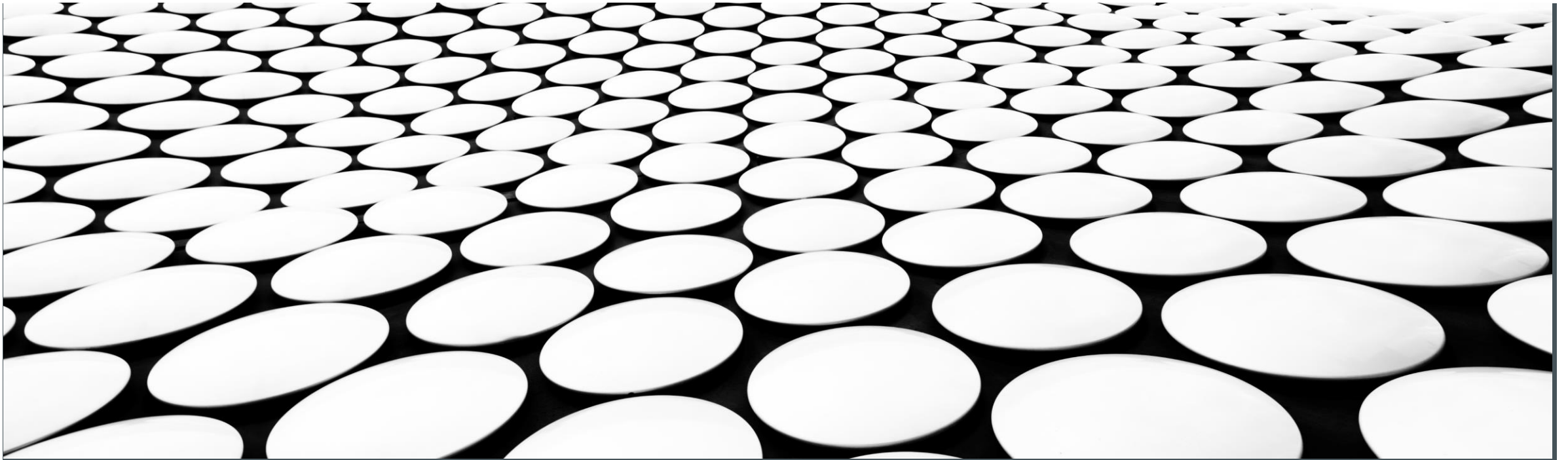# INDIAN ACCOUNTING STANDARDS EARNINGS PER SHARE – IND AS 33

BY B D CHATTERJEE *FCA, ACMA, ACS, DIP (IFR) ACCA – UNITED KINGDOM*

INDIAN ACCOUNTING STANDARDS EARNINGS PER SHARE – IND AS 33

EARNINGS PER SHARE – IND AS 33

Learning outcomes

- Scope of the standard
- EPS as a performance indicator
- Calculate EPS in the following circumstances :
  ➢ Basic EPS
  ➢ Where there is a bonus issue / stock split during the year
  ➢ Where there is a rights issue of shares during the year
- Relevance to existing shareholders of the diluted EPS
- Compute the diluted EPS
- Identify anti – dilutive circumstances

EARNINGS PER SHARE – IND AS 33 : Scope

- An entity presents on the face of the income statement basic and diluted earnings per share for each class of ordinary shares that has a different right to share in profit for the period .

- An entity calculates basic and diluted earnings per share for profit or loss from continuing operations attributable to the ordinary equity shareholders of the parent co.

- If an entity reports discontinued operations it also discloses basic and diluted earnings per share for the discontinued operations

- Ind AS 33 prescribes principles for the determination and presentation of earnings per share so as to improve performance comparisons between
  - different reporting entities in the same reporting period and
  - different reporting periods for the same entity
- IAS 33 is applied by entities
  - whose ordinary shares or potential ordinary shares are publicly traded and
  - that are in the process of issuing ordinary shares or potential ordinary shares in public markets

EARNINGS PER SHARE – IND AS 33

❑ **Basic earnings per share**

- Calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (denominator) during the period

- The profit or loss attributable to parent entity is adjusted for after tax amounts of preference dividend, different arising in settlement of preference shares and other similar effects of preference shares classified as equity.

