IND AS 33 Earnings Per Share

Example 1

Solution:

Ind AS 33 states that "This Indian Accounting Standard shall apply to companies that have issued ordinary shares to which Indian Accounting Standards (Ind As) notified under the companies Act apply." Further, "An entity that discloses earning per share shall calculate and disclose earning per share in accordance with this Standard."

Thus Ind AS 33 is applicable for EPS calculation and related disclosures.

Ind AS 33 states that "When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with Ind AS 110, 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 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."*

Therefore, ABC Ltd. cannot use the information in SFS for making EPS related disclosures in CFS.

Example 2 (Concept of Basic EPS)

Earnings - Preference dividend is considered but not transferred to reserves

Sr. No.	Particulars	Rs. in '000	
		20X2	20X1
A	Sales	90,000	60,000
	Less: Tax	(6,800)	(5,000)
	Net Sales	83,200	65,000
B	Expenses		
	Cost of goods sold	43,260	36,400
	Employee Cost	9,150	6,500
	Other Expenses	10,820	9,750
	Depreciation	9,980	6,500
	Finance Cost	2,500	1,950
	Total Expenses	75,710	61,100
C	Profit Before Tax	7,490	3,900
D	Less: Tax	(2,250)	(1,170)
E	Profit After Tax	5,240	2,730
F	Less: Preference Dividend	(1,200)	(1,200)
G	Profit Available to equity Shareholders	4,040	1,530
H	Weighted Average Number of Shares	620	500
I	Basic EPS (In Rs.) (G/H)	6.52	3.06

Example 3

Situation 1 : - F.Y. 20X0-20X1

Dividend on non-cumulative shares declared and deducted and
Dividend on cumulative shares for 20X1 not declared in the same year, but declared in 20X2.
As mentioned above, the preference dividend on non-cumulative preference shares declared will be deducted. Therefore, as per line item F mentioned above the preference dividend of year 20X1, Rs. 600 thousand will be deducted from the profits of 20X1.
As mentioned above, the preference dividend on cumulative shares will be considered for the respective years irrespective of the fact whether it is declared or not.
Therefore, the preference dividend on cumulative preference shares of Rs. 4,00,000 for the year 20X1, even if it is declared in 20X2, will be deducted from the profits of 20X1 only. Therefore, the Basic EPS for the year 20X1 will be calculated as follows:
Earnings - Dividend on non-cumulative preference shares and cumulative preference shares

		Rs '000
Sr. No.	***Particulars***	***20X1***
C	***Profit Before Tax***	***3,900***
D	***Less: Tax***	***(1,170)***
E	***Profit After Tax***	***2,730***
F	***Less: Preference Dividend on non-cumulative shares***	***1,200***
G	***Less: Dividend on Cumulative preference shares for the year 20X1, declared in 20X2***	***(400)***
	Less: Dividend on Cumulative preference shares for the year 20X2, declared in 20X2	***NA***
H	***Profit Available to equity Shareholders***	***1,130***
I	***Weighted Average Number of Shares***	***500***
J	***Basic EPS***	***2.26***

Note: Item G. Dividend is not declared in 20X1, still it is deducted.
Situation 2 : - F.Y. 20X1-20X2
Dividend on non-cumulative shares declared and deducted and
Dividend on cumulative shares for 20X1 are declared in 20X2 In the year 20X1 - 20X2
In F.Y. 20X1-20X2, the dividend on non-cumulative shares is declared, therefore it will be deducted from the profit. For cumulative shares, the dividend is declared for the previous year 20X1 as well as 20X2. However, as per the provision mentioned above, the dividend on cumulative shares need to be deducted in each year, irrespective of the fact whether it is declared or not. Secondly, in any year, dividend of earlier year should not be considered as it must have been considered earlier. In short, the dividend need to be considered on accrual (declared/ paid or not) basis not on cash basis. Therefore, the EPS for the year 20X2 will calculated as follows:
Earnings - Dividend on non-cumulative preference shares and cumulative preference shares - EPS – 20X2

Sr. No.	***Particulars***	***Rs '000***
C	***Profit Before Tax***	***7,490***
D	***Less: Tax***	***2,250***
E	***Profit After Tax***	***5,240***
F	***Less: Preference Dividend on non-cumulative shares***	***1,200***
G	***Less Dividend on Cumulative preference shares for the year 20X1, declared in 20X2***	***NA***
	Less Dividend on Cumulative preference shares for the year 20X2, declared in 20X2	***400***
H	***Profit Available to equity Shareholders***	***3,640***
I	***Weighted Average Number of Shares***	***620***
J	***Basic EPS***	***5.87***

Note: Please note point G. Dividend for 20X1 even if declared in 20X2, it is not considered.

