS
1	Consolidated	**Must disclose**	Don't disclose
2	Separate	Don't disclose	**Must Disclose**

EPS should be presented in the following headings:

i) Basic EPS for continuing operation

ii) Basic EPS for Discontinuing Operation

iii) Basis EPS for Total Business

MEASUREMENT OF BASIC EARNINGS PER SHARE

An entity shall calculate basic earnings per share for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, **profit or loss from continuing operations** attributable to those equity holders.

Thus, one can note two important points from the above paragraph. Company is required to calculate basic EPS for

1. For equity shareholders
2. For parent company

According to the appendix to the Ind AS 33, for the purpose of calculating earnings per share based on the consolidated financial statements, profit or loss attributable to the parent entity refers to profit or loss of the consolidated entity after adjusting for non-controlling interests.

$$\frac{\text{Profit/Loss attributed to Equity share holders of Parent Entity}}{\text{Weighted average number of Equity shares}}$$

Numerator for Basic EPS

1. **Profit/Loss under Consolidated Financial Statements :**
   Profit/Loss attributable to equity holders of Parent co. (not considering earnings of Non-Controlling interest)

2. Preference divided (with DDT) shall be deducted from PAT, in case there are cumulative preference shares then dividend shall be deducted whether declared or not and in case of non-cumulative preference share dividend shall be deducted only when it is declared. (Always assume cumulative if not specified in question)

3. **Premium paid or settlement premium on early redemption/conversion on redemption of preference shares and written off from security premium account or from other reserve shall also be deducted from profit for the purpose of EPS.**

4. Any Income or Expenses which is otherwise required to transferred to Profit and Loss a/c but not actually recognised in profit and loss a/c and transferred to other reserves or written off from security premium (like Preliminary exp) shall also be considered while calculating EPS.

5. If preference shares are classified as Financial Liability under Amortised Cost Method (IndAS 109), then for the purpose of calculating Earnings attributable to Equity shareholders, dividend/interest shall be deducted as per Effective Rate of Interest.

Q365

P Ltd. has earnings of Rs 15,00,000, o/s equity shares 50000 no.
P Ltd. has one subsidiary co. S Ltd. (80% investment) whose earnings Rs. 5,00,000, Subsidiary has total equity shares O/s 20000
Calculate BEPS of P Ltd. for Separate as well as Consolidated Financial Statements.
Ans: EPS 30 & 38

Q366

P Ltd. has earnings of Rs 15,00,000, o/s equity shares 50000 no.

P Ltd. has one subsidiary co. S Ltd. (80% investment) whose earnings Rs. 5,00,000, Subsidiary has total equity shares O/s 20000. During the year S ltd. paid dividend Rs. 150000 to its shareholders.

Calculate BEPS of P Ltd. for Separate as well as Consolidated Financial Statements.

Ans: EPS 30 & 35.6

Q367. (ICAI MODULE)

ABC Company issues 9% preference shares of FV of Rs 10 each on 1.4.20X1. Total value of the issue is Rs 10,00,000. The shares are issued at a discount of Rs 0.50 each, for a period of 5 years and would be redeemed at the end of 5th year. The shares are to be redeemed at Rs 11 each.

At the end of the year 3, i.e. on 31.3.20X4, company finds that it has earned good returns than expected over last three years and can make the redemption of preference shares early. To compensate the shareholders for two years of dividend which they need to forego, company decided to redeem the shares at Rs 12 each instead of original agreement of Rs 11. Comment on the earnings for the year 20X3-20X4.

Solution

In the given situation, Rs 2 per share is the excess payment made by the company amounting to Rs 2,00,000 in all. The amount of Rs 2,00,000 will be deducted from the earnings of the year 20X3-20X4 while calculating the basic EPS of year 20X3-20X4.

Q368.

Consider the following information for the purpose of calculation of BEPS for the year ending 31.03.19:

Particulars	Amounts	Remarks
Earnings before Interest and Tax	35,00,000	
O/s Debentures as on 1.4.18	12,00,0000	8% interest
O/s Cumulative 9% Pref. Shares	8,00,000	Dividend not declared
10% Non-Cumulative Pref. shares issued on 1.06.2018	10,00,000	Dividend declared
Out of above 9% Cum. Pref. Shares, 25% redeemed in the beginning of year at	3,00,000	Extra paid is premium on redemption w/f from security premium a/c
Issued 9% Debentures with redemption right at premium of 10% after 5 years	7,50,000	

Preliminary expenses w/f from security premium	1,00,000	
O/s Equity shares during the year	1,00,000 Nos.	
Tax Expenses	1,50,000	

(Answer: BEPS – 28.369/-; ERI – 10.63%)

Solution:

Denominator for Basic EPS

- *For the purpose of calculating basic earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares outstanding during the period.*
- *The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period* **multiplied by a 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; a reasonable approximation of the weighted average is adequate in many circumstances.*

Q369 (ICAI MODULE)

Following is the data for company XYZ in respect of number of equity shares during the financial year 20X1-20X2. Find out the number of shares for the purpose of calculation of basic EPS as per IndAS 33.

Sr. No.	Date	Particulars	No of shares
1	1-Apr-20X1	Opening balance of outstanding equity shares	100,000
2	15-Jun-20X1	Issue of equity shares	75,000
3	8-Nov-20X1	Conversion of convertible pref shares in Equity	50,000
4	22-Feb-20X2	Buy back of shares	(20,000)
5	31-Mar-20X2	Closing balance of outstanding equity shares	205,000

Solution

The closing balance of the outstanding shares is 2,05,000 by a normal addition and subtraction. But as per weighted average concept, one need to find out for how many days each type of shares were actually held during the year.

