ACTIVE STANDARD

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IAS 33

Earnings Per Share

Basic and diluted EPS — weighted average shares, bonus and rights issues, the treasury stock and if-converted methods, and the antidilution sequencing test

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ROADMAP

What We Will Cover

Foundations & Core Principle

Scope, key definitions, and EPS as a performance indicator

Basic EPS

The core formula and the weighted average number of ordinary shares

Bonus & Rights Issues

Retrospective treatment of bonus issues, splits and rights issues

Diluted EPS

Treasury stock and if-converted methods, and contingently issuable shares

Anti-Dilution

Identifying and sequencing dilutive potential ordinary shares

Presentation & Disclosure

What every set of financial statements must show

Worked Illustrations

Six worked examples spanning basic, diluted and antidilution scenarios

Recent Developments

The impact of IFRS 18 on EPS presentation

PART I — FOUNDATIONS

Foundations & Core Principle

The objective and scope of IAS 33, the key definitions behind dilution, and earnings per share as a widely used performance indicator.

FOUNDATIONS

Objective & Scope

IAS 33 prescribes principles for the determination and presentation of earnings per share, so as to improve performance comparisons between different entities in the same period, and between different periods for the same entity.

- An entity presents, on the face of the statement of profit or loss, basic and diluted earnings per share for each class of ordinary shares that has a different right to share in profit for the period.
- Basic and diluted EPS are calculated for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity, and for profit or loss for the period attributable to those holders.
- If an entity reports a discontinued operation, it also discloses basic and diluted EPS for the discontinued operation, either on the face of the statement or in the notes.
- IAS 33 applies to entities whose ordinary shares or potential ordinary shares are publicly traded, and to entities that are in the process of issuing ordinary shares or potential ordinary shares in public markets.
- An entity that discloses EPS though not required to by these two categories must still calculate and present it in accordance with IAS 33.

FOUNDATIONS

Key Definitions

Four terms anchor the whole of IAS 33 — dilution and antidilution describe the direction in which potential ordinary shares move EPS.

Ordinary Share

An equity instrument that is subordinate to all other classes of equity instruments — the residual claim after all other classes are satisfied.

Potential Ordinary Share

A financial instrument or other contract that may entitle its holder to ordinary shares — convertible bonds, convertible preference shares, options and warrants.

Dilution

A reduction in EPS, or an increase in loss per share, resulting from the assumption that convertible instruments are converted, options and warrants exercised, or shares issued on satisfying specified conditions.

Antidilution

An increase in EPS, or a reduction in loss per share, from that same assumption — antidilutive instruments are excluded from the diluted EPS calculation.

FOUNDATIONS

EPS as a Performance Indicator

EPS is the amount of earnings an entity has attributed to each ordinary share for the period, and remains one of the most widely quoted measures of an entity's performance.

BASIC FORMULA

$$\frac{\text{Earnings for the period}}{\text{Weighted average number of ordinary shares}}$$

Example: total earnings of $500,000 over 100,000 ordinary shares gives EPS = $500,000 ÷ 100,000 = $5.00 per share. Because capital structures differ between entities, EPS comparisons across companies should be read alongside the underlying capital structure, not in isolation.

PART II — BASIC EPS

Basic Earnings Per Share

The core formula, the mechanics of the weighted average number of shares, and the retrospective treatment of bonus and rights issues.

BASIC EPS

The Core Formula

Basic EPS is calculated by dividing profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

BASIC EPS

$$\text{Basic EPS} = \frac{\text{Profit or loss attributable to ordinary equity holders of the parent}}{\text{Weighted average number of ordinary shares outstanding}}$$

The numerator is adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.

BASIC EPS

The Weighted Average Number of Shares

The denominator reflects the time-weighted effect of changes in share capital during the period, so that shares outstanding for only part of the period contribute proportionately.