Example 4

Solution:

Ind AS 33 states that "For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the parent entity in respect of:

Profit or loss from continuing operations attributable to the parent entity; and

Profit or loss attributable to the parent entity

Shall be the amounts in (a) and (b) adjusted for the after –tax amounts of preference dividends, differences arising on the statements of preference shares, and other similar effects of preference shares classified as equity. Where any item of income or expenses which is otherwise required to be recognised in profit or loss in accordance with Indian 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."

Further Ind AS 33 states that "The after –tax amount of preference dividends that is deducted from profit or loss is:

The after – tax amount of any preference dividends on non- cumulative preference shares declared in respect of the period; and

The after – tax amount of the preference dividends for cumulative preference shares required for the period, whether or not, the dividends have been declared. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods".

In accordance with Ind AS 33, the basic earnings per share of XYZ Ltd will be calculated as follows:

Particulars	***Amount (Rs.)***
Profit or loss for the period (Total/from continuing operations) attributable to parent entity	***100,00,000***
Adjustments (After Tax)	
Pref dividend	***450,000***
Settlement of pref. shares	***Nil***
Dividend or settlement of pref. shares qualified as equity as per Ind AS 32.	***Nil***
Any other income/expense not debited to profit or Loss A/c (may have been accounted directly in securities premium or other reserves) but required to be credited/debited as per Ind AS	***Nil***
Earnings to be considered for EPS calculation	***95,50,000***

Example 5

ABC Company issues 9% preference shares of FV of Rs. 10 each on 1.4.20X2. 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.

In the above example total discount offered by the company at the time of issue of shares is Rs. 50,000 (Discount per share * Total number of shares issued). The discount will be amortised over the period of 5 years as the term of preference shares is 5 years. The amortisation will take place by adjusting it against the preference dividend charge of Rs. 90,000 per year (9% of Rs. 10,00,000). Thus net effect of preference dividend in profit and loss account will be to the extent of Rs. 80,000 only (Rs. 90,000 dividend – Rs. 10,000 credit for discount already offered). However, for the purpose of calculation of Earnings for EPS, dividend to be considered will be Rs. 90,000 only.

Example 6

Continuing with the above example, company need to redeem the preference shares after 5 years i.e. on 31.3.2022. Assume company decided to redeem the shares at Rs. 11 each. Thus for each share company will pay an extra rupee 1. The total amount that will be paid by the company will be Rs. 1,00,000. This is excess of the fair value of the consideration over the carrying amount of preference shares and therefore will be deducted from the earnings after tax of the year 2021-22, while calculating Basic EPS of the said year.

Example 7

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.

Example 8

Solution:

No	Particulars	Amount
A	PAT	280
B	Less Effective Preference Dividend (10.12% x 92 x 10)	(93.10)
C	Less Dividend Tax (17% x 100 x 8% x 10)	(13.60)
D	PAT Attributable to Equityshareholders	173.30
E	No of Equity Shares	100
F	Basic EPC (D/E)	1.733

Example 9

Solution:

Step 1 Carrying amount of Preference Shares at the end of year 1

No	Particulars	Rs.’000
A	Opening Balance	1020
B	Add Preference Dividend using effective tax rate (1020 x 10.50%)	106.79
C	Less Normal Dividend (10 x 100 x 11%)	(110)
D	Closing Balance	1016.79

Step 2 Calculation of Basic EPS

No	Particulars	Amount ‘000
A	PAT	300
B	Less Effective Preference Dividend (10.47% x102 x 10)	(106.79)
C	Less Dividend Tax (17% x 100 x 11% x 10)	(18.70)
D	Less Redemption Premium (104x 10 – 1016.79)	(23.21)
E	PAT Attributable to Equityshareholders (A to D)	151.30
F	No of Equity Shares	100
G	Basic EPC (E/F)	1.513

Example 10

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	1,00,000	365	1,00,000
2	15-Jun-20X1	Issue of equity shares	75,000	290	59,589
3	8-Nov-20X1	Conversion of convertible pref shares in Equity	50,000	144	19,726
4	22-Feb-20X2	Buy back of shares	(20,000)	328	17,973
5	31-Mar-20X2	Closing balance of outstanding equity shares	2,05,000		197,288

Please note the shares bought back on 22nd February 20X2. The shares were held from 1st April 20X1 to 22nd February 20X2. i.e. for 328 days. Therefore, the weighted average number of shares equivalent to 17,973 is added to the total number of shares and not deducted. Thus the weighted average number of shares will be 1,97,288 for the calculation of EPS.

