AS 20 - Earnings Per Share

1. Introduction & Objective

* EPS is a measure of performance of the company
* EPS is of 2 types : Basic EPS & Diluted EPS
* Objective of AS-20 is to describe principles of determination and presentation of EPS which will improve comparison of performance among :

  - different enterprises for same period (Inter-firm)
  - different period for same enterprise (Intra firm)

2. Definitions

a) Equity Share - Share other than preference share

b) Preference share - Shares carrying preferential rights to DIVIDENDS & REPAYMENT OF CAPITAL

c) Potential Equity share - Will become a ES in the future.

Egs

- Convertible debenture / preference shares,
- Share warrants
- Options including ESOP
- Contigently issuable shares

3. Basic EPS

* **Calculation of Basic EPS**

$$BEPS = \frac{\text{P/L attributable to Ordinary ESH}}{\text{Weighted average no. of ordinary ES}}$$

* **P/L attributable to Ordinary ESH**

	Profit after Tax	XXX
(-)	Preference dividend (incl. its tax)	(XX)
		XX

* Weighted average no. of Ordinary Equity shares [WANES]

It means no. of ordinary ES adjusted by time factor.

Calculation :-

No. of ES outstanding at Beginning of the year ✓

(+) No. of ES issued during the year (x) $\frac{\text{No. of days/months}^*}{365 \times 12}$ ✓

(+) Bonus share [No time Basis] ✓

(+) No. of ES Buy Back during the year (x) $\frac{\text{No. of days/months}^*}{365 \times 12}$ (✓)
(Treasury shares)

✓

* No. of days / months "post" issue / buy back in a FY.

* Calculation of weighted avg no. of ordinary ES in following special Cases :

① Partly paid up Shares

Multiply no. of shares by $\left(\frac{\text{Partly paid up Value}}{\text{Issue price}}\right)$ in WANES calc.

② Bonus shares

→ In case of Bonus issue, shares are issued to existing shareholders without consideration by capitalisation of reserves.

→ If Bonus Ratio is given in Qn, then find :
Bonus Adjustment factor = 1 + Bonus Ratio

Current Yr EPS

$\underbrace{\text{no. of shares O/S before Bonus Issue} \times \text{BAF}}_{\text{in WANES calculation}}$

Prev. Yr EPS Restatement

$\underbrace{\text{no. of shares} \times \text{BAF}}_{\text{in WANES calculation for Previous Year}}$

→ If Bonus shares are directly given in nos., then add such no. of Bonus shares to WANES calculation for both Current Yr & Previous Yr restatement, without any time adjustment.

② Rights Issue

→ In case of Rights Issue, shares are issued to existing shareholders at a price below the current market price of share.

→ So, Rights issue has some Bonus element which needs to be adjusted.

① Current Year WANES calculation :-

$$= \left[\text{No. of ES o/s before Right Issue date} \times \text{RAF} \times \frac{\text{no. of months till Right Issue date}}{12} \right]$$

$$(+) \left[\text{Total no. of ES after Right Issue} \times \frac{\text{No. of months after Right Issue}}{12} \right]$$

② Previous Year EPS Restatement : Multiply no. of shares by RAF in Previous Yr WANES calc.

Rights Adjustment Factor [RAF]

$$= \frac{\text{MPS}}{\text{Theoritical Ex-Right Value Per share}}$$

$$\left[\frac{(\text{Existing MPS} \times \text{No. of existing shares}) + (\text{Right Issue price} \times \text{No. of Right shares})}{\text{No. of existing shares} + \text{No. of Right shares}} \right]$$

4. Diluted EPS

DEPS means Reduction in BEPS calculated on assumption that potential ES are issued

* Calculation of Diluted EPS

$$DEPS = \frac{\text{P/L used in BEPS (+) Adjustment in Earnings due to PES}}{\text{WANES used in BEPS (+) Adjustment in Shares due to PES}}$$

Less than BEPS
↓
It is dilutive, hence reported as DEPS

More than BEPS
↓
It is Anti-Dilutive, hence not reported as DEPS
[Consider DEPS = BEPS]

* Adjustment due to Potential Equity Shares

① Convertible Preference shares

→ Numerator – (+) Preference dividend
→ Denominator – (+) no. of ES on conversion
→ Time factor – FROM Yr begin / Issue date (Later)
TO Yr end / Conversion date (Earlier)

② Convertible Debentures

→ Numerator – (+) Interest (1 – tax)
→ Denominator – (+) no. of ES on conversion
→ Time factor – FROM Yr begin / Issue date (Later)
TO Yr end / Conversion date (Earlier)

③ Options / Warrants

→ Numerator – NO IMPACT
→ Denominator – (+) No. of ES under Options × $\left(\frac{\text{Mkt price} - \text{exercise price}}{\text{mkt price}}\right)$
→ Time factor – FROM Yr begin / Grant date (Later)
TO Yr end / Exercise date (Earlier)

(4) Contingent Shares

→ Numerator – NO IMPACT

→ Denominator – (+) No. of ES under promised

→ Time factor – FROM Yr begin / Agreement date (Later)

TO Yr end / share Issue date (Earlier)

Particulars	Remarks	Is it to be taken as a part of Diluted EPS or not?
Conversion to equity shares would **decrease earnings** per share from continuing ordinary activities.	Dilutive	Yes
Conversion to equity shares would **increase earnings** per share from continuing ordinary activities.	Anti-dilutive	No
Conversion to equity shares would **increase loss** per share from continuing ordinary activities.	Dilutive	Yes
Conversion to equity shares would **decrease loss** per share from continuing ordinary activities.	Anti-dilutive	No