- Ordinary shares are included in the weighted average from the date consideration is receivable — normally the date of issue.
- Shares issued as part of the consideration for a business combination are included from the acquisition date, since that is when the acquirer recognises the acquiree's profits.
- Contingently issuable ordinary shares are included in BASIC EPS only from the date all necessary conditions for issue have actually been satisfied.
- Changes in the number of ordinary shares WITHOUT a corresponding change in resources — a bonus issue, a share split, or a share consolidation — are reflected retrospectively for all periods presented, without any time-weighting.
- Where partly paid shares are entitled to participate in dividends, they are included as a fraction of an ordinary share to the extent they were entitled to participate.

Illustration I — Basic EPS with Preference Dividends

FACT PATTERN

Alpha Ltd reported net earnings of $250,000 for the year ended 31 December 2025. The company had 125,000 shares of $1 par value common stock and 30,000 shares of $40 par value convertible preference shares outstanding throughout the year. The dividend rate on the preference shares is $2 per share. Each preference share is convertible into two Class A ordinary shares; none were converted during the year. Required: Alpha's basic earnings per share.

SOLUTION

Basic EPS = (Net income − preference dividends) ÷ Weighted average ordinary shares

= ($250,000 − ($2 × 30,000 shares)) ÷ 125,000 shares

= ($250,000 − $60,000) ÷ 125,000

= $190,000 ÷ 125,000

= $1.52 per share

The preference dividend is deducted before dividing by ordinary shares because it represents the return attributable to preference holders, not to ordinary equity holders — the convertible preference shares themselves have no effect on BASIC EPS until actually converted.

Illustration II — Weighted Average Number of Shares

FACT PATTERN

Beta Ltd reported net earnings of $1,000,000 for the year ended 31 December 2025. Ordinary shares on the balance sheet date total 1,000,000, including 600,000 shares issued on 1 June 2025, and excluding 100,000 shares repurchased on 1 October 2025. Required: Beta's basic earnings per share.

SOLUTION

Date	Shares Issued	Treasury (Repurchased)	Shares Outstanding
1 Jan 2025 — Balance	500,000	—	500,000
1 Jun 2025 — Issued	600,000	—	1,100,000
1 Oct 2025 — Repurchased	—	100,000	1,000,000
31 Dec 2025 — Balance			1,000,000

The balance of 500,000 shares remained unchanged for five months (1 Jan – 31 May), so a weight of 5/12 attaches to it — see the weighted average calculation on the next slide.

WORKED ILLUSTRATIONS

Illustration II — Weighted Average Number of Shares (continued)

FACT PATTERN

Continuing Beta Ltd: the weighted average number of shares is computed by applying a time-weight to each balance that remained constant, then EPS is calculated on the resulting weighted average.

SOLUTION

Period	Shares Outstanding	Weight	Weighted Shares
1 Jan – 31 May (5 months)	500,000	5/12	208,333
1 Jun – 30 Sep (4 months)	1,100,000	4/12	366,667
1 Oct – 31 Dec (3 months)	1,000,000	3/12	250,000
Weighted average for the year			825,000

EPS = Earnings attributable to ordinary equity holders ÷ Weighted average number of ordinary shares

= $1,000,000 ÷ 825,000

= $1.21 per share

Bonus Issues & Share Splits

A bonus issue (or share split) capitalises existing reserves and issues shares to existing shareholders without receiving any resources in return — economically a subdivision of existing equity, not a change in resources.

- The number of ordinary shares outstanding is adjusted as if the bonus issue or split had occurred at the beginning of the earliest period presented.
- No time-weighting is applied — the additional shares are treated as if they had been outstanding for the entirety of every period presented, including comparatives.
- Basic and diluted EPS for ALL periods presented are restated retrospectively for the change, even though the event occurred only in the current period.
- The same retrospective treatment applies to a share consolidation (reverse split), and to the bonus element embedded in any other issue — including a rights issue priced below fair value.
- If a bonus issue, split or consolidation occurs after the reporting date but before the financial statements are authorised for issue, the per-share figures for the period presented, and any prior periods, are based on the new number of shares.

WORKED ILLUSTRATIONS

Illustration III — Bonus Issue

FACT PATTERN

Excel Ltd reports profit attributable to ordinary equity holders of \$500,000 for 2024 and \$800,000 for 2025. Ordinary shares outstanding were 400,000 throughout both years, until a bonus issue of one new share for every four shares held was made on 1 September 2025. Required: basic EPS for 2024 and 2025.

