Indian Accounting Standard (Ind AS) 33
Earnings per Share

Objective

The objective of this Standard is to prescribe principles for the determination and presentation of earnings per share, so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity. Even though earnings per share data have limitations because of the different accounting policies that may be used for determining 'earnings', a consistently determined denominator enhances financial reporting. The focus of this Standard is on the denominator of the earnings per share calculation.

Scope

This Indian Accounting Standard shall apply to companies that have issued ordinary shares to which Indian Accounting Standards (Ind ASs) notified under the Companies Act apply.

An entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.
When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with Ind AS 110, *Consolidated Financial Statements*, and Ind AS 27, *Separate Financial Statements,* respectively, the disclosures required by this Standard shall be presented both in the consolidated financial statements and separate financial statements. In consolidated financial statements such disclosures shall be based on consolidated information and in separate financial statements such disclosures shall be based on information given in separate financial statements. An entity shall not present in consolidated financial statements, earnings per share based on the information given in separate financial statements and shall not present in separate financial statements, earnings per share based on the information given in consolidated financial statements.

What are ordinary shares and potential shares?

An **ordinary share** is an equity instrument that is subordinate to all other classes of equity instruments.
Ordinary shares participate in profit for the period only after other types of shares such as preference shares have participated. An entity may have more than one class of ordinary shares. Ordinary shares of the same class have the same rights to receive dividends

A **potential ordinary share** is a financial instrument or other contract that may entitle its holder to ordinary shares
Examples of potential ordinary shares are:
(a) financial liabilities or equity instruments, including preference shares, that are convertible into ordinary shares;
(b) options and warrants;
(c) shares that would be issued upon the satisfaction of conditions resulting from contractual arrangements, such as the purchase of a business or other asset

Other Definitions

The following terms are used in this Standard with the meanings specified:

ANTIDILUTION	increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions
CONTINGENT SHARE AGREEMENT	agreement to issue shares that is dependent on the satisfaction of specified conditions
CONTINGENTLY ISSUABLE ORDINARY SHARES	ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement
DILUTION	reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions
OPTIONS, WARRANTS AND THEIR EQUIVALENTS	are financial instruments that give the holder the right to purchase ordinary shares
PUT OPTIONS	on ordinary shares are contracts that give the holder the right to sell ordinary shares at a specified price for a given period

Terms defined in Ind AS 32, *Financial Instruments: Presentation,* are used in this Standard with the meanings specified in paragraph 11 of Ind AS 32, unless otherwise noted. Ind AS 32 defines financial instrument, financial asset, financial liability and equity instrument, and provides guidance on applying those definitions. Ind AS 113, *Fair Value Measurement,* defines fair value and sets out requirements for applying that definition.

Measurement

Basic earnings per share

BASIC EARNINGS PER SHARE	profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders
	$\frac{\text{profit or loss attributable to ordinary equity holders of the parent entity}}{\text{weighted average number of ordinary shares outstanding}}$

Example

Suppose on 1stApril 20X1 the number of equity shares are 1,00,000 and on 31stMarch 20X2, the number of equity shares are 1,75,000. So while calculating the EPS it will neither consider 1,00,000 nor 1,75,000 but it will consider the shares held during the period

Earnings

For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the parent entity in respect of:

(a) profit or loss **from continuing operations** attributable to the parent entity; and

(b) profit or loss attributable to the parent entity shall be the amounts in (a) and (b) **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.

Where any item of income or expense which is otherwise required to be recognized in profit or loss in accordance with Indian Accounting Standards is debited or credited to securities premium account/other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating basic earnings per share.

All items of income and expense attributable to ordinary equity holders of the parent entity that are recognized in a period, including tax expense and dividends on preference shares classified as liabilities are included in the determination of profit or loss for the period attributable to ordinary equity holders of the parent entity (see Ind AS 1).

What are the dividend deducted from p&l?

The after-tax amount of preference dividends that is deducted from profit or loss is:

(a) the after-tax amount of any preference dividends on non-cumulative preference shares declared in respect of the period; and

(b) the after-tax amount of the preference dividends for cumulative preference shares required for the period, **whether or not the dividends have been declared**. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.

Let us try to understand the provision with following example.

S. No.	Particulars	` '000	
		20X2	**20X1**
	Profit Before Tax	7490	3900
	Less: Tax	(2250)	(1170)
	Profit After Tax	5240	2730
	Less: Preference Dividend on non-cumulative shares	(1200)	(1200)
	Less: Dividend on Cumulative preference shares for the year 20X1, declared in 20X2	(400)	
	Less Dividend on Cumulative preference shares for the year 20X2, declared in 20X2	(400)	
	Profit Available to equity Shareholders	3240	1530
	Weighted Average Number of Shares	620	500

Situation 1 : - F.Y. 20X0-20X1

i) Dividend on non-cumulative shares declared and deducted and

ii) Dividend on cumulative shares for 20X1 not declared in the same year, but declared in 20X2.
As mentioned above, the preference dividend on non-cumulative preference shares declared will be deducted. Therefore, as per line item F mentioned above the preference dividend of year 20X1, `6 00 thousand will be deducted from the profits of 20X1.
As mentioned above, the preference dividend on cumulative shares will be considered for the respective years irrespective of the fact whether it is declared or not.
Therefore, the preference dividend on cumulative preference shares of `4,00,000 for the year 20X1, even if it is declared in 20X2, will be deducted from the profits of 20X1 only.
Therefore, the Basic EPS for the year 20X1 will be calculated as follows.

Example: Earnings - Dividend on non-cumulative preference shares and cumulative preference shares

S. No.	Particulars	` '000
		20X1
	Profit Before Tax	3900
	Less: Tax	(1170)
	Profit After Tax	2730
	Less: Preference Dividend on non-cumulative shares	(1200)
	Less: Dividend on Cumulative preference shares for the year 20X1, declared in 20X2	(400)
	Less Dividend on Cumulative preference shares for the year 20X2, declared in 20X2	
	Profit Available to equity Shareholders	1130
	Weighted Average Number of Shares	500
	Basic EPS	2.26

Note: Item G. Dividend is not declared in 20X1, still it is deducted.
Situation 2:- F.Y. 20X1-20X2
i) Dividend on non-cumulative shares declared and deducted and
ii) Dividend on cumulative shares for 20X1 are declared in 20X2
In the year 20X1-20X2
In F.Y. 20X1-20X2, the dividend on non-cumulative shares is declared, therefore it will be deducted from the profit.
For cumulative shares, the dividend is declared for the previous year 20X1 as well as 20X2. However, as per the provision mentioned above, the dividend on cumulative shares needs to be deducted in each year, irrespective of the fact whether it is declared or not. Secondly, in any year, dividend of earlier year should not be considered as it must have been considered earlier. In short, the dividend need to be considered on accrual (declared/ paid or not) basis not on cash basis. Therefore, the EPS for the year 20X2 will calculated as follows

Example: Earnings - Dividend on non-cumulative preference shares and cumulative preference shares - EPS – 20X2

S.	Particulars	` '000

No.		
		20X1
	Profit Before Tax	7490
	Less: Tax	(2520)
	Profit After Tax	5240
	Less: Preference Dividend on non-cumulative shares	1200
	Less: Dividend on Cumulative preference shares for the year 20X1, declared in 20X2	
	Less Dividend on Cumulative preference shares for the year 20X2, declared in 20X2	400
	Profit Available to equity Shareholders	3640
	Weighted Average Number of Shares	620
	Basic EPS	5.87

Note: Please note point G. Dividend for 20X1 even if declared in 20X2, it is not considered

What if preference shares are sold at premium or discount?