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.

Example 11 [Computation of Basic EPS with weighted average number of shares]

Solution:

Basic EPS As On = 31.03.2015 = Rs.1000 Million /150 = Rs.6.67*

*Basic EPS As On = 31.03.2016 = Rs.1300 Million /190** = Rs.6.84*

** 100*6/12+200*6/12=150*

*** 200*6/12-180*6/12=190*

Example 12

Solution:

Ind AS 33 states that "Using the weighted average number of ordinary shares outstanding during the period *reflects the possibility that the amount of shareholders" capital varied during the period as a result of a larger or smaller number of shares being outstanding at any time. The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares bought back or issued during 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".*

Computation of weighted Avg. No. of shares.

Particulars	No. of shares	Total No. of shares o/s.	Time factor	Wt.avg. no. of shares
Opening no. of shares	10,000	10,000	3 Months	2,500 = 10,000 x 3/12
Shares bought back	(400)	9,600	5 Months	4,000 = 9,600 x 5/12
Shares issued	3,600	13,200	4 Months	4,400 = 13,200 x 4/12
Wt. Avg. No. of shares			12 Months	10,900 = 2,500 + 4,000 + 4,500

Therefore, weighted average number of shares outstanding during the year ended 31st March 2017 is 10,900 shares.

Example 13

Solution:

Ind AS 33 states that "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 are not contingently returnable (i.e. 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".

In the instant case,

On 31st March 2017, it cannot be determined if MNO Ltd will be able to satisfy the conditions. Therefore, the shares are continently issuable shares and not included in the calculation of basic earnings per share

On 31st March 2018, the management of ABC Ltd is of the opinion that MNO Ltd will not be able to satisfy pre-defined conditions. So, they will not be included in the calculation of basic earnings per share.

On 31st March 2019, MNO Ltd has already satisfied the pre-decided conditions and is entitled to receive 100,000 ordinary shares of ABC Ltd on 1st April, 2021. Thus, on 31st March 2019 the shares are issuable solely after passage of time. Therefore the shares are no longer 'contingently issuable shares' but will be considered as 'potential ordinary shares' and will be included while calculating the basic earnings per share.

Example 14

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. Then 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 15
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.

Example 16
Solution:
Basic EPS

Net Profit in Crores	5100	
Weighted Average No of Shares (100+0.5)	100.50	
Basic EPS	Rs. 50.75	

Example 17
The company issued bonus shares on 1st January 20X2. What will be its impact on Basic EPS?
Solution:
The company has issued the bonus shares in the F.Y. 20X1 - 20X2. While making the presentation of financial statement, the earliest period presented will be F.Y. 20X0 - 20X1. Therefore, the new number of shares will be considered from the beginning of the year 20X0-20X1, i.e. 1st April 20X0.

Example 18 Bonus Shares

Net profit 2013-14	***Rs.60,00,000***
Net profit 2014-15	***Rs.75,00,000***
No. of equity shares till 31.12. 2014	***1,50,000***
Bonus issue as on 1.1. 2015	***1:2***
EPS 2013-14 (Restated)	***60,00,000/2,25,000 = Rs.26.67***
EPS 2014-15	***75,00,000 / 2,25,000 = Rs. 33.33***

Example 19 Bonus Shares
Solution:
Basic EPS of 2014 2015 (Originally Reported) = 10,00,000 / (10,000 + 5,000 x 3/12) = 88.89 ***Basic EPS of 2015 2016 (Originally Reported) = 12,00,000 / (15,000 +3,000 x 9/12)+18,000 = 34.04*** ***Restated Basic EPS of 2014 2015 = 10,00,000 / (10,000 + 5,000 x 3/12) + 18,000= 34.19***

Example 20

Solution:

a) 10,000 + 2,000 = 12,000

b) 10,000 + 2,000 x 6/12 + 3,000 = 14,000

Example 21

Solution:

	Rs.
Profit for the year	15,00,000
No. of shares at the end of the year	
Shares as on 1.1.04	5,00,000
Bonus shares 5,00,000/2	2,50,000
Issue of shares for cash 1,70,000 x 6/12	85,000
	8,35,000

$$EPS = \frac{\text{Profit for the year}}{\text{Weighted Average No. of shares outstanding}}$$

$$= \frac{15,00,000}{8,35,000}$$

= 1.80

Example 22

Solution:

Calculation of EPS

	Particulars	Rs.
A	Profit for the year (after tax)	21,00,000
	Less : Preference dividend 15,00,000 x 12%	1,80,000
	Profit available to equity shareholders	19,20,000
B	No. of equity shares in the beginning	6,00,000
	Add: Fresh issue of shares at the end of 3rd month 1,20,000 x 9/12	90,000
		6,90,000
C	EPS A/B	2.78

Example 23

Solution:

Calculation of EPS

	Particulars	Rs.
A	Net profit before tax	15,00,000
	Less : Tax @ 30%	4,50,000
	Profit after tax	10,50,000

	Less : Preference dividend	*50,000*
	10% x 5,00,000	
	Profit available to equity shareholders	*10,00,000*
B	*No. of equity shares on 1st January*	*1,00,000*
	Issue of Bonus shares	*50,000*
	Issue of equity shares 60,000 x 2/12	*10,000*
	Less : Buy back of equity shares	*(1,000)*
	12,000 x 1/12	*1,59,000*
C	*EPS A/B*	*6.29*

Example 24

Continuing with the same data that has been used for calculation of Basic EPS for the year 20X2, we will see how to calculate diluted EPS with minor changes.

In the following example it is assumed that preference dividend is Rs. 12,00,000. Assume that the amount of Rs. 12,00,000 is based on 10,00,000 preference shares 12% preference shares of Rs. 10 each, classified in following 2 series.

5,00,000 shares of Rs. 10 each - non convertible

5,00,000 shares of Rs. 10 each - convertible into equity shares

Thus category 2 will be potential ordinary shares, which will be considered for dilutive effect.

Let us understand, how the preference dividend and weighted average number of shares would change when one gives the effect for dilution:

Sr. No.	Particulars	Basic	Dilutive
		Rs '000	
A	Sales	90,000	90,000
	Less : Tax	6,800	6,800
	Net Sales	83,200	83,200
B	Expenses		
	Cost of goods sold	43,260	43,260
	Employee Cost	9,150	9,150
	Other Expenses	10,820	10,820
	Depreciation	9,980	9,980
	Finance Cost	2,500	2,500
	Total Expenses	75,710	75,710
C	Profit Before Tax	7,490	7,490
D	Less: Tax	2,250	2,250
E	Profit After Tax	5,240	5,240
F	Less : Preference Dividend	1,200	600
G	Profit Available to equity Shareholders	4,040	4,640
H	Weighted Average Number of Shares	620	1,120
I	Basic EPS (in Rs.)	6.52	4.14

Explanation :-

Item E :- Profit After Tax

Upto profit after tax both the amounts are remaining same because the potential ordinary shares are preference

shares which will participate in profits only after tax.
Item F :- Preference Dividend
While calculating basis EPS, the total dividend on preference shares is considered, which 12% of Rs. 1 crore. However, while calculating the diluted EPS, the dividend effect of convertible preference shares should not be considered because the assumption of diluted EPS will be convertible debentures have got converted into equity. Therefore, there is no need to pay dividend on them any more. Therefore, dividend of ` 6,00,000 is reduced for the calculation of diluted EPS.
The overall effect will be increase in the numerator of EPS Ratio.
Item H :- Weighted Average Number of shares
While calculating the basic EPS, weighted average number of shares was assumed to be 620,000 shares.
The above number will go up by another 500,000 shares, assuming that the convertible preference shares have already been converted into ordinary shares. Therefore, the resultant figure of number of shares will be 1120,000 shares.
The overall effect will be increase in the denominator of the EPS ratio.
The net effect on EPS is reduction in the profit per share, therefore it will be called as dilutive effect.

Example 25

Following is the modified version of the above mentioned example: (Example from ICAI Module)

		Basic	Dilutive
Sr. No.	Particulars	20X2	20X2
		Rs '000	Rs '000
A	Sales	90,000	90,000
	Less: Tax	6,800	6,800
	Net Sales	83,200	83,200
B	Expenses		
	Cost of Goods Sold	43,260	43,260
	Employee Cost	9,150	9,150
	Other Expenses	10,820	10,820
	Depreciation	9,980	9,980
	Finance Cost	2,500	2,200
	Total Expenses	75,710	75,410
C	Profit Before Tax	7,490	7,790
D	Less: Tax	2,250	2,340
E	Profit After Tax	5,240	5,450
F	Less: Preference Dividend	1,200	600
G	Profit Available to equity Shareholders	4,040	4,850
H	Weighted Average Number of Shares	620	1,320
I	Basic EPS (in Rs.)	6.52	3.67