The shares which were there on 1st April 20X1, were held for the whole year. Therefore, weighted average number of such shares will be given by the formula:

No of shares x no of days the shares were held during the year / 365
= 1,00,000 x 365 / 365 = 1,00,000

But the shares which were issued on 15th June 20X1, were held for only 290 days. Therefore, the weighted average number of shares will be 75,000 x 290 / 365 = 59,589.

Following the above formula, the weighted number of shares for calculation of EPS for the year 20X1-20X2 will be as follows:

Sr. No.	Date	Particulars	No of shares	No of days shares were outstanding	Weighted average no of shares
1	1-Apr-20X1	Opening balance of outstanding equity shares	100,000	365	100,000
2	15-Jun-20X1	Issue of equity shares	75,000	290	59,589

3	8-Nov-20X1	Conversion of convertible preference shares in Equity	50,000	144	19,726
4	22-Feb-20X2	Buy back of shares	(20,000)	(38)*	(2,082)
5	31-Mar-20X2	Closing balance of outstanding equity shares	205,000		177,233

These shares had already been considered in the shares issued. The same has been deducted assuming that the bought back shares have been extinguished immediately.

From the above illustration, one can notice that the date of issue/ conversion/ repurchase/ transaction affecting the addition or deletion in number of shares is very crucial for calculation of weighted average number of shares.

Deciding the date for issue of shares

- Shares are usually **included** in the weighted average number of shares **from the date consideration is receivable** (which is generally the date of their issue), for example:

The abovementioned provisions are summarised in the following table:

Sr. No	Nature of transaction	Effective Date when
1	General Rule	consideration is receivable
2	Exchange for cash	Cash is receivable
3	Voluntary reinvestment of dividend	Dividend are reinvested
4	Conversion of debt instrument	Accrual of interest is stopped
5	In lieu of interest / principal	Accrual of interest is stopped
6	Exchange of liability	Settlement Date
7	Consideration for acquisition of asset	Acquisition is recognised in books
8	Rendering of services	Services are rendered
9	**Business combinations**	**Acquisition date**
10	**Mandatory convertible instrument**	**Date of contract**
11	Contingently issuable shares	When all necessary conditions for conversion are satisfied

- **Ordinary shares issued as part of the consideration transferred in a business combination are included in the weighted average number of shares from the acquisition date. This is because the acquirer incorporates into its statement of profit and loss the acquiree's profits and losses from that date.**

- Contingently issuable shares are treated as outstanding and are included in the calculation of basic earnings per share only from the date when all necessary conditions are satisfied (i.e. the events have occurred).
- Shares that are issuable solely after the passage of time are not contingently issuable shares, because the passage of time is a certainty.
- Outstanding ordinary shares that are contingently returnable (ie subject to recall) are not treated as outstanding and are excluded from the calculation of basic earnings per share until the date the shares are no longer subject to recall.

Example 1

ABC company will issue the shares only if the company achieves the after tax profitability of 15%. In such case, achievement of profitability is a contingent event. Therefore, company should not include the number of shares in calculation of Basic EPS, unless company actually achieves 15% profitability. In the F.Y. 20X0-20X1 company achieves the profitability of 13% only. The company will not include the shares while calculating EPS. But if in 20X1-20X2, company achieves the profitability of 17%. Then while calculating the EPS for 20X1-20X2 the shares will be considered for the calculation of basic EPS even if the shares are actually not issued.

Example 2

PQR Company entered into contract that it will issue the shares only after completion of 3 years from the date of contract. Here the condition to be satisfied is the completion of 3 years. There is no other condition, then passage of time. Passage of time is definite event. There is no uncertainty involved in passage of time. Therefore, such shares will be included in the calculation of basic EPS because there is no contingently issued shares.

PARTLY PAID SHARE

Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends.

Q370

Calculate Basic earnings per share for 10-11:-

Earnings attributable for Equity shareholders (10-11)- Rs. 10,00,000/-

Equity Shares opening Balance 1/4/2010: 16,500 shares of Rs. 10 each 7 paid up

Public Issue - 1/7/2010: 10,000 shares of Rs. 10 each 6 paid up

Received calls on 1/10/2010: 16,400 shares Rs. 3 per share

Received calls on 1/11/2010: 10,000 shares Rs. 4 per share

(Answer: EPS - 49.56)

Q371 (Absolute Dividend Right)

Calculate BEPS

Earnings attributable to Equity Shareholders - 6,00,000

ESC I class - 3,00,000 (30,000 shares of Face Value Rs 10)

ESC II class - 4,00,000 (50,000 shares of Face Value Rs. 8)

ESC I class is entitled to 3% extra dividend in comparison to ESC II class.

Ans.: 8.74 for ESC I, 6.75 ESC II.

Q372 (Proportionated Dividend Right)

XYZ Limited has the following different classes of equity shares of Rs.10 each, outstanding as at March 31, 2018, having disproportionate rights with respect to voting and dividends:

Number of shares	Rights as to share in net profit to the extent of capital
100,000 "A" class equity shares	Proportionate to capital
30,000 "B" class equity shares	In proportion of 3:2 with respect to "A" class shares
20,000 "C" class equity shares	In the proportion of 5:2 with respect to "A" class shares
40,000 "D" class equity shares	In the proportion of 3: 1 with respect to "A" class shares

Profit for the year ended March 31, 2018 was Rs. 8,00,000.

The Company believes that net profit is to be shared in the ratio of 2:3:5:6, as derived from their rights to share net profit.