Preference shares that provide for a low initial dividend to compensate an entity for selling the preference shares at a discount, or an above-market dividend in later periods to compensate investors for purchasing preference shares at a premium, are sometimes referred to as increasing rate preference shares. Any original issue **discount or premium** on increasing rate preference shares is **amortized to retained earnings using the effective interest method** and treated as a preference dividend for the purposes of calculating earnings per share (irrespective of whether such discount or premium is debited or credited to securities premium account in view of requirements of any law).

Example

ABC Company issues 9% preference shares of FV of `10 each on 1.4.20X2. Total value of the issue is `10,00,000. The shares are issued at a discount of `0.50 each, for a period of 5 years and would be redeemed at the end of 5thyear.

In the above example total discount offered by the company at the time of issue of shares is `50,000 (Discount per share * Total number of shares issued). The discount will be amortised over the period of 5 years as the term of preference shares is 5 years. The amortisation will take place by adjusting it against the preference dividend charge of `90,000 per year (9% of `10,00,000). Thus net effect of preference dividend in profit and loss account will be to the extent of `80,000 only. (`90,000 dividend – `10,000 credit for discount already offered). However, for the purpose of calculation of Earnings for EPS, dividend to be considered will be `90,000 only

1. **ABC Company issues 12% preference shares of FV of `10 each on 1.4.20X1. Total value of the issue is ` 20,00,000. The shares are issued at a discount of `0.60 each, for a period of 6 years and would be redeemed at the end of 6th years. If the discount is adjusted against the preference dividend calculate how much amount will be deducted from profit after tax or the calculation Earnings for EPS.**

Answer

1. Dividend per year 12% of 20,00,000 = 2,40,000

(The discount of `1,20,000 will be adjusted equally for 6 years, i.e. `20,000 per year against the dividend. However, it will be ignored for calculation of earnings for calculation of EPS)

Preference shares may be **repurchased** under an entity's tender offer to the holders. The **excess of the fair value** of the consideration paid to the preference shareholders over the carrying amount of the preference shares represents a return to the holders of the preference shares and a charge to retained earnings for the entity. This amount is **deducted in calculating profit or loss** attributable to ordinary equity holders of the parent entity.

Example

Continuing with the above example, company need to redeem the preference shares after 5 years i.e. on 31.3.20X7. Assume company decided to redeem the shares at `11 each. Thus for each share company will pay an extra rupee 1. The total amount that will be paid by the company will be `1,00,000. This is excess of the fair value of the consideration over the carrying amount of preference shares and therefore will be deducted from the earnings after tax of the year 20X6-X7, while calculating Basic EPS of the said year

Early conversion of convertible preference shares may be induced by an entity through favorable changes to the original conversion terms or the payment of additional consideration. The excess of the fair value of the ordinary shares or other consideration paid over the fair value of the ordinary shares issuable under the original conversion terms is a return to the preference shareholders, and is deducted in calculating profit or loss attributable to ordinary equity holders of the parent entity.

2. **ABC Company issues 9% preference shares of FV of `10 each on 1.4.20X1. Total value of the issue is `10,00,000. The shares are issued at a discount of `0.50 each, for a period of 5 years and would be redeemed at the end of 5$^{th}$ year. The shares are to be redeemed at `11 each.**

At the end of the year 3, i.e. on 31.3.20X4, company finds that it has earned good returns than expected over last three years and can make the redemption of preference shares early. To compensate the shareholders for two years of dividend which they need to forego, company decided to redeem the shares at `12 each instead of original agreement of `11. Comment on the earnings for the year 20X3-20X4.

Solution

In the given situation, `2 per share is the excess payment made by the company amounting to `2,00,000 in all. The amount of `2,00,000 will be deducted from the earnings of the year 20X3-20X4 while calculating the basic EPS of year 20X3-20X4

3. **Company has 10%, 20,000 preference shares of `10 each, to be repaid on 31.3.20X2. Company repays the preference shares with a premium of `1.50 each. Find out the amount of dividend that need to be added to the profit after tax for calculation of basic EPS for the year 20X1-20X2.**

Answer

Preference dividend for the year 20X1-20X2 @ 10%pa	`20,000
Excess value repaid over carrying value	`30,000
Total preference dividend	`50,000

Any excess of the carrying amount of preference shares over the fair value of the consideration paid to settle them is added in calculating profit or loss attributable to ordinary equity holders of the parent entity.

Shares

For the purpose of calculating basic earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares outstanding during the period.

Using the weighted average number of ordinary shares outstanding during the period reflects the possibility that the amount of shareholders' capital varied during the period as a result of a larger or smaller number of shares being outstanding at any time. The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances.

Shares are usually included in the weighted average number of shares from the date consideration is receivable (which is generally the date of their issue), for example:

- ordinary shares issued in exchange for cash are included when cash is receivable
- ordinary shares issued on the voluntary reinvestment of dividends on ordinary or preference shares are included when dividends are reinvested
- ordinary shares issued as a result of the conversion of a debt instrument to ordinary shares are included from the date that interest ceases to accrue
- ordinary shares issued in place of interest or principal on other financial instruments are included from the date that interest ceases to accrue
- ordinary shares issued in exchange for the settlement of a liability of the entity are included from the settlement date
- ordinary shares issued as consideration for the acquisition of an asset other than cash are included as of the date on which the acquisition is recognised; and
- ordinary shares issued for the rendering of services to the entity are included as the services are rendered

The timing of the inclusion of ordinary shares is determined by the terms and conditions attaching to their issue. Due consideration is given to the substance of any contract associated with the issue.

Ordinary shares issued as part of the consideration transferred in a business combination are included in the weighted average number of shares from the acquisition date

This is because the acquirer incorporates into its statement of profit and loss the acquiree's profits and losses from that date.

Ordinary shares that will be issued upon the conversion of a mandatorily convertible instrument are included in the calculation of basic earnings per share from the date the contract is entered into

Contingently issuable shares are treated as outstanding and are included in the calculation of basic earnings per share only **from the date when all necessary conditions are satisfied** (ie the events have occurred). Shares that are issuable solely after the passage of time are not contingently issuable shares, because the passage of time is a certainty. Outstanding ordinary shares that are contingently returnable (ie subject to recall) are not treated as outstanding and are excluded from the calculation of basic earnings per share until the date the shares are no longer subject to recall.

The weighted average number of ordinary shares outstanding during the period and for all periods presented shall be 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 resources.

Example

ABC company will issue the shares only if the company achieves the after tax profitability of 15%. In such case, achievement of profitability is a contingent event. Therefore, company should not include the number of shares in calculation of Basic EPS, unless company actually achieves 15% profitability. In the F.Y. 20X0-20X1 company achieves the profitability of 13% only. Then company will not include the shares while calculating EPS. But if in 20X1-20X2, company achieves the profitability of 17%. Then while calculating the EPS for 20X1 -20X2 the shares will be considered for the calculation of basic EPS even if the shares are actually not issued

Example

PQR company entered into contract that it will issue the shares only after completion of 3 years from the date of contract. Here the condition to be satisfied is the completion of 3 years. There is no other condition, then passage of time. Passage of time is definite event. There is no uncertainty involved in passage of time. Therefore, such shares will be included in the calculation of basic EPS because there is no contingently issued shares

4. **Following is the data for company XYZ in respect of number of equity shares during the financial year 20X1-20X2. Find out the number of shares for the purpose of calculation of basic EPS as per Ind AS 33.**

1-Apr-20X1	**Opening balance of outstanding equity shares**	**100,000**
15-Jun-20X1	**Issue of equity shares**	**75,000**
8-Nov-20X1	**Conversion of convertible pref shares in Equity**	**50,000**
22-Feb-20X2	**Buy back of shares**	**(20,000)**
31-Mar-20X2	**Closing balance of outstanding equity shares**	**205,000**