Assume that preference dividend of 12,00,000 is based on 12% preference shares	
1	5,00,000 shares of Rs. 10 each - non convertible
2	5,00,000 shares of Rs. 10 each - convertible into equity shares
	Therefore, category 2 is potentially dilutive
3	There are 200,000 debentures of ` 10 each which are convertible into shares

	The interest for debentures is 15% which is included in Finance cost

Explanation :-

Finance Cost :

While calculating basic EPS, the finance cost was Rs. 2,500,000. However, while calculating the diluted EPS, one needs to reduce it by Rs. 300,000 to give the effect of convertible debenture component, which will be assumed to be converted into shares for the purpose of calculation of diluted EPS

Item C – Profit before Tax :

It has increased by Rs. 300,000 as interest component is reduced, while calculating the diluted EPS

Item D - Tax :

As the profit before tax has gone up due to reduction in the finance cost, the tax has been adjusted proportionately

(in practice it may not have such direct relation)

Item E :- Profit After Tax

Profit after tax has changed due to decrease in interest cost and increase in tax while calculating the diluted EPS

Item F :- Preference Dividend

While calculating basis EPS, the total dividend on preference shares is considered, which 12% of Rs. 1 crore.

However, while calculating the diluted EPS, the dividend effect of convertible preference shares should not be considered because the assumption of diluted EPS will be convertible debentures have got converted into equity. Therefore, there is no need to pay dividend on them any more. Therefore, dividend of Rs. 6,00,000 is reduced for the calculation of diluted EPS.

The overall effect will be increase in the numerator of EPS Ratio.

Item H :- Weighted Average Number of shares

While calculating the basic EPS, weighted average number of shares was assumed to be 620,000 shares.

On the assumption that convertible debentures will get converted into ordinary shares, 200,000 shares will get added in dilutive EPS calculation.

The above number will go up by another 500,000 shares, assuming that the convertible preference shares have already been converted into ordinary shares.

Therefore, the resultant figure of number of shares will be 620,000 + 200,000 + 500,000 = 1320,000 shares.

The overall effect will be increase in the denominator of the EPS ratio.

Example 26

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.*

Example 27

Solution:

Step 1 Calculation of Basic and Diluted EPS in SFS

	Amount	No of Shares	EPS (Rs.)
As per SFS	130	5	26 (Basic)
Adjustment for ESOP	0	0.20	
Total	130	5.20	25 (Diluted)

Step 2 Calculation of Basic EPS in CFS

	Amount
PAT As per SFS	130
Add Share in Post Acquisition Profit of S Ltd. (60% X 30)	18
Total Profit in CFS	148
No of Shares (P Ltd)	5
Basic EPS for CFS	29.60

Step 2 Calculation of Diluted EPS in CFS

	Amount
Total Profit in CFS	148
Dilutive effect arising out of issuance of stock options by S Ltd. on Patent's Share of Profit	
(60% X 30) – (1.20/2.10 X 30) (18 – 17.14)	(0.86)
	147.16
No of Shares (Step 1) (Only Parent Co)	5.20
	28.30

Example 28

Convertible Debentures- Diluted / Antidiluted EPS

S.NO.	*PARTICULARS*	*SITUATION 1*	*SITUATION 2*
A	*Net profit for 2014-15 (Rs)* *No. of equity shares outstanding*	*7,50,000* *1,50,000*	*7,50,000* *1,50,000*
B	*Basic EPS*	*5*	*5*
C	*No. of 10% convertible debentures of Rs.100 each*	*10,000*	*10,000*
D	*Conversion ratio*	*3 Equity Shares for every 2 debentures*	*1 Equity Shares for every 2 debentures*
E	*No. of equity shares on conversion*	*15000*	*5000*
F	*Interest expenses (Rs.)*	*1,00,000*	*1,00,000*
G	*Income Tax relating to interest @ 35% (Rs.)*	*35,000*	*35,000*
H	*Adjusted net profit for the year (Rs.)*	*7,50,000 + 1,00,000 - 35,000 = 8,15,000*	*7,50,000 + 1,00,000 - 35,000 = 8,15,000*

I	Total No. of equity Shares	1,50,000 + 15,000 = 1,65,000	1,50,000 + 5,000 = 1,55,000
J	Revised EPS (Rs.)	4.94	5.26
K	Effect	Dilutive	Anti Dilutive
L	Reported EPS 2014 - 15		
	Basic EPS Rs.	5.00	5.00
	Dilued EPS Rs.	4.94	NA

Example 29

Solution:

Basic EPS = 11,00,000 / 5,00,000

= 2.2

Calculation of Diluted EPS

Saving in debenture interest = (1,00,000 x 100) x 15%

= 15,00,000

Loss of Tax shield on interest = 15,00,000 x 35%

= 5,25,000

Effective profit = 11,00,000 + 15,00,000 – 5,25,000

= 20,75,000

Diluted EPS = 20,75,000 / 5,00,000 + (1,00,000 x 4)

= 2.31

In the given problem the potential equity shares are anit-dilutive as the diluted EPS i.e. 2.31 is more than the basic EPS i.e. Rs. 2.20. The company should not disclose anti-dilutive EPS. Therefore, Company will disclose 2.20 as basic as well as diluted EPS.