Class	Calculation	Net Profit (Rs)	No. of shares	Basic EPS (Rs)
Class A	Rs.800,000x2/16	100,000	100,000	1.00
Class B	Rs. 800,000x3/16	150,000	30,000	5.00
Class C	Rs. 800,000x5/16	250,000	20,000	8.33
Class D	Rs. 800,000x6/16	300,000	40,000	7.50

Is the calculation of EPS by the company correct?

Q373:

Baby Ltd. has three classes of shareholders in its capital structure viz; Class A: 5000 shares, Class B: 1000 shares; Class C: 3,000 shares. Dividends rights attached to this class is 90%, 110% and 100% respectively. Net Profit for the year 2018 is Rs. 1,80,000. Compute EPS for Each class of Shareholders for the year 2018.

Answer: 18.84; 23.02; 20.93

Solve here

BONUS ISSUE, SHARES SPLIT AND SHARES CONSOLIDATION

Ordinary shares may be issued, or the number of ordinary shares outstanding may be reduced, without a corresponding change in resources. Examples include:

(a) a capitalisation or bonus issue (sometimes referred to as a stock dividend);
(b) a bonus element in any other issue, for example a bonus element in a rights issue to existing shareholders;
(c)a share split; and
(d) a reverse share split (consolidation of shares).

In above case where the number of shares changes without the change in the resources, the date will be considered from the beginning of the earliest period presented, irrespective of the fact of actual capitalisation of the reserves.

If there is no change in the resources then the date of change will not be relevant and opening balance of the shares will be adjusted with the new number of shares. However, if the event is going to result in change in the total amount of capital, i.e resources, then the effective date need to be considered and accordingly the weighted number of shares need to be calculated.

Q374: (Homework)

Calculate BEPS for the year 2005-06
Earnings attributable to Equity Shareholders for the year 2004-05- Rs10,00,000
Earnings attributable to Equity Shareholders for the year 2005-06- Rs. 12,00,000
Equity shares as on 1-4-04 - 10,000shares of Fv Rs. 10
Issued 5,000 and 3000 equity shares on 1-1-05 and 1-7-05 respectively and shares fully subscribed and paid up. 1:1 Bonus issue on 1-12-05
(Ans.: Rs. 88.89 & Rs. 34.04 and restated 34.18)

COMPULSORILY CONVERTIBLE DEBENTURES OR PREFERENCE SHARES

Mandatory/Compulsorily Convertible instruments (convertible into Equity shares) are to be considered while calculating Basic EPS i.e. no. of promised shares on conversion of those instruments shall be considered in the calculation of Weighted Avg. no. of shares **from the date of contract i.e. from the date of issue of such instruments.**

However interest paid on such instruments shall be treated in the normal way and deducted from Net Profit and Loss attributable to ESH.

In the absence of any specific info, always assume that convertible instruments are not mandatory but Optional. Optional Convertible Instruments are not considered in the calculation of Basic EPS but to be considered in Diluted EPS.

Q375:

O/s Equity shares as on 01.04.2018 – 1,00,000 no. of Rs. 10/-

Issued 9% Compulsorily convertible debentures on 01.07.2018 – 10000 No. (100/-) convertible after 3 years in the ratio of 3:1

EBIT – 12,00,000

Tax Expenses 1,80,000

Solve Here:

SHARES ISSUED UNDER BUSINESS COMBINATION

Equity shares issued as part of the consideration under Business Combination (IndAS 103) shall be considered from Acquisition date of business while calculating Weighted Avg. No. of Shares.

Acquisition date means the contract date i.e. the date on which Net Assets, NCI, Consideration and Goodwill are first measured.

Q376: (Acquisition of Business)

On June 30, 2001, B Limited merged into A Limited.

The following is the relevant information for the year ended 31st March 2002:

Particulars	A Limited	B Limited
Net profit (Rs.) Until Acquisition	5,00,000	
After Acquisition to year end (March 31, 2002)	8,00,000	2,00,000
Number of shares (Rs. 10 each)		
At the start of the year		
On the date of Acquisition	6000	4000
At the end (March 31, 2002)	6000	4000
	10000	

(Ans: 144.44 under SFS & 166.667 under CFS)

Solve Here:

Q377: Calculate BEPS of A Ltd. from the following information:

Earnings attributable to Equity Shareholders for the year 2004-05 = Rs.10,00,000

Earnings attributable to Equity Shareholders for the year 2005-06 = Rs. 12,00,000

Equity shares of A Ltd. as on 1-4-04 =10,000 shares of FV of Rs. 10

On 1-10-05 A Ltd. issued 10,000 shares as Purchase consideration for acquisition of Business of B Ltd. Earnings of B Ltd. for the year 2005-06 till 01.10.2005 are Rs. 3,60,000

(Ans.: 04-05 = Rs. 100 and 05-06 = Rs. 80)

RIGHT ISSUE OF SHARES

A rights issue usually includes a bonus element.

Treatment of Right Shares:

Following steps are applied

Step 1: Calculate TMP[ER] if not available. Such price is IV of shares

Formula

$$\frac{[\text{Fair Value (before right)} \times \text{No. of share (pre-right)}] + \text{Right issue proceeds}}{\text{Total shares post right}}$$

Step 2: Calculate paid-up part in Right issue

$$\text{Paid} - \text{up Part} = \frac{\text{Profit Proceeds}}{\text{Market Price as per Step 1}}$$

Step 3: Calculate Bonus part in Right

Bonus * Right Share - paid part as per Step 2

Step 4:

→ Paid part should be adjusted from the date of receipts of amount.

→ Bonus part should be considered price beginning

→ Previous Year EPS will be readjusted because of Bonus elements.