Solution

The closing balance of the outstanding shares is 2,05,000 by a normal addition and subtraction. But as per weighted average concept, one need to find out for how many days

each type of shares were actually held during the year.
The shares which were there on 1st April 20X1, were held for the whole year. Therefore, weighted average number of such shares will be given by the formula:
No of shares x no of days the shares were held during the year / 365
= 1,00,000 x 365 / 365 = 1,00,000
But the shares which were issued on 15th June 20X1, were held for only 290 days. Therefore, the weighted average number of shares will be 75,000 x 290 / 365 = 59,589.
Following the above formula, the weighted number of shares for calculation of EPS for the year 20X1-20X2 will be as follows:

Date	Particulars	No of shares	No of days shares were outstanding	Weighted average no of shares
1- Apr-20X1	Opening balance of outstanding equity shares	100,000	365	100,000
15-Jun-20X1	Issue of equity shares	75000	290	59589
8-Nov-20X1	Conversion of convertible preference shares in Equity	50,000	144	19726
22-Feb-20X2	Buy back of shares	(20,000)	(38)	(2082)
31-Mar-20X2	Closing balance of outstanding equity shares	205,000		177,233

Please note the shares bought back on 22nd February 20X2. The shares were held from 1st April 20X1 to 22nd February 20X2. i.e. for 328 days. Therefore, the weighted average number of shares equivalent to 17,973 is added to the total number of shares and not deducted. Thus the weighted average number of shares will be 1,77,233 for the calculation of EPS.

What if shares are issued with no change is resources?

Ordinary shares may be issued, or the number of ordinary shares outstanding may be reduced, without a corresponding change in resources. Examples include:

(a) a capitalization or bonus issue (sometimes referred to as a stock dividend);
(b) a bonus element in any other issue, for example a bonus element in a rights issue to existing shareholders;
(c) a share split; and
(d) a reverse share split (consolidation of shares).

In a capitalisation or bonus issue or a share split, ordinary shares are issued to existing shareholders for no additional consideration. Therefore, the number of ordinary shares outstanding is increased without an increase in resources. The number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented. For example, on a two-for-one bonus issue, the number of ordinary shares outstanding before the issue is multiplied by three to obtain the new total number of ordinary shares, or by two to obtain the number of additional ordinary shares.
A consolidation of ordinary shares generally reduces the number of ordinary shares outstanding without a corresponding reduction in resources. However, when the overall effect is a share repurchase at fair value, the reduction in the number of ordinary shares outstanding

is the result of a corresponding reduction in resources. An example is a share consolidation combined with a special dividend. The weighted average number of ordinary shares outstanding for the period in which the combined transaction takes place is adjusted for the reduction in the number of ordinary shares from the date the special dividend is recognized.

5. **The company issued bonus shares on 1st January 20X2. What will be its impact on Basic EPS?**

Solution

The company has issued the bonus shares in the F.Y. 20X1-20X2. While making the presentation of financial statement, the earliest period presented will be F.Y. 20X0-20X1.
Therefore, the new number of shares will be considered from the beginning of the year 20X0-20X1, i.e. 1st April 20X0

Diluted earnings per share

An entity shall calculate diluted earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.
For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.
The objective of diluted earnings per share is consistent with that of basic earnings per share—to provide a measure of the interest of each ordinary share in the performance of an entity—while giving effect to all dilutive potential ordinary shares outstanding during the period. As a result:
(a) profit or loss attributable to ordinary equity holders of the parent entity is increased by the after-tax amount of dividends and interest recognized in the period in respect of the dilutive potential ordinary shares and is adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares; and
(b) the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Earnings

For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, as calculated in accordance with paragraph 12, by the after-tax effect of:
(a) any dividends or other items related to dilutive potential ordinary shares deducted in arriving at profit or loss attributable to ordinary equity holders of the parent entity as calculated
(b) any interest recognized in the period related to dilutive potential ordinary shares; and
(c) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.
After the potential ordinary shares are converted into ordinary shares, the items identified in paragraph 33(a)–(c) no longer arise. Instead, the new ordinary shares are entitled to participate in profit or loss attributable to ordinary equity holders of the parent entity.

Therefore, profit or loss attributable to ordinary equity holders of the parent entity calculated in accordance with paragraph 12 is adjusted for the items identified in paragraph 33(a)–(c) and any related taxes. The expenses associated with potential ordinary shares include transaction costs and discounts accounted for in accordance with the effective interest method (see Ind AS 109).

Example

Continuing with the same data that has been used for calculation of Basic EPS for the year 20X2, we will see how to calculate diluted EPS with minor changes.

In the following example it is assumed that preference dividend is `12,00,000. Assume that the amount of `12,00,000 is based on 10,00,000 preference shares 12% preference shares of `10 each, classified in following 2 series.

1. 5,00,000 shares of `10 each - non convertible
2. 5,00,000 shares of `10 each - convertible into equity shares

Thus category 2 will be potential ordinary shares, which will be considered for dilutive effect. Let us understand, how the preference dividend and weighted average number of shares would change when one gives the effect for dilution.

' 000

	Basic	Dilutive
A. Sales	90,000	90,000
Less: Tax	6800	6800
Net Sales	83,200	83,200
B. Expenses		
Cost of goods sold	43,260	43,260
Employee Cost	9150	9150
Other Expenses	10,820	10,820
Depreciation	9980	9980
Finance Cost	2500	2500
Total Expenses	75,710	75,710
C. Profit Before Tax	7490	7490
D Less: Tax	(2250)	(2250)
E Profit After Tax	5240	5240
F Less : Preference Dividend	1200	1200
G Profit Available to equity Shareholders	4040	4040
H Weighted Average Number of Shares	620	1120
I EPS (in `)	6.52	4.14

Explanation:

Item E:- Profit After Tax

Upto profit after tax both the amounts are remaining same because the potential ordinary shares are preference shares which will participate in profits only after tax.

Item F:- Preference Dividend

While calculating basis EPS, the total dividend on preference shares is considered, which 12% of `1crore.

However, while calculating the diluted EPS, the dividend effect of convertible preference shares should not be considered because the assumption of diluted EPS will be convertible debentures have got converted into equity. Therefore, there is no need to pay dividend on

them anymore.
Therefore, dividend of `6,00,000 is reduced for the calculation of diluted EPS.
The overall effect will be increase in the numerator of EPS Ratio.

Item H:- Weighted Average Number of shares

While calculating the basic EPS, weighted average number of shares was assumed to be 620,000 shares.
The above number will go up by another 500,000 shares, assuming that the convertible preference shares have already been converted into ordinary shares. Therefore, the resultant figure of number of shares will be 1120,000 shares.

The conversion of potential ordinary shares may lead to consequential changes in income or expenses. For example, the reduction of interest expense related to potential ordinary shares and the resulting increase in profit or reduction in loss may lead to an increase in the expense related to a non-discretionary employee profit-sharing plan. For the purpose of calculating diluted earnings per share, profit or loss attributable to ordinary equity holders of the parent entity is adjusted for any such consequential changes in income or expense.