- The weighted average number of ordinary shares outstanding during the period is adjusted for events other than the conversion of potential ordinary shares that have changed the number of ordinary shares outstanding without a corresponding change in resource (e.g. bonus issue, a share split)

EARNINGS PER SHARE – IND AS 33

Earnings per share (EPS) as a performance indicator

❑ EPS is the amount which an entity has carried per share for the given period

EPS = Earnings / Number of shares

Example :
Total earnings   =   Rs. 500000
Total no. of shares   =   100000
EPS   =   Rs. 500000 / 100000
                              =   Rs. 5

EARNINGS PER SHARE – IND AS 33

Illustration I

- Alpha Limited reported net earnings Rs.25000 for the year ended 2022.

- The Co had 12500 shares of Rs.1 par value of common stock and 3000 shares of Rs. 40 par value convertible preference shares outstanding during the year.

- The dividend rate on the preference shares is Rs. 2 per share.

- Each share of the convertible into two share of Alpha Limited Class A common shares. During the year no convertible preference shares were converted.

What is the Alpha's basic earnings per share ?

EARNINGS PER SHARE – IND AS 33

Solution

- Basic earnings = Net Income-preference dividends / Weighted average
common shares

   = (Rs. 25000 – (Rs.2 x 3000 shares)) / 12500 shares

   = Rs. 19000 / 12500

   = Rs. 1.52 per share

EARNINGS PER SHARE – IND AS 33

Illustration II

- **Beta Limited** reported net earnings Rs. 100000 for the year ended 2022. The number of ordinary shares on the balance sheet date is 100000 including 60000 shares it issued on 1st June 2022 and excluding 10000 shares it repurchased on 1st October 2022.

  What is the basic earnings per share ?

EARNINGS PER SHARE – IND AS 33

Solution

- Calculate the weighted average of shares:

		Share issued	Treasury shares (repurchased)	Shares outstanding
1 Jan 2022	Balance	50000	-	50000
1 June 2022	Issued	60000	-	110000
1 Oct 2022	Repurchased	-	10000	100000
31 Dec 2022	Balance			100000

In instant case the period for which the balance remained unchanged is used in the calculation of weighted average (e.g. balance of 50000 shares was constant For five months from 1st Jan to 31st May.) Therefore weight of 5 will be attached To the balance of 50000 shares.

Solution (Continued)

- Accordingly the weighted average of shares would be as under:

		Shares outstanding	weightage	Numbers
1 Jan 2022	Balance	50000	5 / 12	20833
1 June 2022	Issued	110000	4 / 12	36667
1 Oct 2022	Repurchased	100000	3 / 12	25000
31 Dec 2022	Balance	100000		
Weighted average				82500

Calculation of EPS is as follows :

EPS   =   (Earnings attributable to ordinary equity holders) /
                              (Weighted average number of equity shares)
                =   100000 / 82500
                =   Rs. 1.21

Illustration III : Bonus issue

❑ The following details are provided for Excel Limited :
  - Profit attributable to ordinary equity holders of parent entity 2021   Rs. 500
  - Profit attributable to ordinary equity holders of parent entity 2022   Rs. 800
  - Ordinary shares outstanding until 1st August 2022   400
  - A bonus issue was made on 1st September 2022 at one ordinary share for
    four ordinary shares outstanding on 31st August 2022.

  What is the basic earnings per share ?

Solution : Bonus issue

- A bonus issue entails capitalising the profits of the entity and issuing shares to the existing shareholders without receiving any resources in return. In short it is only a book entry.
- The number of shares is adjusted as if the bonus issue had occurred at the beginning of the earliest period reported i.e. 2021.
- Calculation of bonus issue = 400 shares x 1/4 = 100 shares
- Total revised number of shares   = 400 + 100 = 500 shares
- Calculation of EPS (2022)   = 800 / 500 = Rs. 1.60
- Calculation of EPS (2021)   = 500 / 500 = Rs. 1.00

Please note time weighing factor is not used (the bonus shares are treated as Having existed for the entire period)
Changes in the number of shares are treated retrospectively and weighted average is not calculated
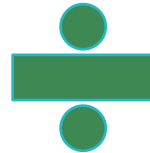
EARNINGS PER SHARE : IND AS 33

❑ **Rights issue**

• A rights issue is primarily when a company offers exiting shareholders a right to purchase additional shares on the company at a given price, which is at a discount to the prevailing market price of the shares.