Q378: (Right Issue)

X Co. Ltd. supplied the following information. You are required to compute the Basic EPS. (Accounting year 1.1.2002 - 31.12.2002)

Net Profit for the accounting years 2002 and 2003 is Rs. 20,00,000 and Rs.30,00,000

No. of shares outstanding prior to Right Issue 10,00,000 shares

Rights Issue: One new share for every 4 Shares outstanding i.e., 2,50,000 shares

Right Issue Price: Rs. 20. Last date for exercise of rights is 31.3.2013

Fair Rate of one Equity Share immediately prior to exercise of right on 31.3.13 - Rs. 25

Ans.: Basic EPS for the current year Rs. 30,00,000 ÷ 11,97,917 = Rs. 2.50.

EPS for the previous year as originally reported Rs. 20,00,000 $\div$ 10,00,000 = Rs. 2.00,

Adjusted EPS for the previous reporting period Rs. 20,00,000 $\div$ (10,00.000x1.042) =Rs. 1.92

Q379: (Right Issue)

From the Following information Calculate

Basic Earning per share 10-11

Basic Earning per share 11-12

Restated Basic Earning per share 10-11

Profit after Tax (10-11) 15,00,000

Profit after Tax (11-12) 20,00,000

1/4/2010 Opening Balance of 2,50,000 shares

1/7/2010 Public issue of 50,000 of Rs 10 each 7 paid up (issue price Rs. 27/)

1/10/2010 Call received Rs. 3/-

1/8/2011 Bonus issue of 70,000 shares of Rs. 10/- each 10/- paid up

1/9/2011 Right issue of 40,000 share of Rs. 10 each @ 70 each

Fair Value before right Rs. 90/- each

On 1/4/2010 Company had 12% Preference share capital of Rs. 5,00,000

For company it is mandatory to transfer Rs. 2,00,000 to general reserve every year.

(Ans: Ex-Right Price = 88.05/-; EPS = 5.07/-; 4.89/- and Restated EPS = 3.98/-)

Q380 (RTP May 2018)

P Ltd. is a subsidiary company of ABC Ltd. It preparing both Separate financial statement (SFS) and consolidated financial statements (CFS) for the year ending on 31st March, 20X1. It has net profit after tax of Rs 20,00,000 as per SFS & Rs 16,00,000 as per CFS. Share capital of P Ltd. is 2,00,000 shares of Rs 10 each. ABC Ltd. has acquired 80% shares of P Ltd. Accountant of P Ltd. had calculated following Basic EPS for its SFS:

Calculation of Basic EPS in its SFS	
Net Profit after tax	Rs 16,00,000
Number of equity shares attributable to Parent company ABC Ltd. (2,00,000 x 80%)	1,60,000 shares
Basic EPS	Rs 10 per share

Examine the correctness of the above presentation of Basic EPS.

Suggested Answer of ICAI

As per paragraph 4 of Ind AS 33 "Earnings per Share", when an entity presents both consolidated financial statements and separate financial statements prepared in accordance with Ind AS 110, Consolidated Financial Statements, and Ind AS 27, Separate Financial Statements, respectively, the disclosures required by this Standard shall be presented both in the consolidated financial statements and separate financial statements. In consolidated financial statements such disclosures shall be based on consolidated information and in separate financial statements such disclosures shall be based on information given in separate financial statements. An entity shall not present in consolidated financial statements, earnings per share based on the information given in separate financial statements and shall not present in separate financial statements, earnings per share based on the information given in consolidated financial statements.

Also paragraph 9 of the standard states that an entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.

Further, paragraph A1 of Appendix A of Ind AS 33 states that for the purpose of calculating earnings per share based on the consolidated financial statements, profit or loss attributable to the parent entity refers to profit or loss of the consolidated entity after adjusting for non-controlling interests.

Therefore, the requirements of paragraph 9 of Ind AS 33 have been provided in the context of calculating EPS in the consolidated financial statements of an entity.

The accountants of P Ltd. had followed this for calculation of Basic EPS in its SFS. As per ITFG Bulletin 11, for SFS analogy may be drawn from paragraph 9 of Ind AS 33 that in case of separate financial statements, the parent entity mentioned in paragraph 9 will imply the legal entity of which separate financial statements are being prepared and accordingly, when an entity presents EPS in its separate financial statements, then the same shall be calculated based on the profit or loss attributable to its equity shareholders.

Hence, the presentation of Basic EPS by the Accountant of P Ltd. on the basis of consolidated financial statements in its separate financial statements is not correct. The correct presentation of Basic EPS would be as follows:

Calculation of Basic EPS of P Ltd. in SFS	
Net Profit after tax	Rs 20,00,000
No. of share issued	2,00,000 shares
Basic EPS	Rs 10 per share

Q381.

From the following info, calculate Basic EPS in SFS and CFS of both the companies:

Particulars	Parent Ltd.	Subsidiary Ltd.
ESC as on 01/04/2018 (10/-)	20,00,000	10,00,000
Earnings as per Separate FS	50,00,000	25,00,000
Acquisition of shares of Sub. Ltd. by Parent Ltd. on 01.07.18	80%	-
Consideration of above acquisition has been satisfied in form of issue of shares by Parent	1,00,000 No.	-

(Answer:

DILUTED EARNINGS PER SHARE

1. **Dilution** is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

2. **Anti-dilution** is an increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

3. A **potential equity share** is financial instrument of other contract that entitles, or may entile, its holder to convert its holding in to equity shares.