Following is the modified version of the abovementioned example:

	Basic	**Dilutive**
A. Sales	90,000	90,000
Less: Tax	6800	6800
Net Sales	83,200	83,200
B. Expenses		
Cost of goods sold	43,260	43,260
Employee Cost	9150	9150
Other Expenses	10,820	10,820
Depreciation	9980	9980
Finance Cost	2500	2200
Total Expenses	75,710	75,410
C. Profit Before Tax	7490	7790
D Less: Tax	(2250)	(2340)
E Profit After Tax	5240	5450
F Less : Preference Dividend	1200	600
G Profit Available to equity Shareholders	4040	4850
H Weighted Average Number of Shares	620	1320
I EPS (in `)	6.52	3.67

Assume that preference dividend of 12,00,000 is based on 12% preference shares
1. 5,00,000 shares of `10 each - non convertible
2. 5,00,000 shares of `10 each -convertible into equity shares
Therefore, category 2 is potentially dilutive.
3. There are 200,000 debentures of `10 each which are convertible into shares
The interest for debentures is 15% which is included in Finance cost

Explanation :-

Finance Cost:

While calculating basic EPS, the finance cost was `2500,000. However, while calculating the diluted EPS, one needs to reduce it by `300,000 to give the effect of convertible debenture component, which will be assumed to be converted into shares for the purpose of calculation of diluted EPS

Item C – Profit before Tax:

It has increased by `300,000 as interest component is reduced, while calculating the diluted EPS

Item D - Tax :

As the profit before tax has gone up due to reduction in the finance cost, the tax has been adjusted proportionately (in practice it may not have such direct relation)

Item E :-Profit After Tax

Profit after tax has changed due to decrease in interest cost and increase in tax while calculating the diluted EPS

Item F :- Preference Dividend

While calculating basis EPS, the total dividend on preference shares is considered, which 12% of `1 crore.

However, while calculating the diluted EPS, the dividend effect of convertible preference shares should not be considered because the assumption of diluted EPS will be convertible debentures have got converted into equity. Therefore, there is no need to pay dividend on them any more. Therefore, dividend of `6,00,000 is reduced for the calculation of diluted EPS.

The overall effect will be increase in the numerator of EPS Ratio.

Item H :- Weighted Average Number of shares

While calculating the basic EPS, weighted average number of shares was assumed to be 620,000 shares.

On the assumption that convertible debentures will get converted into ordinary shares, 200,000 shares will get added in dilutive EPS calculation

The above number will go up by another 500,000 shares, assuming that the convertible preference shares have already been converted into ordinary shares.

Therefore, the resultant figure of number of shares will be 620,000 + 200,000 + 500,000 = 1320,000 shares

Shares

For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares calculated in accordance with paragraphs 19 and 26, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. **Dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares**.

Dilutive potential ordinary shares shall be determined independently for each period presented. The number of dilutive potential ordinary shares included in the year-to-date period is not a weighted average of the dilutive potential ordinary shares included in each interim computation.

How to calculate potential shares for instruments issued during the period or lapsed during the period?

Potential ordinary shares are weighted for the period they are outstanding. Potential ordinary shares that are cancelled or allowed to lapse during the period are included in the calculation of diluted earnings per share only for the portion of the period during which they are outstanding. Potential ordinary shares that are converted into ordinary shares during the period are included in the calculation of diluted earnings per share from the beginning of the period to the date of conversion; from the date of conversion, the resulting ordinary shares are included in both basic and diluted earnings per share.

The number of ordinary shares that would be issued on conversion of dilutive potential ordinary shares is determined from the terms of the potential ordinary shares. When more than one basis of conversion exists, the calculation assumes the most advantageous conversion rate or exercise price from the standpoint of the holder of the potential ordinary shares.

6. **ABC Company wants to calculate diluted EPS for the year 20X5-20X6. The weighted average number of ordinary shares are 5,00,000 as on 31.3.20X6. Company has provided following details about the potential ordinary shares.**

1. On 1 April 20X1 company has issued convertible preference shares for a period of 10 years. The face value of the share is `10 each and total value of preference share capital is `75,00,000

2. On 1 January 20X3 company has issued convertible debentures having a face value of `10 each for a period of 3 years. The total value of debenture issue is `90,00,000.

After completion of third year the debentures will be converted into equity shares.

3. Company issued convertible preference shares 15th November 20X5, for a period of 5 years, having a face value of `10 and issue value of `60,00,000

Calculate the weighted average number of potential shares.

Solution

Situation1 :-

The potential shares were present on the first day of F.Y. 20X5-20X6 and will remain potential till the last date of F.Y. 20X5-20X6.

Therefore, 7,50,000 will considered as weighted average number for shares.

Situation 2 : -

Debentures were for 3 years period. So they will get converted into ordinary shares on 1st January 20X6. i.e. during the year 20X5-20X6.

As per the provisions, Potential ordinary shares are weighted for the period they are outstanding. Potential ordinary shares that are converted into ordinary shares during the period are included in the calculation of diluted earnings per share from the beginning of the period to the date of conversion; from the date of conversion, the resulting ordinary shares are included in both basic and diluted earnings per share

Thus, their status is potential shares for the period from 1st April to 31st December 20X5. From 1st January 20X6 to 31.3.20X6 their status is ordinary shares. Therefore, April to December part will be included in calculation of Diluted EPS

Whereas January to March part will be included in ordinary equity shares

The weighted average number will be calculated as follows

For Diluted EPS = 9,00,000*275/365 = 6,78,082 shares

For Basic EPS the calculation will be 9,00,000*90/365 = 2,21,918 shares.

What if such instruments are issued by subsidiary, associate or joint venture?

A subsidiary, joint venture or associate may issue to parties other than the parent or investors with joint control of, or significant influence over, the investee potential ordinary shares that are convertible into either ordinary share of the subsidiary, joint venture or associate, or ordinary shares of the parent or investors with joint control of, or significant influence (the reporting entity) over, the investee. If these potential ordinary shares of the subsidiary, joint venture or associate have a dilutive effect on the basic earnings per share of the reporting entity, they are included in the calculation of diluted earnings per share.

Dilutive potential ordinary shares

Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares **would decrease earnings per share or increase loss per share from continuing operations**.

An entity uses profit or loss from continuing operations attributable to the parent entity as the control number to establish whether potential ordinary shares are dilutive or anti dilutive. Profit or loss from continuing operations attributable to the parent entity is adjusted in accordance with paragraph 12 and excludes items relating to discontinued operations.

Potential ordinary shares are anti dilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an anti dilutive effect on earnings per share.

In determining whether potential ordinary shares are dilutive or anti dilutive, each issue or series of potential ordinary shares is considered separately rather than in aggregate. The sequence in which potential ordinary shares are considered may affect whether they are dilutive. Therefore, to maximise the dilution of basic earnings per share, each issue or series of potential ordinary shares is considered in sequence from the most dilutive to the least dilutive, ie dilutive potential ordinary shares with the lowest 'earnings per incremental share' are included in the diluted earnings per share calculation before those with some higher earnings per incremental share. **Options and warrants are generally included first** because they do not affect the numerator of the calculation.

Example:

Control number

An entity has profit from continuing operations attributable to the parent entity of `4,800, a loss from discontinued operations attributable to the parent entity of (`7,200), a loss attributable to the parent entity of (`2,400), and 2,000 ordinary shares and 400 potential ordinary shares outstanding. The entity's basic earnings per share is `2.40 for continuing operations, (`3.60) for discontinued operations and (`1.20) for the loss. The 400 potential ordinary shares are included in the diluted earnings per share calculation because the resulting `2.00 earnings per share for continuing operations is dilutive, assuming no profit or loss impact of those 400 potential ordinary shares. Since profit from continuing operations attributable to the parent entity is the control number, the entity also includes those 400 potential ordinary shares in the calculation of the other earnings per share amounts, even though the resulting earnings per share amounts are antidilutive to their comparable basic earnings per share amounts, i.e. the loss per share is less [(` 3.00) per share for the loss from discontinued operations and (` 1.00) per share for the loss].

Options, warrants and their equivalents

For the purpose of calculating diluted earnings per share, an entity shall assume the exercise of dilutive options and warrants of the entity. The assumed proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period shall be treated as an issue of ordinary shares for no consideration.