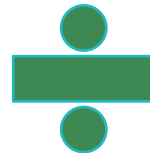### a) Calculation of theoretical ex rights per share

(FV of all o/s shares before right) + (Total amount received from exercise) ÷ (No o/s shares before rights) + (No of shares issued in exercise)

b) Calculation of adjustment factor

(FV per share before exercise of rights) ÷ Theoretical ex rights price

c) Calculation of EPS

Earnings for the year ÷ No of shares x adjustment factor
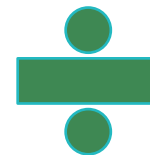
Illustration IV : Rights issue

The following details are provided for Delta Ltd :
   - Profit attributable to ordinary equity holders of parent entity

|	2020	2021	2022
	3000	3500	4200

   - No of shares outstanding at rights issue : 1000
   - The company had a 1 for 4 rights issue
   - Exercise price = Rs. 6.00
   - Date of rights issue = 31st January 2021
   - Last date of exercising rights = 1st April 2021
   -   Market price of one ordinary share immediately before exercise on
       1st April 2021 : Rs. 12.00

   Calculate EPS on 31st December (the reporting date) for each of the three years

Solution : Rights issue
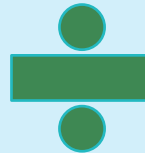
- Calculation of theoretical ex rights per share :
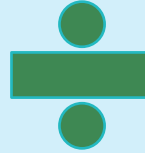
$$= \frac{\text{(FV of all o/s shares before right) + (Total amount received from exercise)}}{\text{(No o/s shares before rights) + (No of shares issued in exercise)}}$$
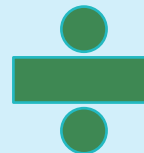
$$= \frac{(1000 \times 12) + (1000/4 \times 6) = 13500}{1000 + 250 = 1250}$$

= Theoretical ex rights price per share = 13500 / 1250 = Rs. 10.8

- Adjustment factor

$$\frac{\text{(FV per share before exercise of rights)}}{\text{Theoretical ex rights price}}$$
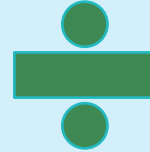
- Rs. 12.00 / Rs. 10.8 = 1.11

Solution : Rights issue

Calculation of basic earnings per share :
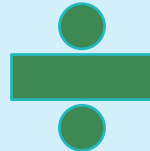
- 2020 EPS for rights reinstated

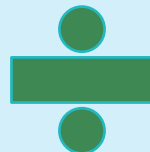| Earnings = 3000 | ÷ | (1000 * 1.11) | = | 2.70 |

- 2021 EPS for rights reinstated

| Earnings = 3500 | ÷ | (1000*1.11*3/12) + (1000 + 250 = 1250 x 9/12) | = | 2.88 |

- 2022

| Earnings = 4200 | ÷ | 1250 | = | 3.36 |

EARNINGS PER SHARE – IND AS 33

Diluted earnings per share

- Calculated by adjusting profit or loss attributable to ordinary equity holders of the parent entity and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares

- The profit or loss attributable to ordinary equity holders of parent entity is adjusted for after tax effects of
  - any dividend or other items related to dilutive potential ordinary shares deducted in arriving at profit or loss attributable to equity holders
  - any interest recognized in the period related to dilutive potential ordinary shares and
  - any other changes in income or expense that would result from conversion of the dilutive potential ordinary shares

- The number of ordinary shares outstanding (as calculated in basic earnings per share) plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares

Diluted earnings per share : Illustration

Calculus Limited net earnings Rs. 25000 for the year ended 2022.

- The Co had 12500 shares of Rs.1 par value of common stock and 3000 shares of Rs.40 par value convertible preference shares outstanding during the year.

- The dividend rate on the preference shares is Rs.2 per share.

- Each share of the convertible preference share can be converted into two shares of Calculus Limited Class A common shares. During the year no convertible preference shares were converted.

  What is the diluted earnings per share for Calculus Limited?

Diluted earnings per share : Solution

❑ Diluted earnings per share
= (Net Income-preference dividends + dividends on converted securities)
/ (Shares outstanding + additional shares if securities were converted)

= (Rs. 25000 – Rs. 6000 + Rs. 6000) / (12500 + (3000 X2))

= Rs. 25000 / 18500

= Rs. 1.35 per share

• Earnings per share should be restated
- if the number of shares outstanding is affected as a result of capitalization, bonus issue, share split or a reverse share split, the calculation of basis EPS and diluted EPS should be adjusted retrospectively.
- If these changes occur after the balance sheet date but before issue of financial statements, the per share calculations are based on the new number of shares

THANK YOU!