SOLUTION

Bonus shares issued = 400,000 × 1/4 = 100,000 shares

Revised number of shares (applied to BOTH years) = 400,000 + 100,000 = 500,000 shares

2025 EPS = \$800,000 ÷ 500,000 = \$1.60 per share

2024 EPS (restated) = \$500,000 ÷ 500,000 = \$1.00 per share

No time-weighting is used — the bonus shares are treated as if they had existed for the whole of both periods, and the 2024 comparative is restated even though the bonus issue took place in 2025.

Rights Issues — Three Steps

A rights issue offers existing shareholders new shares at a price below fair value — it therefore contains a bonus element that must be separated from the pure capital-raising element before EPS is restated.

1 Theoretical Ex-Rights Price (TERP)

(Fair value of shares outstanding before the rights + total proceeds from exercise) ÷ (shares outstanding before the rights + shares issued in the exercise).

2 Adjustment Factor

Fair value per share immediately before exercise ÷ TERP — always greater than 1, reflecting the bonus element in the rights issue.

3 Restated EPS

Shares outstanding before the rights issue are multiplied by the adjustment factor for the pre-issue period; the post-issue share count is used unadjusted from the exercise date.

Illustration IV — Rights Issue

FACT PATTERN

Delta Ltd reports profit attributable to ordinary equity holders of $300,000 (2023), $350,000 (2024) and $420,000 (2025). 1,000,000 shares were outstanding immediately before a 1-for-4 rights issue at an exercise price of $6.00. The rights issue was made on 31 January 2025, last exercisable on 1 April 2025, with a market price immediately before exercise of $12.00. Required: EPS for each of the three years.

SOLUTION

Component	Calculation	Result
Fair value of shares before rights	1,000,000 × $12.00	$12,000,000
Proceeds from rights exercise	250,000 shares × $6.00	$1,500,000
Theoretical ex-rights price (TERP)	$13,500,000 ÷ 1,250,000 shares	$10.80
Adjustment factor	$12.00 ÷ $10.80	1.111

The adjustment factor of 1.111 is applied to the pre-rights share count for the period before the exercise date, in the EPS restatement on the next slide.

Illustration IV — Rights Issue (continued)

FACT PATTERN

Continuing Delta Ltd: 2023 and 2024 EPS are restated using the adjustment factor alone; 2025 EPS uses a weighted average that blends the adjusted pre-rights share count with the post-rights share count.

SOLUTION

Year	Calculation	EPS
2023 (restated)	\$300,000 ÷ (1,000,000 × 1.111)	\$0.27
2024 (restated)	\$350,000 ÷ (1,000,000 × 1.111)	\$0.32
2025	\$420,000 ÷ [(1,111,111×3/12) + (1,250,000×9/12)]	\$0.35

For 2025, the weighted average blends 1,111,111 adjusted shares for the 3 months before exercise (1 Jan – 31 Mar) with 1,250,000 shares for the remaining 9 months (1 Apr – 31 Dec) = 1,215,278 weighted average shares.

PART III — DILUTED EPS

Diluted Earnings Per Share

How potential ordinary shares are folded into EPS using the treasury stock and if-converted methods, and how contingently issuable shares are treated.

Concept & Formula

Diluted EPS is calculated by adjusting profit or loss attributable to ordinary equity holders, and the weighted average number of ordinary shares, for the effects of all DILUTIVE potential ordinary shares.

DILUTED EPS

$$\text{Diluted EPS} = \frac{\text{Basic-EPS profit} \pm \text{after-tax effect of dividends, interest and other changes from conversion}}{\text{Weighted average ordinary shares (basic)} + \text{shares issuable on conversion of dilutive potential ordinary shares}}$$

Only DILUTIVE potential ordinary shares are included — instruments that would increase EPS or decrease loss per share (antidilutive) are excluded from the calculation entirely, even for disclosure purposes.

The Treasury Stock Method — Options & Warrants

Options, warrants and their equivalents are dilutive when they would result in the issue of ordinary shares for less than fair value — the incremental shares are calculated using the TREASURY STOCK METHOD.