Example 30 Control number

An entity has profit from continuing operations attributable to the parent entity of Rs. 4,800, a loss from discontinued operations attributable to the parent entity of (Rs. 7,200), a loss attributable to the parent entity of (Rs. 2,400), and 2,000 ordinary shares and 400 potential ordinary shares outstanding. The entity's basic earnings per share is Rs. 2.40 for continuing operations, (Rs. 3.60) for discontinued operations and (Rs. 1.20) for the loss. The 400 potential ordinary shares are included in the diluted earnings per share calculation because the resulting Rs. 2.00 earnings per share for continuing operations is dilutive, assuming no profit or loss impact of those 400 potential ordinary shares. Since profit from continuing operations attributable to the parent entity is the control number, the entity also includes those 400 potential ordinary shares in the calculation of the other earnings per share amounts, even though the resulting earnings per share amounts are antidilutive to their comparable basic earnings per share amounts, i.e. the loss per share is less [(Rs. 3.00) per share for the loss from discontinued operations and (Rs. 1.00) per share for the loss].

Example 31

Solution:

Increase in earnings available to equity share holders

Potential Equity Shares Source	*Increase in Earnings*	*Increase in No. of Equity shares*	*EPS incremental*	*Rank*
Options $[2,50,000 - (2,50,000 \times \frac{60}{75})]$	*0*	*50000*	*0*	*1*
10% Preference shares (1,00,000 x 100) x 10% + 10,00,000 x 10%	*11,00,000*	*2,00,000*	*5.5*	*3*
12% Convertible Debentures [(2,00,000 x 100) x 12%] – 30%	*16,80,000*	*6,00,000*	*2.8*	*2*

Calculation of Diluted EPS

Particulars	*Net profit attributable to Equity*	*No. of Equity shares*	*EPS (Rs.)*	*Remarks*
Net Profit as Reported	*35,00,000*	*10,00,000*	*3.5*	
Option	*0*	*50,000*		
After Option	*35,00,000*	*10,50,000*	*3.33*	*Dilutive*
12% Convertible Debentures	*16,80,000*	*6,00,000*		
After Debentures	*51,80,000*	*16,50,000*	*3.14*	*Dilutive*
10% Preference Shares	*11,00,000*	*2,00,000*		
After Preference Shares	*62,80,000*	*18,50,000*	*3.39*	*Anti Dilutive*

Example 32

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.

Example 33 Situation 1 : In the money (dilutive)

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.

Example 34 Situation 2 : Out of money option

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.

Example 35

Solution:

Ind AS 33 states that "For the purpose of calculating diluted earnings per share, an entity shall assume the exercise of dilutive options and warrants of the entity. The assumed proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period shall be treated as an issue of ordinary share for no consideration".

In the instant case,

No. of share options = 1000 employees X 100 shares = 100,000 shares options

Proceeds from share = Rs.15 per share X 100,000 shares = Rs. 15,00,000

Market value = Rs.25 per share X 100,000 = Rs.25,00,000

Therefore, no. of shares against which consideration is not received is computed as = (25,00,000 - 15,00,000)/Rs. 25 per share = 40,000 shares

Ind AS 33 states that "Options and warrants are dilutive when then would result in the issue of ordinary shares for less than the average market price of ordinary shares during the period. The amount of dilution is the average *market price of ordinary shares during the period minus the issue price. Therefore, to calculate diluted earnings per share, potential ordinary shares are treated as consisting of both the following:*

(a) a contract to issue a certain number if the ordinary shares at their average market price during the period. Such ordinary shares are assumed to be fairly priced and to be neither dilutive nor antidilutive. They are ignored in the calculation diluted earnings per share.

(b) a contract to issue the remaining ordinary shares for no consideration. Such ordinary shares generate no proceeds and have no effect on profit or loss attributable to ordinary shares outstanding. Therefore, such shares are dilutive and are added to the number of ordinary shares outstanding in the calculation of diluted earnings per share.