Options and warrants are dilutive when they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the period. The amount of the dilution is the average market price of ordinary shares during the period minus the issue price. Therefore, to calculate diluted earnings per share, potential ordinary shares are treated as consisting of both the following:

(a) a contract to issue a certain number of the ordinary shares at their average market price during the period. Such ordinary shares are assumed to be fairly priced and to be neither dilutive nor antidilutive. They are ignored in the calculation of diluted earnings per share.

(b) a contract to issue the remaining ordinary shares for no consideration. Such ordinary shares generate no proceeds and have no effect on profit or loss attributable to ordinary shares outstanding. Therefore, such shares are dilutive and are added to the number of ordinary shares outstanding in the calculation of diluted earnings per share.

Options and warrants have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the options or warrants (ie they are 'in the money'). Previously reported earnings per share are not retroactively adjusted to reflect changes in prices of ordinary shares.

For share options and other share-based payment arrangements to which Ind AS 102, *Share-based Payment,* applies, the issue price referred to in paragraph 46 and the exercise price referred to in paragraph 47 shall include the fair value (measured in accordance with Ind AS 102) of any goods or services to be supplied to the entity in the future under the share option or other share-based payment arrangement.

Employee share options with fixed or determinable terms and non-vested ordinary shares are treated as options in the calculation of diluted earnings per share, even though they may be contingent on vesting. They are treated as outstanding on the grant date.

Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

Example:

If company issues 100 options to be exercised at ` 45 each after 31st March 20X1. The market value of the share on 15th April 20X1 is ` 50 each. In such cases the holder option will be interested in exercising the option because he will get the shares at ` 45, when the market value outside is ` 50. He can sell the shares outside and get a profit of ` 5 each on each share held, i.e. 100 x ` 5 = ` 500.

On the other hand, assume that the market value of 15th April 20X1 is `35 only. In such case the holder of option / warrant will not be interested in exercising the option because it will be a loss making proposal for him.
In first case where the strike price of call option is less than the market value of the share it is termed as "in the money" option whereas in second case when exercise price of call option is more than the market value of the share it is termed as "out of the money: option

Situation 1 : In the money (dilutive)

7. **Company has issued 500 options, with an exercise price of ` 40 each. The average market price of the shares during the period was `50 each. Find out whether the options will be treated as dilutive or not?**

Solution

Current market price is `50 each. Therefore if the holder wanted to purchase the shares from the market, by paying `20,000 (500x 40), he would have got only 400 shares. However due to the options available he can get 500 shares in the same price. Thus he gets 100 shares more, which will result into dilution

Situation 2 : Out of money option

8. **Company has issued 500 options, with an exercise price of `40 each. The average market price of the shares during the period was `25 each. Find out whether the options will be treated as dilutive or not?**

Solution

In practice a prudent holder will not exercise this option as it will result in losses. However, as a hypothetical case, for understanding purpose one can assume that holder has exercised the option even if it is out of the money.
The average market price is `25 each. Therefore, if the holder wanted to purchase the shares from the market, by paying `20,000 (500*40), he would have got 800 shares. However due to the options available he can get 500 shares in the same price. Thus he will get 300 shares less, which will result into anti-dilution

Convertible instruments

The dilutive effect of convertible instruments shall be reflected in diluted earnings per share in accordance with paragraphs 33 and 36.
Convertible preference shares are antidilutive whenever the amount of the dividend on such shares declared in or accumulated for the current period per ordinary share obtainable on conversion exceeds basic earnings per share. Similarly, convertible debt is antidilutive whenever its interest (net of tax and other changes in income or expense) per ordinary share obtainable on conversion exceeds basic earnings per share.
The redemption or induced conversion of convertible preference shares may affect only a portion of the previously outstanding convertible preference shares. In such cases, any excess consideration referred to in paragraph 17 is attributed to those shares that are redeemed or converted for the purpose of determining whether the remaining outstanding preference shares are dilutive. The shares redeemed or converted are considered separately from those shares that are not redeemed or converted.

Contingently issuable shares

As in the calculation of basic earnings per share, contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted earnings per share if the conditions are satisfied (ie the events have occurred). Contingently issuable shares are included from the beginning of the period (or from the date of the contingent share agreement, if later). If the conditions are not satisfied, the number of contingently issuable shares included in the diluted earnings per share calculation is based on the number of shares that would be issuable if the end of the period were the end of the contingency period. Restatement is not permitted if the conditions are not met when the contingency period expires.

9. **ABC Company has issued contingently issuable shares on 1st January 20X1. The condition to be satisfied is the average turnover of the company for last three quarters must exceed `100 million. If the condition is satisfied the company will issue the shares within a period of 6 months. The conditions will be effective from the quarter ending 31st March 20X1. Company achieves the said target on ending 31st December 20X1.**

Explain what will be the status of shares while calculating diluted EPS?

Solution

In the above case, company will calculate its average turnover for last 3 quarter, every quarter starting from 31st March 20X1.

Average of 3 quarters ending 31st March 20X1– Not achieved – Therefore shares will not be included in Basic as well as Diluted for the year 20X0-20X1

Average of 3 quarters ending 30th June 20X1, September 20X1– Target not achieved therefore shares will not be considered for calculation of Basic as well as Diluted.

Average of 3 quarters ending on 31st of December 20X2–Targeted turnover is achieved. Thus, the contingent condition which was needed to be satisfied for, is satisfied. Therefore, the shares will be considered for calculation of Basic and diluted EPS for the 20X1-20X2. The date that would be considered for calculation of weighted average number of shares will be 31st December 20X1. The shares can be issued at any time during 6 months period. Therefore, shares can be issued at any moment of time from the 1st January 20X2 to 30th June 20X2. In this case, for calculation of weighted average number of shares for years 20X1-20X2, the period that will be considered would be 1st January 20X2 to 31st March 20X2. For 20X2-20X3 the period will start from 1st April 20X2. After 30th June 20X2, all the share will become ordinary shares (those actually issued) and there will not be any shares for diluted as the date of agreement is over, contingent condition is met

If attainment or maintenance of a specified amount of earnings for a period is the condition for contingent issue and if that amount has been attained at the end of the reporting period but must be maintained beyond the end of the reporting period for an additional period, then the additional ordinary shares are treated as outstanding, if the effect is dilutive, when calculating diluted earnings per share. In that case, the calculation of diluted earnings per share is based on the number of ordinary shares that would be issued if the amount of earnings at the end of the reporting period were the amount of earnings at the end of the contingency period. Because earnings may change in a future period, the calculation of basic earnings per share does not include such contingently issuable ordinary shares until the end of the contingency period because not all necessary conditions have been satisfied.

The number of ordinary shares contingently issuable may depend on the future market price of the ordinary shares. In that case, if the effect is dilutive, the calculation of diluted earnings per share is based on the number of ordinary shares that would be issued if the market price at the end of the reporting period were the market price at the end of the contingency period. If the condition is based on an average of market prices over a period of time that extends beyond the end of the reporting period, the average for the period of time that has lapsed is used. Because the market price may change in a future period, the calculation of basic earnings per share does not include such contingently issuable ordinary shares until the end of the contingency period because not all necessary conditions have been satisfied.

Example

On 1st July 20X1, PQR company enters into a contract with its strategic partner ABC co. that 10000 shares of PQR would be issued to ABC Co, when PQR will achieve the net profit before tax of `1crore and will continue to retain the same profit for minimum of another 1 year. What will be the status of 10,000 shares in calculation of Basic and diluted EPS for various financial years, assuming that company achieves the profit of `90 lacs, `1.2 crores and `1.35 crores in the year 20X1-20X2, 20X2-20X3 and 20X3-20X4 respectively.