Examples of potential equity shares are:

- debt instruments or preference shares, that are convertible into equity shares,
- share warrants;
- options including employee stock option plans under which employees of an enterprise are entitled to receive equity shares as part of their remuneration and other similar plans.
- Shares that would be issued upon the satisfaction of conditions resulting from contractual arrangements, such as the purchase of a business or other assets.
- Share application money pending allotment if used in the business.
- Partly paid Equity shares to the extent of unpaid amount (not entitled for Dividend)

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to shareholders and the weighted average number of shares outstanding during period **should be adjusted for the effect of all dilutive potential equity shares.**

DILUTIVE OR NON DILUTIVE

Potential equity shares should be treated **as dilutive** when, and only when their conversion to equity shares would **decrease net profit per share from continuing ordinary operations.**

Note I: An enterprise uses net profit from continuing ordinary activities as "the control figure" that is used to establish whether potential equity shares are dilutive or anti-dilutive.

The net profit from continuing ordinary activities is the net profit from ordinary activities after deducting preference dividends and any attributable tax thereto and after excluding items relating to discontinued operations.

Note 2: Potential equity shares are anti-dilutive when their conversion to equity shares would increase earnings per share **from continuing ordinary activities** or decrease loss per share **from continuing ordinary activities.**

The formula can be mathematically expressed as follows:

Profit/Loss attributed to Equity share holder when dilutive potential shares are converted into ordinary shares

Weighted average number of equity shares + Weighted average number of dilutive potential ordinary shares

How to Calculated DEPS – Following calculation is required:

1. Identify Potential Equity Shares first. (Whether any security which is pending for conversion is outstanding and resources thereof have been used in the business)

2. Identify Dilutive potential equity shares by applying following steps:

   Step 1 - Calculate Incremental EPS for every single potential equity share

   Step 2 - Arrange IEPS in Increasing Order

   Step 3 - Apply Test for Dilution. Test each potential equity share on BEPS from continuing ordinary operations. If ratio EPS declines from preceding calculation then it is called Diluted EPS and if ratio increases from previous calculation then it is called Anti – Diluted EPS

Why we are following above steps:

To maximise the dilution of basic earnings per share, each issue or series of potential ordinary shares is considered in sequence from the most dilutive to the least dilutive, ie dilutive potential ordinary shares with the lowest 'earnings per incremental share' are included in the diluted earnings per share calculation before those with a higher earnings per incremental share. Options and warrants are generally included first because they do not affect the numerator of the calculation.

Note: Anti Diluted EPS shall not be presented in the Statement of P&L, in that case Diluted EPS shall be equal to BEPS

Q382. (ICAI MODULE)

ABC Company wants to calculate diluted EPS for the year 20X5-20X6. The weighted average number of ordinary shares are 5,00,000 as on 31.3.20X6. Company has provided following details about the potential ordinary shares.

1. On 1 April 20X1 company has issued convertible preference shares for a period of 10 years. The face value of the share is Rs 10 each and total value of preference share capital is Rs 75,00,000
2. On 1 January 20X3 company has issued convertible debentures having a face value of Rs 10 each for a period of 3 years. The total value of debenture issue is Rs 90,00,000. After completion of third year the debentures will be converted into equity shares.
3. Company issued convertible preference shares 15th November 20X5, for a period of 5 years, having a face value of Rs 10 and issue value of Rs 60,00,000

Calculate the weighted average number of potential shares.

Solution:

Situation1:- The potential shares were present on the first day of F.Y. 20X5-20X6 and will remain potential till the last date of F.Y. 20X5-20X6. Therefore, 7,50,000 will considered as weighted average number for shares.

Situation 2: - Debentures were for 3 years period. So they will get converted into ordinary shares on 1st January 20X6. i.e. during the year 20X5-20X6.

As per the provisions, Potential ordinary shares are weighted for the period they are outstanding. Potential ordinary shares that are converted into ordinary shares during the period are included in the calculation of diluted earnings per share from the beginning of the period to the date of conversion; from the date of conversion, the resulting ordinary shares are included in both basic and diluted earnings per share

Thus their status is potential shares for the period from 1st April to 31st December 20X5. From 1st January 20X6 to 31.3.20X6 their status is ordinary shares. Therefore, April to December part will be included in calculation of Diluted EPS

Whereas January to March part will be included in ordinary equity shares

The weighted average number will be calculated as follows

For Diluted EPS = 9,00,000*275/365 = 6,78,082 shares

For Basic EPS the calculation will be 9,00,000*90/365 = 2,21,918 shares.

The number of ordinary shares that would be issued on conversion of dilutive potential ordinary shares is determined from the terms of the potential ordinary shares. When more than one basis of conversion exists, the calculation assumes the most advantageous conversion rate or exercise price from the standpoint of the holder of the potential ordinary shares.

Sometimes the number of shares that will get converted into ordinary shares will be expressed in terms of some ratio or percentage or occurring of some contingent event. In such cases the exact number of shares that will get converted into ordinary shares cannot be decided with precision. In such cases the abovementioned provisions direct the company to take the most advantageous route from holders perspective.

Q383:

Calculate BEPS & DEPS

Profit from continuing operations	2,00,000
Loss from Discontinuing operations	(2,50,000)
Net Profit	(50,000)
Equity shares outstanding	10,000
Share warrant	1,000

(Answer: BEPS – (5); DEPS – (5); Anti DEPS – 18.18)

Q384:

Calculate BEPS and DEPS from the following information:

Profit after Tax (15-16) – Rs. 5,00,000

Equity Shares as on 01.04.2015 – 40,000

12% Convet. Pref Shares as on 01.04.2015 – Rs. 10,00,000 (Face Value Rs. 100), Convertible on 1/1/2016 in 2:1

13% Convet. Debentures as on 01.04.2015 – Rs. 5,00,000 (Face Value Rs. 100), Convertible after 2 years in 3:1

(Answer: BEPS – 9.11; DEPS – 7.53)

Q385:

The following information relates to M/s. XYZ Limited for the year ended 31st March, 2017:

Net Profit for the year after tax:	Rs. 75,00,000
Number of Equity Shares of Rs. 10 each outstanding:	Rs. 10,00,000

Convertible Debentures Issued by the Company (at the beginning of the year)

8% Convertible Debentures of Rs. 100 each 1,00,000

Equity Shares to be issued on conversion 1,10,000

The Rate of Income Tax: 30%.

