

IAS-20

Name - Earnings per share

Objective

- describe principles for determination & presentation of EPS.
- Gives computational methodology for determination & presentation of basic & diluted EPS.

SCOPE

all companies

Definitions

equity financial instrument

- any contract
- that gives rise
- to both a financial asset of one enterprise
 ↳ a financial liability / eq. sh. of another

financial asset

- cash
- contractual right to receive cash
- contractual right to exchange financial instrument
- an equity share of another enterprise

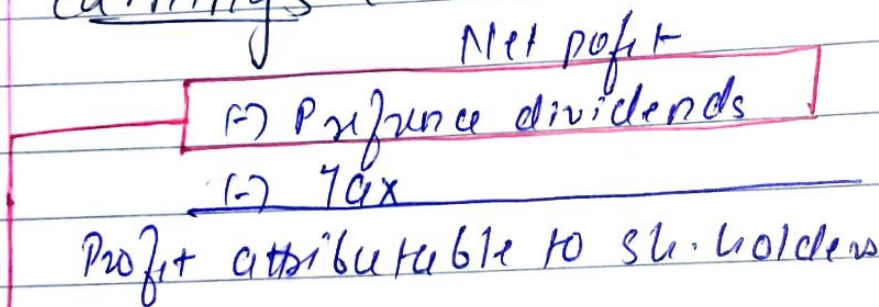
Potential equity shares

- financial instruments that entitles its holder to eq. shares
- share options/warrants -]

Basic EPS

Net profit/loss attributable to equity shareholders
weighted avg no. of eq. share o/s during period

- Earnings (Basic)



→ amt of pref. div. on non-cumulative pref.

Per share (Basic)

weighted avg. no. of shares -

$$\begin{aligned} & \text{No. of sh. o/s at beginning} \\ \pm & \text{no. of eq. sh issued/bought back} \\ & \times \text{time factor} \end{aligned}$$

Time factor = $\frac{\text{No. of days sh o/s}}{\text{Total No. of days}}$

Show & their dates

Particulars [share issued]	Effective date taken
• issue for cash	Cash receivable
• issue as conversion of debt	date of conversion
• in lieu of int/principal	date of int accrue
• issued in exchange for settlement of liability	upon settlement becomes effective
• acquisition of asset	on date of acquisition
- Amalgamation [nature of Purchase]	Date of acquisition
- Amalgamation [nature of merger]	Beginning of reporting period
- Bonus	Treated as issued prior to earliest reported period
- right	Adjusted with right factor

$$\text{right factor} = \frac{\text{FV per share immediately prior to right}}{\text{Theoretical ex-right value per share}}$$

Theoretical ex-right value =

$$\frac{\text{Cum right price} + (\text{Right shares} \times \text{issue price})}{\text{No. of sh before right} + \text{right shares}}$$

$$\text{Cum right price} = \text{mv of sh before right}$$

Q. EPS in case of right shares (Basic)

- For weighted avg shares before right
$$\frac{\text{no. of sh. o/s before right} \times \text{right factor} \times \text{time factor}}{\text{before right}}$$

- after right
$$\frac{\text{no. of sh. o/s after right} \times \text{time factor}}{\text{after right}}$$

Diluted EPS

- Effect on Net Profit

(i) increased

↳ By amt. of dividend (of potential equity) [and adjust in tax exp]

(ii) increased

↳ By amt. of int. recognised (of potential equity) []

(iii) adjusted for after tax amount in exp. or income

- Effect on weighted avg. no. of shares

(i) increased

↳ By weighted avg no. of addnl equity

~~Earnings (Dilutive)~~

Per share (dilutive)

In the weighted avg No. of sh

Only dilutive shares are included

for e.g. - Old shares: 1,00,000 - FV - 10
under option: 2,00,000 - IP - 6

$$\text{dilutive shares} = 2,00,000 \times \frac{6}{10} = 1,20,000$$

$$\therefore \text{No. of sh. for dilutive EPS} = \boxed{8,20,000}$$

- Each issue series is considered separately
- In the sequence of Most dilutive to least dilutive

To determine



incremental earnings

Potential equity shares

Disclosure

- Basic & diluted EPS on basis of \rightarrow earnings
(-) extraordinary items

- amt. used as numerator
- weighted avg no. of eq. shares used as denominator for both Basic & dilutive

- Nominal value of shares