- Assumed proceeds from exercise = exercise price × number of options or warrants outstanding.
- Those assumed proceeds are treated as if used to repurchase ordinary shares at the AVERAGE market price of ordinary shares for the period.
- Incremental dilutive shares = shares issuable on exercise − shares deemed repurchased with the assumed proceeds.
- No adjustment is made to the numerator (profit or loss) for options and warrants — only the weighted average share denominator changes.
- If the exercise price exceeds the average market price for the period, the instrument is ANTIDILUTIVE and excluded entirely from diluted EPS.

Example: 50,000 options at an exercise price of $8, average market price $10 for the period — assumed proceeds $400,000; shares deemed repurchased at $10 = 40,000; incremental dilutive shares = 50,000 − 40,000 = 10,000.

The If-Converted Method — Convertible Instruments

Convertible bonds and convertible preference shares are dilutive when their conversion would decrease EPS from continuing operations — tested using the IF-CONVERTED METHOD.

- Convertible instruments are assumed to have been converted into ordinary shares at the beginning of the period, or at the date of issue if later.
- The denominator is increased by the weighted average number of ordinary shares that would be issued on conversion.
- The numerator is increased by the after-tax effect of preference dividends on convertible preference shares, or the after-tax interest expense on convertible debt, recognised in the period.
- Each issue or series of potential ordinary shares is tested SEPARATELY, in sequence from most to least dilutive — an earlier issue is not assumed converted if it is antidilutive on its own.
- Dividends or other items related to dilutive potential ordinary shares that were deducted in arriving at profit attributable to equity holders are added back, after tax.

WORKED ILLUSTRATIONS

Illustration V — Diluted EPS with Convertible Preference Shares

FACT PATTERN

Calculus Ltd reported net earnings of $250,000 for the year ended 31 December 2025 — the same facts as Illustration I. The company had 125,000 ordinary shares and 30,000 convertible preference shares outstanding throughout the year, carrying a dividend of $2 per share, each convertible into two ordinary shares. None were converted during the year. Required: Calculus's diluted earnings per share.

SOLUTION

Diluted EPS = (Net income − preference dividends + dividends on converted securities) ÷ (shares outstanding + additional shares if converted)

= ($250,000 − $60,000 + $60,000) ÷ (125,000 + (30,000 × 2))

= $250,000 ÷ (125,000 + 60,000)

= $250,000 ÷ 185,000

= $1.35 per share

Applying the if-converted method reverses the preference-dividend deduction (since the preference shares are assumed converted to ordinary) and adds 60,000 shares to the denominator — diluted EPS of $1.35 is lower than basic EPS of $1.52, confirming the instrument is dilutive.

Contingently Issuable Shares

Ordinary shares issuable upon satisfaction of specified conditions are treated differently in basic EPS and diluted EPS.

- In BASIC EPS, contingently issuable shares are included in the weighted average number of ordinary shares only from the date all necessary conditions have actually been satisfied.
- In DILUTED EPS, contingently issuable shares are included from the beginning of the period (or the date of the agreement, if later), based on the number of shares that WOULD be issuable if the end of the period were the end of the contingency period.
- Where the condition is based on a specified level of earnings, the shares included are based on the earnings level achieved as if it had continued to the end of the reporting period.
- If the conditions have not been met by period end and the contingency period has not ended, the shares are still included in diluted EPS if doing so would be dilutive, using year-to-date results.
- Contingently issuable shares are EXCLUDED from diluted EPS if the condition would not be satisfied were the current period the final period of the contingency.

PART IV — ANTI-DILUTION

Identifying & Sequencing Anti-Dilution

How each potential ordinary share is tested in isolation, ranked by dilutive effect, and progressively included until inclusion would raise EPS.

ANTI-DILUTION

The Anti-Dilution Sequencing Test

1 Test Each Instrument in Isolation

Each potential ordinary share is tested individually for its dilutive effect, using its own incremental earnings and incremental shares.

2 Rank from Most to Least Dilutive

Instruments are ranked by incremental EPS effect (incremental earnings ÷ incremental shares) — the lowest incremental EPS is the most dilutive.

