

AS 20

Earnings Per Share (EPS)

- * This AS is applicable to all entities who are disclosing EPS.
- * EPS is of 2 types
 - 1) Basic EPS
 - 2) Diluted EPS
- * EPS to be presented even if amount disclosed are negative (loss per share)

Basic EPS:

$$\frac{\text{Earnings attributable to Equity shareholders}}{\text{Weighted Average of O/s Equity Shares}}$$

a) How to calculate Earnings attributable to ESH

EBIT	xx
- Interest	<u>(xx)</u>
EBT	xx
- Tax	<u>(xx)</u>
EAT/PAT	xx
- Preference D/D	<u>(xx)</u>
Earnings	<u>xx</u>

Note:

- 1) Do not deduct any Reserve from PAT to calculate earnings.
- 2) Preference D/D will be deducted from PAT in all cases if Preference shares are cumulative & in declared cases if Preference shares are non cumulative.

b) **Weighted Average** means average according to the period

As per AS 20 "EPS", the weighted average no. of equity shares outstanding during the period reflects the fact that the amount of shareholder's capital may have varied during the period as a result of larger or lesser no. of shares o/s at any time.

Partly paid shares

Whenever partly paid shares are given which are entitled to dividend right such shares should be equated with fully paid shares for calculating EPS.

Bonus Issue

Bonus will be treated as issued since beginning of year & previous years.

(Date of Issue is not relevant)

Right Issue

Paid Part: Date is Relevant

Bonus Part: Date is not Relevant

Step 1: Calculate Market Price Ex-Right / Fair value Ex-Right

$$\frac{\left[\text{No. of Shares before Right} \times \text{Price Before Right} \right] + \left[\text{No. of Right Shares} \times \text{Right Price} \right]}{\text{Shares Before Right} + \text{Right Shares}}$$

Shares Before Right + Right Shares

Step 2: Calculate Paid Part & Bonus Part in Right

$$\text{Paid Part} \Rightarrow \text{Right Shares} \times \frac{\text{Right Price}}{\text{Fair value Ex-Right}}$$

$$\text{Bonus Part} \Rightarrow \text{Right Shares} - \text{Paid Part}$$

Step 3: Calculate Basic EPS Considering

- * Bonus Part since beginning
- * Paid Part from date of issue

DILUTED EPS

It is Basic EPS after adjusting effects of Potential Equity Shares

Potential Equity Shares: These are those instruments against which

- a) Resources / benefits have been availed & applied in business
- b) but equity shares have not been issued

Example: Convertible Debentures, Convertible Preference Shares, ESOP, Share Warrants, Partly paid shares without dividend right, etc.

$$\text{Diluted EPS} = \frac{\text{Earnings attributable to ESM} + \text{Effect of PES on Earnings}}{\text{Weighted Average Equity Shares} + \text{Effect of PES on Equity Shares}}$$

Treatment of Employee Stock Option

ESOP dealt in this standard are vested ESOP. Vested means employees have performed but shares have not been issued. Since employees are not issued shares but benefit have been availed i.e. benefit in kind hence ESOP are Potential Equity Shares.

$$\text{PES in ESOP} = \text{ESOP} - \left[\text{ESOP} \times \frac{\text{Exercise Price}}{\text{Fair Value}} \right]$$

More than one PES (Steps)

Step 1: Identify PES in Question

Step 2: Calculate Incremental Earnings Per Share (IEPS)