You are required to **calculate** Basic and Diluted Earnings Per Share (EPS).

(Answer: BEPS - 75/- and DEPS - 72.6/-)

CALL OPTIONS ISSUED/WRITTEN BY ENTITY

Options, warrants and their equivalents

Call options (Potential Equity Shares) shall be considered for the calculation of DEPS only when they are "in the money option" i.e. dilutive (when exercise price offered is lower than Market price of the share.

Call options ("Out of Money) are to be ignored while calculating DEPS. Out of money option means the option is not in favour of holder.

Potential Equity Shares are calculated as under:

No. of Options Less Expected proceeds from options/Avg MP of share

Example:

If company issues 100 options to be exercised at Rs 45 each after 31st March 20X1. The market value of the share on 15th April 20X1 is Rs 50 each. In such cases the holder option will be interested in exercising the option because he will get the shares at Rs 45, when the market value outside is Rs 50. He can sell the shares outside and get a profit of Rs 5 each on each share held, i.e. 100 x Rs 5 = Rs 500.

On the other hand, assume that the market value of 15th April 20X1 is Rs 35 only. In such case the holder of option / warrant will not be interested in exercising the option because it will be a loss making proposal for him.

In first case where the strike price of call option is less than the market value of the share it is termed as "in the money" option whereas in second case when exercise price of call option is more than the market value of the share it is termed as "out of the money: option.

While calculating the diluted EPS, the options / warrants need to be considered only if they are dilutive.

Q386: Situation I: In the money (dilutive)

Company has issued 500 options, with an exercise price of Rs 40 each. The average market price of the shares during the period was Rs 50 each. Find out whether the options will be treated as dilutive or not?

Solution

Current market price is Rs 50 each. Therefore if the holder wanted to purchase the shares from the market, by paying Rs 20,000 (500 x 40), he would have got only 400 shares. However due to the options available he can get 500 shares in the same price. Thus he gets 100 shares more, which will result into dilution.

Q387: Situation 2: Out of money option

Company has issued 500 options, with an exercise price of Rs 40 each. The average market price of the shares during the period was Rs 25 each. Find out whether the options will be treated as dilutive or not?

Solution

In practice a prudent holder will not exercise this option as it will result in losses. However, as a hypothetical case, for understanding purpose one can assume that holder has exercised the option even if it is out of the money.

The average market price is Rs 25 each. Therefore, if the holder wanted to purchase the shares from the market, by paying Rs 20,000 (500*40), he would have got 800 shares. However due to the options available he can get 500 shares in the same price. Thus he will get 300 shares less, which will result into anti-dilution.

Contingently issuable shares

A contingent share agreement is an agreement to issue shares that is dependent on the satisfaction of specified conditions.

Contingently issuable ordinary shares are ordinary shares issuable for **little or no cash or other consideration** upon the satisfaction of specified conditions in a contingent share agreement.

As in the calculation of basic earnings per share, contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted earnings per share if the conditions are satisfied (i.e. the events have occurred).

From which date these are to be considered for the calculation of weighted avg number of shares –
From the date of satisfaction of condition

If condition is satisfied but shares are still not issued actually – to be considered in Basic EPS and DEPS.

If conditions are satisfied at Balance sheet date but the final compliance date of condition is in future – Treat potential equity and include in DEPS only.

If condition is satisfied and shares are also issued – to be considered in BEPS only.

The main point to be kept in mind for the contingently issued shares is the word, **contingent**. Contingency involves some amount of uncertainty. It depends on happening or not happening of a particular event. Once all the conditions which were earlier uncertain, become certain or satisfied, one can include the contingently issued shares in the calculation of Basic as well diluted EPS.

Q388. (ICAI)

ABC Company has issued contingently issuable shares on 1st January 20X1. The condition to be satisfied is the average turnover of the company for last three quarters must exceed ` 100 million. If the condition is satisfied the company will issue the shares within a period of 6 months. The conditions will be effective from the quarter ending 31st March 20X1. Company achieves the said target on ending 31st December 20X1.

Explain what will be the status of shares while calculating diluted EPS?

Solution

In the above case, company will calculate its average turnover for last 3 quarter, every quarter starting from 31st March 20X1.

Average of 3 quarters ending 31st March 20X1 – Not achieved – Therefore shares will not be included in Basic as well as Diluted for the year 20X0-20X1

Average of 3 quarters ending 30th June 20X1, September 20X1 – Target not achieved therefore shares will not be considered for calculation of Basic as well as Diluted.

Average of 3 quarters ending on 31st of December 20X2 – Targeted turnover is achieved. Thus the contingent condition which was needed to be satisfied for, is satisfied. Therefore, the shares will be considered for calculation of Basic and diluted EPS for the 20X1-20X2. The date that would be considered for calculation of weighted average number of shares will be 31st December 20X1. The shares can be issued at any time during 6 months period. Therefore, shares can be issued at any moment of time from the 1st January 20X2 to 30th June 20X2. In this case, for calculation of weighted average number of shares for years 20X1-20X2, the period that will be considered would be 1st January 20X2 to 31st March 20X2. For 20X2-20X3 the period will start from 1st April 20X2. After 30th June 20X2, all the share will become ordinary shares (those actually issued) and there will not be any shares for diluted as the date of agreement is over, contingent condition is met.