3 Include Progressively & Stop at Antidilution

Instruments are folded into diluted EPS starting with the most dilutive; inclusion stops as soon as the next instrument would increase EPS rather than decrease it.

Illustration VI — Ranking & the Anti-Dilution Test

FACT PATTERN

Nova Ltd has profit attributable to ordinary equity holders of $900,000 and a weighted average of 500,000 ordinary shares for 2025 (basic EPS $1.80). It also has 8% convertible bonds of $1,000,000 converting into 80,000 shares (after-tax interest saved $57,600), and convertible preference shares with dividends of $40,000 converting into 50,000 shares. Required: rank the instruments and determine diluted EPS.

SOLUTION

Instrument	Incremental Earnings	Incremental Shares	Incremental EPS	Rank
Convertible bonds	$57,600	80,000	$0.72	1 — Most dilutive
Convertible preference shares	$40,000	50,000	$0.80	2

Basic EPS = $900,000 ÷ 500,000 = $1.80

Step 1 — add convertible bonds: ($900,000+$57,600) ÷ (500,000+80,000) = $957,600 ÷ 580,000 = $1.65 (below $1.80 — dilutive, include)

Step 2 — add convertible preference shares: ($957,600+$40,000) ÷ (580,000+50,000) = $997,600 ÷ 630,000 = $1.58 (below $1.65 — dilutive, include)

Diluted EPS = $1.58. Had the next instrument in sequence raised EPS above $1.58, it would have been antidilutive and excluded, and testing would stop at that point.

PART V — DISCLOSURE

Presentation & Disclosure Requirements

What must appear on the face of the statement of profit or loss, and the reconciliations and retrospective adjustments the notes must show.

What the Financial Statements Must Show

1 Equal Prominence on the Face

Basic and diluted EPS are presented with equal prominence for all periods presented, for continuing operations and for profit or loss for the period, for each class of ordinary shares.

2 Discontinued Operations

Basic and diluted EPS for discontinued operations are disclosed either on the face of the statement or in the notes.

3 Reconciliation of Numerator & Denominator

A reconciliation of the earnings figures used to profit attributable to the parent, and of the share counts to each other, showing the individual effect of each class of instrument.

4 Antidilutive Instruments Disclosed

Instruments that were antidilutive in the current period, but could dilute EPS in the future, are described even though excluded from the current calculation.

5 Post-Period Share Transactions

Transactions in ordinary or potential ordinary shares after the reporting date that would have significantly changed the share count, had they occurred before period end.

6 Retrospective Adjustment for Later Bonus Events

A capitalisation, bonus issue, share split or reverse split occurring after the reporting period but before the financial statements are authorised for issue requires per-share figures for all periods presented to be based on the new share count.

PART VI — RECENT DEVELOPMENTS

The Impact of IFRS 18

IFRS 18 does not change how EPS is calculated under IAS 33 — its impact is confined to where EPS-related figures sit within the restructured statement of profit or loss.

RECENT DEVELOPMENTS

IFRS 18 & the Presentation of EPS

IFRS 18 Presentation and Disclosure in Financial Statements replaces IAS 1 and is effective for annual periods beginning on or after 1 January 2027, with early application permitted.

New Defined Subtotals

IFRS 18 introduces required subtotals — operating profit, and profit before financing and income tax — within the statement of profit or loss, changing the earnings figures entities present alongside EPS.

Management-Defined Performance Measures

An entity-specific EPS-type measure disclosed outside IAS 33 must comply with IFRS 18's MPM requirements, including a reconciliation to the most directly comparable IFRS-defined subtotal.

IAS 33 Mechanics Unchanged

The definitions of basic and diluted EPS, the treasury stock and if-converted methods, and the antidilution sequencing test are unaffected by IFRS 18.

Continued Dual Presentation

Basic and diluted EPS continue to be presented on the face of the statement of profit or loss with equal prominence, now within IFRS 18's restructured statement format.

SUMMARY

Key Takeaways

One Structure, Two Measures

Basic and diluted EPS follow the same core structure — earnings attributable to ordinary holders ÷ weighted average shares — differing in what enters each side.