Here there is a basic requirement of achievement of profit of `1 crore plus, there is a requirement of continuation of a profit more than `1 crore for 1 more year. Thus as mentioned in above condition, attainment of a condition and continuation of condition is discussed in abovementioned case.

Year 20X1-20X2– The company has not achieved the target, therefore the number of share will not be part of Basic as well as diluted EPS for the years 20X1-20X2

Year 20X2-20X3– The company has achieved the targeted profit of `1crore profit before tax. However, the condition is that it should be continued for 1 more year. Therefore 10,000 shares cannot be considered for basic EPS, as all the conditions needed are not satisfied. But as one of the condition of attainment of basic profit is achieved, it will be considered for calculation of Diluted EPS for the year 20X2-20X3, if the effect is dilutive. Here it will be assumed that the company will get the profit of `1 crore and more next year as well.

Year 20X3-20X4- Company has attained the required profit and also maintained the profit for one more year. Therefore, all the contingent conditions are satisfied. Therefore, the shares will be part of Basic as well as Diluted EPS for year 20X3-20X4.

Years 20X4-20X5 – Assuming that the shares will be actually issued to ABC Co, in 20X4-20X5, the shares will be part of Basic EPS as well as the diluted.

The above provisions are given in the following table

Year	Basic	Dilutes
20X1-20X2	Not Included	Not Included
20X2-20X3	Not Included	Included
20X3-20X4	Included	Included

The number of ordinary shares contingently issuable may depend on future earnings and future prices of the ordinary shares. In such cases, the number of ordinary shares included in the diluted earnings per share calculation is based on both conditions (ie earnings to date and the current market price at the end of the reporting period). Contingently issuable ordinary shares are not included in the diluted earnings per share calculation unless both conditions are met.

In other cases, the number of ordinary shares contingently issuable depends on a condition other than earnings or market price (for example, the opening of a specific number of retail stores). In such cases, assuming that the present status of the condition remains unchanged until the end of the contingency period, the contingently issuable ordinary shares are included in the calculation of diluted earnings per share according to the status at the end of the reporting period.

Contingently issuable potential ordinary shares (other than those covered by a contingent share agreement, such as contingently issuable convertible instruments) are included in the diluted earnings per share calculation as follows:

(a) an entity determines whether the potential ordinary shares may be assumed to be issuable on the basis of the conditions specified for their issue in accordance with the contingent ordinary share provisions in paragraphs 52–56; and

(b) if those potential ordinary shares should be reflected in diluted earnings per share, an entity determines their impact on the calculation of diluted earnings per share by following the provisions for options and warrants in paragraphs 45–48, the provisions for convertible instruments in paragraphs 49–51, the provisions for contracts that may be settled in ordinary shares or cash in paragraphs 58–61, or other provisions, as appropriate. However, exercise or conversion is not assumed for the purpose of calculating diluted earnings per share unless exercise or conversion of similar outstanding potential ordinary shares that are not contingently issuable is assumed.

Example

Suppose reporting date is 31st March. The contingency period is 30th October. So company would check whether the situation which is expected to be there at the end of contingency period, i.e. as on 30th October exists, on the date of reporting period or not, i.e. on 31st March. If the conditions are satisfied already, then the shares will form of diluted EPS. But the conditions are not satisfied then the shares will not be considered for calculation of diluted EPS. After completion of contingency period, the situation will be verified actually and accordingly the shares will form part of basic as well as diluted, if the conditions are satisfied and will not form part of any of the EPS if the conditions are not satisfied. After issue of shares, they lose their status of being contingent and therefore they will form part of only basic EPS.

Example

If company decides, to issue 50,000 convertible preference shares if the market value of the shares exceeds `750 per share. In the current scenario, happening of the event, "exceeding of market value of share" is a contingent event. If that is achieved then company will issue, convertible preference shares. Convertible preference shares are not ordinary shares, but they fall in the category of shares that have potential to get converted into ordinary shares. Thus the provisions of contingent issue and provisions of potential shares, both will apply in such cases

10. ABC Company appoints CA X as CFO of the company on 1st July 20X1. The company enters into an agreement with CA X that the company would issue 1000

shares to her, if she can achieve the 20% rise in the market value of the share by end of 1 year of her appointment. The current market value of the share is `500 per share.

What will be the status of the shares for calculation of EPS, for the year 20X1-20X2 and 20X2-20X3 assuming the prices of the shares are as follow:

On 31st March 20X2– `620

On 30th June 20X2 – `610

What if, the expected market value of the shares is not achieved either on 31st March or 30th June?

Solution

Year 20X1-20X2

For the year 20X1-20X2– on 31st March 20X2, the period for contingency is not yet over. The condition needs to be satisfied after 1 year after appointment of CFO. Therefore, end of contingency period will be 30th June 20X2. But as on the end of reporting date i.e. 31st March 20X2, the contingent condition, i.e. increase in the market value of the share by 20% (from `500 to more than `600) is already achieved. Therefore, these shares will be treated as outstanding while calculation of diluted EPS because the provisions say if the effect is dilutive, the calculation of diluted earnings per share is based on the number of ordinary shares that would be issued if the market price at the end of the reporting period were the market price at the end of the contingency period.

The market price at the end of contingent period need to be more than `600. However, that price is already achieved and accordingly the provisions will apply.

However, shall company include the shares in calculation of BASIC EPS as well?

No., since the market price may change in a future period, the calculation of basic earnings per share does not include such contingently issuable ordinary shares until the end of the contingency period because not all necessary conditions have been satisfied. One cannot predict the situation on 30th June 20X2. The share prices may go up or may come down also. Therefore, all the conditions can be termed as satisfied and therefore the shares will not be included in diluted EPS.

Year 20X2-20X3

On 30th June 20X2, the prices of the shares are `610 which are already exceeding the contingent condition. Therefore, all the conditions are satisfied as per the contract. Time as well as price of the shares. Therefore, now the shares will be eligible for calculation of Basic as well Diluted EPS. When the shares will be actually issued they will be very much part of ordinary shares, and will form of Basic EPS only and not the diluted EPS. So if the shares are actually issued before the reporting period i.e. 31st March 20X3, then the shares will not be treated for diluted EPS in the year 20X2-20X3.

If the expected market value of the shares is not achieved either on 31st March or 30th June.

If the expected market value is not achieved, i.e. if the market value is less than `600, then the conditions for issues of shares are not satisfied and therefore the shares will neither be part of basic nor of diluted EPS for the years 20X1-20X2 as well as year 20X2-20X3

Contracts that may be settled in ordinary shares or cash

When an entity has issued a contract that may be settled in ordinary shares or cash at the entity's option, the entity shall **presume that the contract will be settled in ordinary shares**, and the resulting potential ordinary shares shall be included in diluted earnings per share if the effect is dilutive.

When such a contract is presented for accounting purposes as an asset or a liability, or has an equity component and a liability component, the entity shall adjust the numerator for any changes in profit or loss that would have resulted during the period if the contract had been classified wholly as an equity instrument. That adjustment is similar to the adjustments required in paragraph 33.

For contracts that may be settled in ordinary shares or cash at the holder's option, **the more dilutive of cash settlement and share settlement shall be used in calculating diluted earnings per share.**

An example of a contract that may be settled in ordinary shares or cash is a debt instrument that, on maturity, gives the entity the unrestricted right to settle the principal amount in cash or in its own ordinary shares. Another example is a written put option that gives the holder a choice of settling in ordinary shares or cash.

Purchased options

Contracts such as purchased put options and purchased call options (ie options held by the entity on its own ordinary shares) are **not included** in the calculation of diluted earnings per share because including them would be antidilutive. The put option would be exercised only if the exercise price were higher than the market price and the call option would be exercised only if the exercise price were lower than the market price.