If attainment or maintenance of a specified amount of earnings for a period is the condition for contingent issue and if that amount has been attained at the end of the reporting period but must be maintained beyond the end of the reporting period for an additional period, then the additional ordinary shares are treated as outstanding, if the effect is dilutive, when calculating diluted earnings per share. In that case, the calculation of diluted earnings per share is based on the number of ordinary shares that would be issued if the amount of earnings at the end of the reporting period were the amount of earnings at the end of the contingency period. Because earnings may change in a future period, the calculation of basic earnings per share does not include such contingently issuable ordinary shares until the end of the contingency period because not all necessary conditions have been satisfied.

Example

On 1st July 20X1, PQR company enters into a contract with its strategic partner ABC co. that 10000 shares of PQR would be issued to ABC Co, when PQR will achieve the net profit before tax of Rs1 crore and will continue to retain the same profit for minimum of another 1 year. What will be the status of 10,000 shares in calculation of Basic and diluted EPS for various financial years, assuming that company achieves the profit of Rs 90 lacs, Rs 1.2 crores and Rs 1.35 crores in the year 20X1-20X2, 20X2-20X3 and 20X3-20X4 respectively.

Here there is a basic requirement of achievement of profit of Rs 1 crore plus, there is a requirement of continuation of a profit more than Rs1 crore for 1 more year. Thus as mentioned in above condition, attainment of a condition and continuation of condition is discussed in abovementioned case.

Year 20X1-20X2 – The company has not achieved the target, therefore the number of shares will not be part of Basic as well as diluted EPS for the years 20X1-20X2

Year 20X2-20X3 – The company has achieved the targeted profit of Rs1crore profit before tax. However, the condition is that it should be continued for 1 more year. Therefore 10,000 shares cannot be considered for basic EPS, as all the conditions needed are not satisfied. But as one of the condition of attainment of basic profit is achieved, it will be considered for calculation of Diluted EPS for the year 20X2-20X3, if the effect is dilutive. Here it will be assumed that the company will get the profit of Rs1 crore and more next year as well.

Year 20X3-20X4- Company has attained the required profit and also maintained the profit for one more year. Therefore, all the contingent conditions are satisfied. Therefore, the shares will be part of Basic as well as Diluted EPS for year 20X3-20X4.

Year's 20X4-20X5 – Assuming that the shares will be actually issued to ABC Co, in 20X4-20X5, the shares will be part of Basic EPS as well as the diluted.

The above provisions are given in the following table

Year	Basic	Dilutes
20X1-20X2	Not Included	Not Included
20X2-20X3	Not Included	Included
20X3-20X4	Included	Included

❖ The number of ordinary shares contingently issuable may depend on the future market price of the ordinary shares. In that case, if the effect is dilutive, the calculation of diluted earnings per share is based on the number of ordinary shares that would be issued if the market price at the end of the reporting period were the market price at the end of the contingency period. If the condition is based on an average of market prices over a period of time that extends beyond the end of the reporting period, the average for the period of time that has lapsed is used. Because the market price may change in a future period, the calculation of basic earnings per share does not include such contingently issuable ordinary shares until the end of the contingency period because not all necessary conditions have been satisfied.

The provision discusses the scenario when the contingent event is based on the market price of the shares.

Q389 (ICAI)

ABC Company appoints CA X as CFO of the company on 1st July 20X1. The company enters into an agreement with CA X that the company would issue 1000 shares to her, if she can achieve the 20% rise in the market value of the share by end of 1 year of her appointment. The current market value of the share is Rs 500 per share.

What will be the status of the shares for calculation of EPS, for the year 20X1-20X2 and 20X2-20X3 assuming the prices of the shares are as follow?

On 31st March 20X2 – Rs 620
On 30th June 20X2 – Rs 610

What if, the expected market value of the shares is not achieved either on 31st March or 30th June?

Solution

Year 20X1-20X2

For the year 20X1-20X2 – on 31st March 20X2, the period for contingency is not yet over. The condition needs to be satisfied after 1 year after appointment of CFO. Therefore, end of contingency period will be 30th June 20X2. But as on the end of reporting date i.e. 31st March 20X2, the contingent condition, i.e. increase in the market value of the share by 20% (from Rs 500 to more than Rs 600) is already achieved. Therefore, these shares will be treated as outstanding while calculation of diluted EPS because the provisions say **if the effect is dilutive, the calculation of diluted earnings per share is based on the number of ordinary shares that would be issued if the market price at the end of the reporting period were the market price at the end of the contingency period.** The market price at the end of contingent period needs to be more than Rs600. However, that price is already achieved and accordingly the provisions will apply.

However, shall company include the shares in calculation of BASIC EPS as well?
No., **since the market price may change in a future period, the calculation of basic earnings per share does not include such contingently issuable ordinary shares until the end of the contingency period because not all necessary conditions have been satisfied.** One cannot predict the situation on 30th June 20X2. The share prices may go up or may come down also.

Therefore, all the conditions can be termed as satisfied and therefore the shares will not be included in diluted EPS.

Year 20X2-20X3

On 30th June 20X2, the prices of the shares are Rs 610 which is already exceeding the contingent condition. Therefore, all the conditions are satisfied as per the contract. Time as well as price of the shares. Therefore, now the shares will be eligible for calculation of Basic as well Diluted EPS. When the shares will be actually issued they will be very much part of ordinary shares, and will form of Basic EPS only and not the diluted EPS. So if the shares are actually issued before the reporting period i.e. 31st March 20X3, then the shares will not be treated for diluted EPS in the year 20X2-20X3.

If the expected market value of the shares is not achieved either on 31st March or 30th June.