(c) In the instant case, 40,000 shares are dilutive. In accordance with Ind AS 33 such shares will be added to the number of ordinary shares outstanding in the calculation of diluted earnings per share.

Example 36

Solution:

Ind AS 33 states that "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 open satisfying specified conditions in addition to the passage of time."

In the instant case, vesting of the share options is based on 2 conditions:

Continuous employment

Increase in turnover by 10%

Thus, the options are performance-based share options and are to be treated as contingently issuable shares. Therefore, they will not be included in the computation of diluted earnings per share.

If the vesting conditions did not include the condition of increase in turnover, the employee share options would not be in the nature of performance-based share options. Therefore, such options will be treated as outstanding on grant date and will be included in the calculation of diluted earnings per share.

Example 37

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.

Example 38

On 1st July 20X1, PQR company enters into a contract with its strategic partner ABC co. that 10,000 shares of PQR would be issued to ABC Co, when PQR will achieve the net profit before tax of Rs. 1crore 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 Rs. 1 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 Rs. 1 crore 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 `1 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.

Years 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.

Example 39
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 need to be more than Rs. 600. 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 are 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.

Example 40
Suppose reporting date is 31st March. The contingency period is 30th October. So company would check whether the situation which is expected to be there at the end of contingency period, i.e. as on 30th October exists, on the date of reporting period or not, i.e. on 31st March. If the conditions are satisfied already, then the shares will form of diluted EPS. But the conditions are not satisfied then the shares will not be considered for calculation of diluted EPS. After completion of contingency period, the situation will be verified actually and accordingly the shares will form part of basic as well as diluted, if the conditions are satisfied and will not form part of any of the EPS if the conditions are not satisfied. After issue of shares, they lose their status of being contingent and therefore they will form part of only basic EPS.

Example 41
If company decides, to issue 50,000 convertible preference shares if the market value of the shares exceeds Rs. 750 per share. In the current scenario, happening of the event, "exceeding of market value of share" is a contingent

event. If that is achieved then company will issue, convertible preference shares. Convertible preference shares are not ordinary shares, but they fall in the category of shares that have potential to get converted into ordinary shares. Thus the provisions of contingent issue and provisions of potential shares, both will apply in such cases.

Example 42 (Put option on own shares)

Solution:

Shares issued withput Consideration = 10,000 – (10,000 x 100 /90)
= -1111.11 (Negative)
Hence it is anti dilutive
Note – It means you are selling the 10,000 shares, but receiving consideration for 11,111.11 shares. Increase in the resources is more than increase in no of shares.

Example 43 (Call option on own shares)

Dilutive Potential Shares will be
= - 10,000 + (10,000 x 100 /110)
= - 909.09 (Negative)
Hence it is anti dilutive
Note – It means you are buying back 10,000 shares, but paying consideration for 9091 shares. Decrease in the no of shares is more than decrease in resources.

Example 44

Solution:

No	Particulars	Amount
1	Amount required to Buy 10,000 shares to settle the put option (10,000 x 100)	Rs. 10,00,000
	No of shares to be issued to raise the Rs.10,00,000 @Rs.78	12820.51
2	No of shares to be bought back in settelement of Put Options	1,00,000
3	Incremental Ordinary Shares Issued	2820.51
Incremental ordinary shares are added to the denominator in calculating diluted earnings per share		

Example 45

An entity has outstanding 120 written put options on its ordinary shares with an exercise price of Rs. 35. The average market price of its ordinary shares for the period is Rs. 28. In calculating diluted earnings per share, the entity assumes that it issued 150 shares at 28 per share at the beginning of the period to satisfy its put obligation of Rs. 4,200. The difference between the 150 ordinary shares issued and the 120 ordinary shares received from satisfying the put option (30 incremental ordinary shares) is added to the denominator in calculating diluted earnings per share.

Example 46

Assume that there is a bonus issue in the F.Y. 20X1- 20X2. Now the problem is the comparative EPS of 20X0 -20X1 is based on the number of shares before issue of bonus shares whereas the EPS of 20X1-20X2 will be based on number of shares after bonus shares. Obviously it will not be comparable. Therefore, Ind AS 33 says, that if there is increase or decrease in the number of shares due to capitalisation, then basic and diluted EPS will be adjusted for all the periods presented retrospectively. Thus EPS of 20X0-20X1 will also be adjusted as per the new number of shares after issue of bonus shares and accordingly the fact will be disclosed.