Written put options

Contracts that require the entity to repurchase its own shares, such as written put options and forward purchase contracts, are reflected in the calculation of diluted earnings per share if the effect is dilutive. If these contracts are 'in the money 'during the period (ie the exercise or settlement price is above the average market price for that period), the potential dilutive effect on earnings per share shall be calculated as follows:

it shall be assumed that at the beginning of the period sufficient ordinary shares will be issued (at the average market price during the period) to raise proceeds to satisfy the contract

it shall be assumed that the proceeds from the issue are used to satisfy the contract (ie to buy back ordinary shares); and

the incremental ordinary shares (the difference between the number of ordinary shares assumed issued and the number of ordinary shares received from satisfying the contract) shall be included in the calculation of diluted earnings per share

Example
An entity has outstanding 120 written put options on its ordinary shares with an exercise price of `35. The average market price of its ordinary shares for the period is `28. In calculating diluted earnings per share, the entity assumes that it issued 150 shares at `28 per share at the beginning of the period to satisfy its put obligation of `4,200. The difference between the 150 ordinary shares issued and the 120 ordinary shares received from satisfying the put option (30 incremental ordinary shares) is added to the denominator in calculating diluted earnings per share

Retrospective adjustments

If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be **adjusted retrospectively.** If these changes occur after the reporting period but before the financial statements are approved for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares. The fact that per share calculations reflect such changes in the number of shares shall be disclosed. In addition, basic and diluted earnings per share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively.

An entity does not restate diluted earnings per share of any prior period presented for changes in the assumptions used in earnings per share calculations or for the conversion of potential ordinary shares into ordinary shares.

Example
Assume that there is a bonus issue in the F.Y. 20X1-20X2. Now the problem is the comparative EPS of 20X0-20X1 is based on the number of shares before issue of bonus Shares whereas the EPS of 20X1-20X2 will be based on number of shares after bonus shares. Obviously it will not be comparable. Therefore, Ind AS 33 says, that if there is increase or decrease in the number of shares due to capitalisation, then basic and diluted EPS will be adjusted for all the periods presented retrospectively. Thus EPS of 20X0-20X1 will also be adjusted as per the new number of shares after issue of bonus shares and accordingly the fact will be disclosed

Example
Assume the bonus issue was effective on 15th April 20X2 whereas the financial statements are approved on 30th April 20X2. Thus issue is considered as the event after reporting period as per the IND AS 10. Now the problem is as on 31st March 20X2 the company was having the old number of shares. But when the financial statements will be circulated, company has evidence that the bonus shares were issued. So shall company calculate EPS based on old number of shares as on 31st March 20X2, or shall it calculate on the basis on new number of shares, when the accounts are approved?
As per IND AS 33, if the capitalisation happens after the reporting period but before the approval of financial statements, then company should take into consideration the number of shares after issue of bonus shares.

Presentation

An entity shall present in the statement of profit and loss basic and diluted earnings per share for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity and for profit or loss attributable to the ordinary equity holders of the parent entity for the period for each class of ordinary shares that has a different right to share in profit for the period. An entity shall present basic and diluted earnings per share with equal prominence for all periods presented.
Earnings per share is presented for every period for which a statement of profit and loss is presented. If diluted earnings per share is reported for at least one period, it shall be reported for all periods presented, even if it equals basic earnings per share. If basic and diluted earnings per share are equal, dual presentation can be accomplished in one line in the statement of profit and loss.
An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of profit and loss or in the notes.
An entity shall present basic and diluted earnings per share, even if the amounts are negative (ie a loss per share).

Disclosure

An entity shall disclose the following:

(a) the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to profit or loss attributable to the parent entity for the period. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share.
(b) the weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share.
(c) instruments (including contingently issuable shares) that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the period(s) presented.
(d) a description of ordinary share transactions or potential ordinary share transactions, other than those accounted for in accordance with paragraph64, that occur after the reporting period and that would have changed significantly the number of ordinary shares or potential ordinary shares outstanding at the end of the period if those transactions had occurred before the end of the reporting period.

Examples of transactions include:

(a) an issue of shares for cash;
(b) an issue of shares when the proceeds are used to repay debt or preference shares outstanding at the end of the reporting period;
(c) the redemption of ordinary shares outstanding;
(d) the conversion or exercise of potential ordinary shares outstanding at the end of the reporting period into ordinary shares;
(e) an issue of options, warrants, or convertible instruments; and
(f) the achievement of conditions that would result in the issue of contingently issuable shares. Earnings per share amounts are not adjusted for such transactions occurring after

the reporting period because such transactions do not affect the amount of capital used to produce profit or loss for the period.

Financial instruments and other contracts generating potential ordinary shares may incorporate terms and conditions that affect the measurement of basic and diluted earnings per share. These terms and conditions may determine whether any potential ordinary shares are dilutive and, if so, the effect on the weighted average number of shares outstanding and any consequent adjustments to profit or loss attributable to ordinary equity holders. The disclosure of the terms and conditions of such financial instruments and other contracts is encouraged, if not otherwise required (see Ind AS 107,*Financial Instruments: Disclosures*).

If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the statement of profit and loss other than one required by this Standard, such amounts shall be calculated using the weighted average number of ordinary shares determined in accordance with this Standard. Basic and diluted amounts per share relating to such a component shall be disclosed with equal prominence and presented in the notes. An entity shall indicate the basis on which the numerator(s) is (are) determined, including whether amounts per share are before tax or after tax. If a component of the statement of profit and loss is used that is not reported as a line item in the statement of profit and loss, a reconciliation shall be provided between the component used and a line item that is reported in the statement of profit and loss.

Application guidance

Profit or loss attributable to the parent entity

For the purpose of calculating earnings per share based on the consolidated financial statements, profit or loss attributable to the parent entity refers to profit or loss of the consolidated entity after adjusting for non-controlling interests.

Rights issues

The issue of ordinary shares at the time of exercise or conversion of potential ordinary shares does not usually give rise to a bonus element. This is because the potential ordinary shares are usually issued for fair value, resulting in a proportionate change in the resources available to the entity. In a rights issue, however, the exercise price is often less than the fair value of the shares. Therefore, as noted in paragraph 27(b), such a rights issue includes a bonus element. If a rights issue is offered to all existing shareholders, the number of ordinary shares to be used in calculating basic and diluted earnings per share for all periods before the rights issue is the number of ordinary shares outstanding before the issue, multiplied by the following factor:

$$\frac{\text{Fair value per share immediately before the exercise of rights}}{\text{Theoretical ex-rights fair value per share}}$$

The theoretical ex-rights fair value per share is calculated by adding the aggregate fair value of the shares immediately before the exercise of the rights to the proceeds from the exercise of the rights, and dividing by the number of shares outstanding after the exercise of the rights. Where the rights are to be publicly traded separately from the shares before the exercise date, fair value is measured at the close of the last day on which the shares are traded together with the rights.

Control number

Assume that an entity has profit from continuing operations attributable to the parent entity of Rs. 4,800, a loss from discontinued operations attributable to the parent entity of(Rs. 7,200), a loss attributable to the parent entity of (Rs. 2,400), and 2,000 ordinary shares and 400 potential ordinary shares outstanding. The entity's basic earnings per share is Rs. 2.40 for continuing operations, (Rs. 3.60) for discontinued operations and(Rs. 1.20) for the loss. The 400 potential ordinary shares are included in the diluted earnings per share calculation because the resulting Rs. 2.00 earnings per share for continuing operations is dilutive, assuming no profit or loss impact of those 400 potential ordinary shares. Because profit from continuing operations attributable to the parent entity is the control number, the entity also includes those 400 potential ordinary shares in the calculation of the other earnings per share amounts, even though the resulting earnings per share amounts are antidilutive to their comparable basic earnings per share amounts, ie the loss per share is less [(Rs. 3.00) per share for the loss from discontinued operations and (Rs.1.00) per share for the loss].