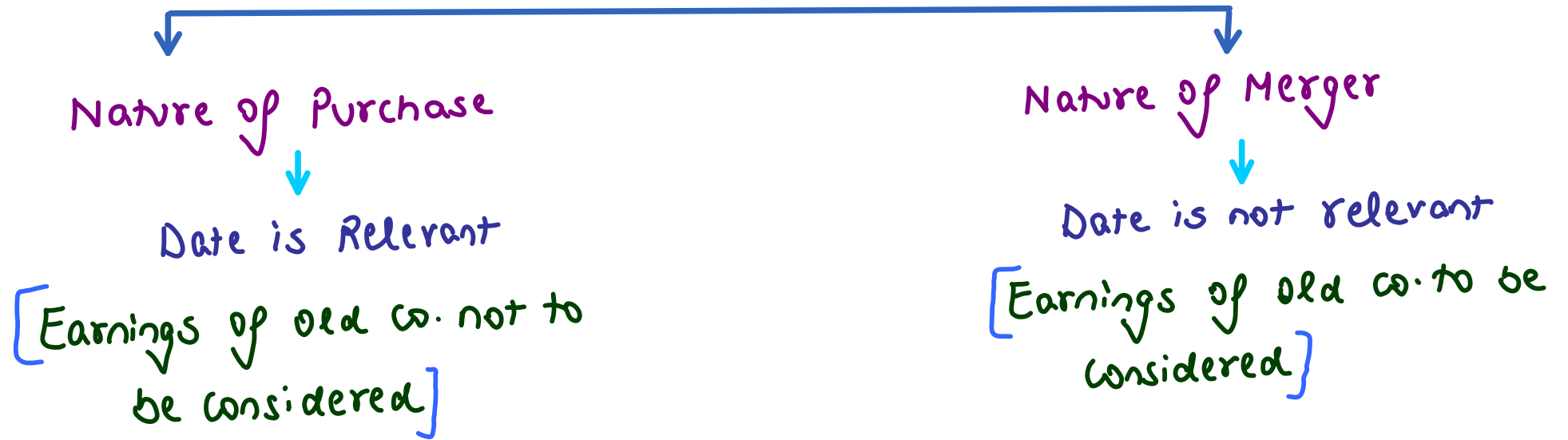
$$\text{IEPS} = \frac{\text{Effect of PES on Earnings}}{\text{Effect of PES on Equity Shares}}$$

Step 3: Calculate Diluted EPS

	Numerator	Denominator	Ratio
BEPS	xx	xx	xx
PES	$\frac{xx}{xx}$	$\frac{xx}{xx}$	$\frac{xx}{xx}$

- Note:
- 1) PES should be adjusted according to IEPS in increasing order
 - 2) Diluted EPS should be lower than Basic EPS from continuing operations.

Amalgamation



Example:

Earnings = 1000000

1/4 Opening Balance = 10000 shares

1/5 Issue under Amalgamation (Purchase) = 15000 shares

1/7 Issue under Amalgamation (Merger) = 16000 shares

Earnings of Merged Entity from 1/4-1/7 was 200000. Calculate Basic EPS.

Timing Factor for Potential Equity Shares (PES) : For weighted average computation

Particulars	From which date	Till which date
✓ 1) <u>PES</u> which were issued last year & not yet converted into equity shares in current year	✓ Beginning of the year	✓ End of the year
✓ 2) PES which were issued last year & have been converted into equity shares in current year	✓ Beginning of the year	End of the year (Till date of conversion as PES & after conversion both as part of Basic & Diluted EPS)
✓ 3) PES which were issued in the current year & not yet converted into equity shares in current year	Date of <u>Issue</u>	End of <u>the year</u>
✓ 4) PES which were issued last year & have been cancelled or lapsed in current year	✓ Beginning of the year	Till the date of cancellation or when they lapse

AS-20 [EPS]

Basic EPS

$$\text{BEPS} = \frac{\text{Net Profit attributable to ESH}}{\text{Weighted Avg. No. of Equity shares o/s}}$$

Partly paid shares
↓
Equate with fully paid shares

Bonus shares, Split, Reverse split
↓
Consider no. of shares from beginning of earliest period reported
↓
Restatement for prior periods reported

Right Issue

- 1) MP/FV Ex Right
- 2) Paid & Bonus Part
- 3) Basic EPS

↓
Paid Part Bonus Part
Date Relevant Not Relevant

Amalgamation {
 Nature of Purchase : Date Relevant : Old co. Earnings not included
 Nature of Merger : Not Relevant : Included

Disclosure: On the Face of P&L (Both Basic & Diluted EPS)
: For Each class

Diluted EPS

$$\text{DEPS} = \frac{\text{N.P. for ESH + Effect of PES on Earnings}}{\text{Weighted Avg. shares + Effect of PES on shares}}$$

PES (Potential Equity Shares): share warrants, ESOP, Convertible Pref. shares, Convertible Deb., etc.

More than 1 PES

- 1) Incremental EPS
- 2) Ranking in Increasing Order
- 3) Calculate DEPS (Consider lowest of all)

(A) ESOP

$$\text{PES} = \text{ESOP} - \left(\frac{\text{ESOP} \times \text{Exercise Price}}{\text{Fair Value}} \right)$$

(B) Convertible Pref. shares

$$\text{DEPS} = \frac{\text{N.P.} + \text{Pref. Div.}}{\text{No. of Eq. Sh.} + \text{Eq. Shares Converted}}$$

(C) Convertible Debentures

$$\text{DEPS} = \frac{\text{N.P.} + \text{Int. on Deb.} (1 - \text{tax})}{\text{No. of Eq. Sh.} + \text{Eq. Shares Converted}}$$