Example 47

Assume the bonus issue was effective on 15th April 20X2 whereas the financial statements are approved on 30th April 20X2. Thus issue is considered as the event after reporting period as per the Ind AS 10. Now the problem is as on 31st March 20X2 the company was having the old number of shares. But when the financial statements will be circulated, company has evidence that the bonus shares were issued. So shall company calculate EPS based on old number of shares as on 31st March 20X2, or shall it calculate on the basis on new number of shares, when the accounts are approved? As per Ind AS 33, if the capitalisation happens after the reporting period but before the approval of financial statements, then company should take into consideration the number of shares after issue of bonus shares.

Example 48

Solution:

Ind AS 33 states that "An entity shall present basic and diluted earnings per share, even if the amounts are negative (ie a loss per share)".
In accordance with Ind AS 33, ABC ltd should present the basic and diluted EPS even though the amount is negative. Therefore, basic and diluted EPS of 31st March 2016, should also be presented in the financial statements for year ended 31st March, 2017 and 31st March 2016.

Example 49

Solution:

Ind AS 33 states that "An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of profit and loss or in the notes".
In the instant case, ABC ltd can disclose the basic and diluted EPS from discontinued operations in the notes.

Example 50

Solution:

Ex Right Price = (1,00,000 x 30 + 20,000 x20) / (1,00,000 + 20,000) = 28.33
Adjustment Factor = 30/28.33 = 1.06
Basic EPS of Current Year = 18,00,000 / (1,00,000 x1.06 x 3/12) + (1,20,000 x 9/12) = 15.45
Basic EPS of Last Year (Restated) = 14,00,000 / (1,00,000 x 1.06) = 13.21

Example 51

Solution:

Theoretical ex-right price = F.V. of existing shares + amount realized on right shares

Total no of shares

= $\dfrac{5,00,000 \times 45 + 2,00,000 \times 36}{5,00,000 + 2,00,000}$

= 42.43

Adjustment Factor = $\dfrac{\text{F.V}}{\text{Theoretical ex-right price}}$

= $\dfrac{45}{42.43}$

= 1.06

Basic EPS = $\dfrac{\text{Net profit}}{\text{Weighted average no of shares}}$

= $\dfrac{25,00,000}{(5,00,000 \times 1.06 \times 6/12) + (7,00,000 \times 6/12)}$

= $\dfrac{25,00,000}{6,15,000}$

= 4.06

Example 52

Solution:

WANOES = 10000 + (5000 X 5/10) X 9/12 = 11875

Example

Solution:

Step 1 WANOES

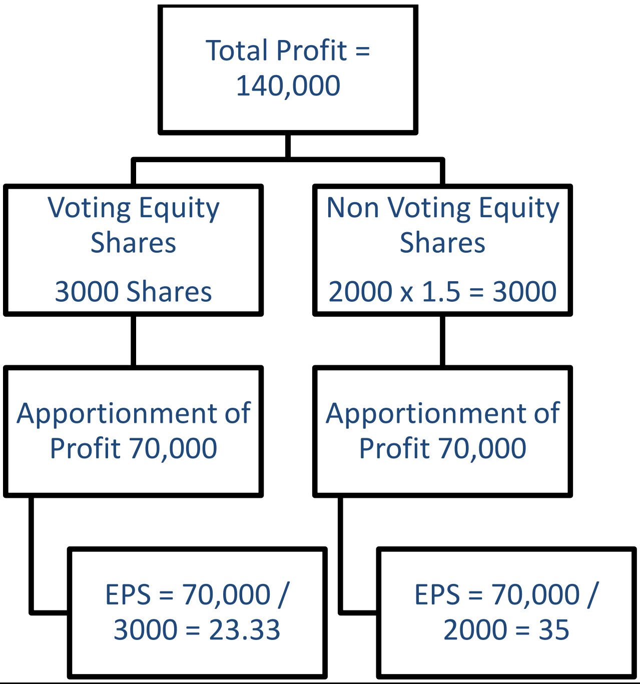
Particulars	Calculation	Number
Opening Balance	16,500 x 7/10 x 12/12	11,550
Public Issue	10,000 x 6/10 x 9/12	4,500
Call Money	16,400 x 3/10 x 6/12	2,460
Call Money	10,000 x 4/10 x 5/12	1666.67
		20176.67

Step 2 Basic EPS

Basic EPS = Rs.10,00,000 / 20176.67 = Rs.49.56

Example 53

Solution:



Alternatively

Equivalent number of A Class Shares = 3000 + (2000 x 1.5) = 6000

Basic EPS for Class A Shares = 14,000 / 6000 = 23.33

Basic EPS for Class B Shares = 23.33 X 1.5 = 35