Average market price of ordinary shares

For the purpose of calculating diluted earnings per share, the average market price of ordinary shares assumed to be issued is calculated on the basis of the average market price of the ordinary shares during the period. Theoretically, every market transaction for an entity's ordinary shares could be included in the determination of the average market price. As a practical matter, however, a simple average of weekly or monthly prices is usually adequate.

Generally, closing market prices are adequate for calculating the average market price. When prices fluctuate widely, however, an average of the high and low prices usually produces a more representative price. The method used to calculate the average market price is used consistently unless it is no longer representative because of changed conditions. For example, an entity that uses closing market prices to calculate the average market price for several years of relatively stable prices might change to an average of high and low prices if prices start fluctuating greatly and the closing market prices no longer produce a representative average price.

Options, warrants and their equivalents

Options or warrants to purchase convertible instruments are assumed to be exercised to purchase the convertible instrument whenever the average prices of both the convertible instrument and the ordinary shares obtainable upon conversion are above the exercise price of the options or warrants. However, exercise is not assumed unless conversion of similar outstanding convertible instruments, if any, is also assumed.

Options or warrants may permit or require the tendering of debt or other instruments of the entity (or its parent or a subsidiary) in payment of all or a portion of the exercise price. In the calculation of diluted earnings per share, those options or warrants have a dilutive effect if

(a) the average market price of the related ordinary shares for the period exceeds the exercise price or

(b) the selling price of the instrument to be tendered is below that at which the instrument may be tendered under the option or warrant agreement and the resulting discount establishes an effective exercise price below the market price of the ordinary shares obtainable upon exercise. In the calculation of diluted earnings per share, those options or warrants are assumed to be exercised and the debt or other instruments are assumed to be tendered. If tendering cash is more advantageous to the option or warrant holder and the contract permits tendering cash, tendering of cash is assumed. Interest (net of tax) on any debt assumed to be tendered is added back as an adjustment to the numerator.

Similar treatment is given to preference shares that have similar provisions or to other instruments that have conversion options that permit the investor to pay cash for a more favorable conversion rate.

The underlying terms of certain options or warrants may require the proceeds received from the exercise of those instruments to be applied to redeem debt or other instruments of the entity (or its parent or a subsidiary). In the calculation of diluted earnings per share, those options or warrants are assumed to be exercised and the proceeds applied to purchase the debt at its average market price rather than to purchase ordinary shares. However, the excess proceeds received from the assumed exercise over the amount used for the assumed purchase of debt are considered (ie assumed to be used to buy back ordinary shares) in the diluted earnings per share calculation. Interest (net of tax) on any debt assumed to be purchased is added back as an adjustment to the numerator.

Written put options

To illustrate the application of paragraph 63, assume that an entity has outstanding 120 written put options on its ordinary shares with an exercise price of Rs. 35. The average market price of its ordinary shares for the period is Rs. 28. In calculating diluted earnings per share, the entity assumes that it issued 150 shares at Rs. 28 per share at the beginning of the period to satisfy its put obligation of Rs. 4,200. The difference between the 150ordinary shares issued and the 120 ordinary shares received from satisfying the put option(30 incremental ordinary shares) is added to the denominator in calculating diluted earnings per share.

Instruments of subsidiaries, joint ventures or associates

Potential ordinary shares of a subsidiary, joint venture or associate convertible into either ordinary shares of the subsidiary, joint venture or associate, or ordinary shares of the parent or investors with joint control of, or significant influence (the reporting entity)over, the investee are included in the calculation of diluted earnings per share as follows:

(a) instruments issued by a subsidiary, joint venture or associate that enable their holders to obtain ordinary shares of the subsidiary, joint venture or associate are included in calculating the diluted earnings per share data of the subsidiary, joint venture or associate. Those earnings per share are then included in the reporting entity's earnings per share calculations based on the reporting entity's holding of the instruments of the subsidiary, joint venture or associate.

(b) instruments of a subsidiary, joint venture or associate that are convertible into the reporting entity's ordinary shares are considered among the potential ordinary shares of the reporting entity for the purpose of calculating diluted earnings per share. Likewise, options or warrants issued by a subsidiary, joint venture or associate to purchase ordinary shares of the reporting entity are considered among the potential ordinary shares of the reporting entity in the calculation of consolidated diluted earnings per share.

For the purpose of determining the earnings per share effect of instruments issued by a reporting entity that are convertible into ordinary shares of a subsidiary, joint venture or associate, the instruments are assumed to be converted and the numerator (profit or loss attributable to ordinary equity holders of the parent entity) adjusted as necessary

In addition to those adjustments, the numerator is adjusted for any change in the profit or loss recorded by the reporting entity (such as dividend income or equity method income) that is attributable to the increase in the number of ordinary shares of the subsidiary, join venture or associate outstanding as a result of the assumed conversion. The denominator of the diluted earnings per share calculation is not affected because the number of ordinary shares of the reporting entity outstanding would not change upon assumed conversion.

Participating equity instruments and two-class ordinary shares

The equity of some entities includes:

(a) instruments that participate in dividends with ordinary shares according to a predetermined formula (for example, two for one) with, at times, an upper limit on the extent of participation (for example, up to, but not beyond, a specified amount per share).

(b) a class of ordinary shares with a different dividend rate from that of another class of ordinary shares but without prior or senior rights.

For the purpose of calculating diluted earnings per share, conversion is assumed for those instruments described in paragraph A13 that are convertible into ordinary shares if the effect is dilutive. For those instruments that are not convertible into a class of ordinary shares, profit or loss for the period is allocated to the different classes of shares and participating equity instruments in accordance with their dividend rights or other rights to participate in undistributed earnings. To calculate basic and diluted earnings per share:

(a) profit or loss attributable to ordinary equity holders of the parent entity is adjusted(a profit reduced and a loss increased) by the amount of dividends declared in the period for each class of shares and by the contractual amount of dividends (or interest on participating bonds) that must be paid for the period (for example, unpaid cumulative dividends).

(b) the remaining profit or loss is allocated to ordinary shares and participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

(c) the total amount of profit or loss allocated to each class of equity instrument is divided by the number of outstanding instruments to which the earnings are allocated to determine the earnings per share for the instrument.

For the calculation of diluted earnings per share, all potential ordinary shares assumed to have been issued are included in outstanding ordinary shares.

Partly paid shares

Where ordinary shares are issued but not fully paid, they are treated in the calculation of basic earnings per share as a fraction of an ordinary share to the extent that they were entitled to participate in dividends during the period relative to a fully paid ordinary share.
To the extent that partly paid shares are not entitled to participate in dividends during the period they are treated as the equivalent of warrants or options in the calculation of diluted earnings per share. The unpaid balance is assumed to represent proceeds used to purchase ordinary shares. The number of shares included in diluted earnings per share is the difference between the number of shares subscribed and the number of shares assumed to be purchased.

Particulars	**Ind AS 33**	**AS 20**
Options held by the Entity on its Shares	Ind AS 33 deals with the same	AS 20 does not specifically deal with options held by the entity on its shares, e.g., purchased options, written put option etc.
Presentation of Basic and Diluted EPS from Continuing and Discontinued Operations	Ind AS 33 requires presentation of basic and diluted EPS from continuing and discontinued operations separately.	AS 20 does not require any such Disclosure
Disclosure of EPS with and without Extraordinary Items	Since as per Ind AS 1, 'Presentation of Financial Statements', no item can be presented as extraordinary item, Ind AS 33 does not require the aforesaid disclosure.	AS 20 requires the disclosure of EPS with and without extraordinary items