If the expected market value is not achieved, i.e. if the market value is less than ₹ 600, then the conditions for issues of shares are not satisfied and therefore the shares will neither be part of basic nor of diluted EPS for the years 20X1-20X2 as well as year 20X2-20X3.

Employee Stock Options

- Employee share options with fixed or determinable terms and non-vested ordinary shares are treated as options in the calculation of diluted earnings per share, even though they may be contingent on vesting. They are treated as outstanding on the grant date. Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

- Employee stock option have two categories. Some ESOPs will be time bound. It means the employees will be getting the shares in lieu of the ESOPs, at the expiry of certain period. The objective behind such stock options is to retain the employee with the company for a longer period. As passage of time is not the contingent event, they will be considered while calculating the diluted EPS.

- Another type of ESOPs will be performance based. Under this type of ESOPs, the employee is entitled to ESOPs only when the desired level of performance is achieved by the company. The issue of shares is not based on the time but is based on the performance. Performance target can be in terms of turnover, profits, profitability, market capitalisation etc. In this case the basic objective is to encourage the employees to put their best efforts so that company can achieve its targets in the best possible time. The achievement of performance is a contingent event. It may happen or may not happen. Therefore, such kind of ESOPs will be treated as contingently issuable shares.

DILUTIVE EFFECT ON ESOP:

In case of Vested ESOPs, potential equity shares will be calculated as under:

Total ESOP – {Exer. Price x No. of Option / Avg. Fair Value

Q390.

ABC Company issues 12% preference shares of FV of Rs 10 each on 1.4.20X1. Total value of the issue is Rs 20,00,000. The shares are issued at a discount of Rs 0.60 each, for a period of 6 years and would be redeemed at the end of 6th years. If the discount is adjusted against the preference dividend calculate how much amount will be deducted from profit after tax or the calculation Earnings for EPS.

SOLUTION

Dividend per year 12% of 20,00,000 = 2,40,000

(The discount of Rs 1,20,000 will be adjusted equally for 6 years, i.e. Rs 20,000 per year against the dividend. However, it will be ignored for calculation of earnings for calculation of EPS)

Q391.

Company has 10%, 20,000 preference shares of Rs 10 each, to be repaid on 31.3.20X2. Company repays the preference shares with a premium of Rs 1.50 each. Find out the amount of dividend that need to be added to the profit after tax for calculation of basic EPS for the year 20X1-20X2.

SOLUTION:

Preference dividend for the year 20X1-20X2 @ 10% pa	Rs 20,000
Excess value repaid over carrying value	Rs 30,000
Total preference dividend	**Rs 50,000**

Q392 (MTP - APRIL 2019)

Calculate Subsidiary's and Group's Basic EPS and Diluted EPS, when

Parent:	
Profit attributable to ordinary equity holders of the parent entity	Rs. 12,000 (excluding any earnings of, or dividends paid by, the subsidiary)
Ordinary shares outstanding	10,000
Instruments of subsidiary owned by the parent	800 ordinary shares
	30 warrants exercisable to purchase ordinary shares of subsidiary
	300 convertible preference shares
Subsidiary:	
Profit	Rs. 5,400
Ordinary shares outstanding	1,000
Warrants	150, exercisable to purchase ordinary shares of the subsidiary
Exercise price	Rs. 10
Average market price of one ordinary share	Rs. 20
Convertible preference shares	400, each convertible into one ordinary share
Dividends on preference shares	Re 1 per share
No inter-company eliminations or adjustments were necessary except for dividends.	
Ignore income taxes. Also, ignore classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by Ind AS 32.	

Solution

(a) Subsidiary's earnings per share

Basic EPS Rs 5.00 calculated: $\dfrac{\text{Rs. } 5{,}400\ (a) - \text{Rs.}400\ (b)}{1{,}000\ (c)}$

Diluted EPS Rs. 3.66 calculated: $\dfrac{\text{Rs. } 5{,}400\ (d)}{(1{,}000 + 75\ (e) + 400(f))}$

Notes:

(a) Subsidiary's profit attributable to ordinary equity holders.

(b) Dividends paid by subsidiary on convertible preference shares.

(c) Subsidiary's ordinary shares outstanding.

(d) Subsidiary's profit attributable to ordinary equity holders (Rs. 5,000) increased by Rs. 400 preference dividends for the purpose of calculating diluted earnings per share.

(e) Incremental shares from warrants, calculated: [(Rs. 20 – Rs. 10) ÷ Rs. 20] × 150.

(f) Subsidiary's ordinary shares assumed outstanding from conversion of convertible preference shares, calculated: 400 convertible preference shares × conversion factor of 1.

Consolidated earnings per share

Basic EPS	Rs. 1.63 Calculated	$\frac{12000\ (a) + 4300\ (b)}{10000\ (c)}$
Diluted EPS	Rs. 1.61 Calculated	$\frac{12000 + 2928\ (d) + 55\ (e) + 1098\ (f)}{10000}$

(a) Parent's profit attributable to ordinary equity holders of the parent entity.

(b) Portion of subsidiary's profit to be included in consolidated basic earnings per share, calculated: (800 × Rs. 5.00) + (300 × Re 1.00).

(c) Parent's ordinary shares outstanding.

(d) Parent's proportionate interest in subsidiary's earnings attributable to ordinary shares, calculated: (800 ÷ 1,000) × (1,000 shares × Rs. 3.66 per share).

(e) Parent's proportionate interest in subsidiary's earnings attributable to warrants, calculated: (30 ÷ 150) × (75 incremental shares × Rs. 3.66 per share).

Parent's proportionate interest in subsidiary's earnings attributable to convertible preference shares, calculated: (300 ÷ 400) × (400 shares from conversion × Rs. 3.66 per share).

Student Notes:-

Student Notes:-