Bonus Events Are Never Time-Weighted

Bonus issues, splits and consolidations are restated retrospectively for every period presented, as if outstanding since the start.

Rights Issues Combine Two Elements

TERP and the adjustment factor separate the bonus element from the capital raise before prior-period EPS is restated.

Two Methods for Diluted EPS

The treasury stock method adjusts only the denominator; the if-converted method adjusts both the numerator and the denominator.

Antidilutive Instruments Are Excluded

Ranked from most to least dilutive, with testing stopping the moment further inclusion would increase EPS.

IFRS 18 Changes the Frame, Not the Formula

Only the surrounding statement structure changes — IAS 33’s calculation methodology stays intact.

ABOUT THE AUTHOR

A Career Built on Making IFRS Understandable

BD

Founder, Digital CFO Solutions

B D Chatterjee
Teacher and Mentor to finance professionals worldwide
FCA · ACMA · ACS
DipIFR (ACCA – UK)
35+ years of CFO, industry & global finance leadership

B D Chatterjee is a Chartered Accountant and financial thought leader with over 35 years of global experience spanning corporate finance, accounting standards, financial reporting, business valuation and financial due diligence. As a seasoned CFO, he has led finance functions across major corporations and now heads Digital CFO Solutions, a platform delivering institutional-grade IFRS, US GAAP and valuation workbooks alongside fractional CFO services.

✓ **Published author of the Pocketbook of IFRS series**

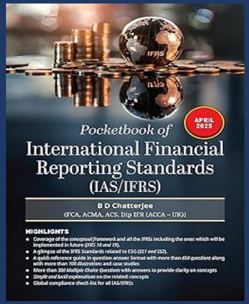
Guided thousands through IFRS, US GAAP & valuation transitions

✓ **Institutional-grade Excel platforms**

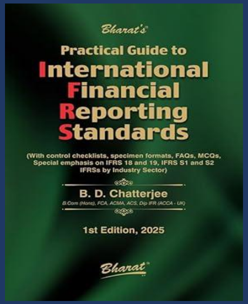
Digital CFO Solutions provides institutional-grade Excel-based CFO workbooks, fractional CFO advisory, and published finance literature on IFRS, US GAAP, business valuation and financial due diligence.

ABOUT THE AUTHOR

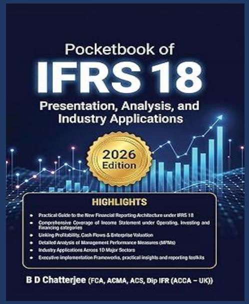
Books by B D Chatterjee — IFRS Library



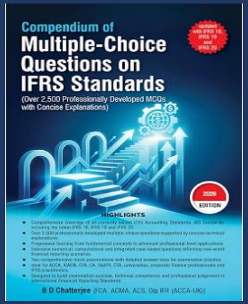
Pocketbook of International Financial Reporting Standards (IAS/IFRS)



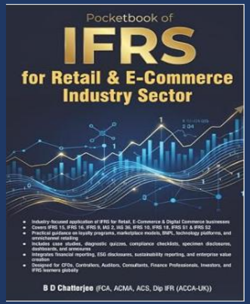
Practical Guide to International Financial Reporting Standards



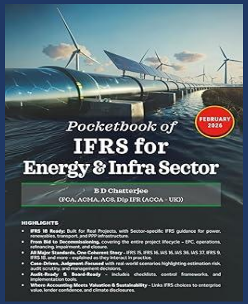
Pocketbook of IFRS 18 — Presentation, Analysis & Industry Applications



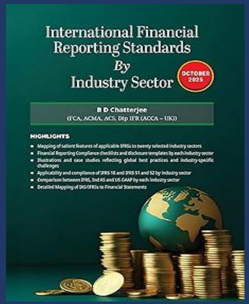
Compendium of Multiple-Choice Questions on IFRS Standards



Pocketbook of IFRS for Retail & E-Commerce Industry Sector



Pocketbook of IFRS for Energy & Infra Sector



International Financial Reporting Standards by Industry Sector

Pocketbook of IFRS for FMCG Industry

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