CHAPTER

11

IND AS 33 – EARNING PER SHARE

CONCEPTS COVERED

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1. INTRODUCTION :

Earnings per share (EPS) is an important measure of the performance of the company. The equity shareholders (ordinary shareholders as per Ind AS 33) invest their money in the entity as owners of the company. They undertake business risks and financial risks along with all allied systematic and non-systematic risks of the company. Naturally they expect a higher than normal return on their investments. EPS is a ratio that is widely used by financial analysts, investors and other users to gauge an entity's profitability and to value its shares. Its purpose is to indicate how effective an entity has been in using the resources provided by the ordinary shareholders, and to assess the entity's current net earnings. EPS also forms the basis for calculating the price-earnings ratio, which is widely used by investors and analysts to value shares.

2. OBJECTIVE :

(i) To prescribe principles for the determination and presentation of earnings per share

(ii) To facilitate performance comparisons between different entities in the same reporting period

(iii) To facilitate performance comparisons between different reporting periods for the same entity

3. SCOPE :

This standard is applicable, i.e. EPS should be disclosed while preparing CFS and SFS. Information to be used should be from respective financial statements

4. DEFINITIONS :

1. 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 dividend.
   An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

2. **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.

3. **Options, warrants and their equivalents** are financial instruments that give the holder the right to purchase ordinary shares.

4. **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.

5. **Dilution** is a 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.

6. **Antidilution** is an 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.

Example :
ABC Ltd. convert some high-interest debt to ordinary shares. The interest saved (earnings) increases the earnings per share, even allowing for the additional shares in issue.

7. A contingent share agreement is an agreement to issue shares that is dependent on the satisfaction of specified conditions.

Example :
ABC Ltd. has provided staff with share options. If they work for you for 3 years, they will be able to buy shares at a discount. This is a contingent share agreement.

8. Contingently issuable ordinary shares are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement.

Example :
ABC Ltd. buys a XYZ Ltd.'s business in exchange for ABC Ltd.'s shares. If the share price falls by more than 25% in the first 6 months, ABC Ltd. will issue more shares (free) to the vendor, as compensation

5. MEASUREMENT :

Measurement can be divided into following categories:

a. Measurement of Basic Earnings Per Share
   - Measurement of Earnings
   - Measurement of Number of Shares
   - Measurement of Weighted Average number of shares

b. Measurement of Diluted Earnings per share c. Measurement of Earnings for diluted EPS

d. Measurement of Number of Shares for diluted EPS

e. Measurement of Dilutive potential ordinary shares

f. Measurement of Options, warrants and their equivalents

g. Measurement of Convertible Instruments

h. Measurement of Contingently issuable shares

i. Measurement of contracts that may be settled in ordinary shares or cash

j. Measurement of purchased options and written put options

k. Dealing with retrospective adjustments

Let us study these measurements one by one.

6. MEASUREMENT OF BASIC EARNINGS PER SHARE :

6.1 Meaning and Formula :

Meaning :

An entity shall calculate basic earnings per share 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.

Formula :

$$= \frac{Profit/Loss\ attributable\ to\ Equity\ share\ holders}{Weighted\ average\ number\ of\ Equity\ shares\ outstanding\ during\ the\ period}$$

6.2 Measurement of 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

- Where any item of income or expense, which is otherwise required to be recognised 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 recognised in a period, including tax expense and dividend 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).
- The amount of dividends declared in respect of the year should be deducted in arriving at the profit attributable to ordinary shareholders for preference dividends that are non-cumulative.
- The dividend for the period should be taken into account, whether or not it has been declared for cumulative preference dividends. If an entity is unable to pay or declare a cumulative preference dividend, the undeclared amount of the cumulative preference dividend (net of tax, if applicable) should still be deducted in arriving at earnings for the purpose of the EPS calculation. The amount paid is not deducted in arriving at earnings for the purpose of the EPS calculation in the period in which arrears of cumulative preference dividends are paid.
- 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 amortised 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).

6.2.1 Redemption/Repurchase of preference shares at premium :

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 :

ABC Ltd. had issued preference shares at Rs.100 each 10 years ago. Now ABC Ltd. buy backs the shares for Rs.120 each. Rs.20 premium for each share is charged to retained earnings. No amount is recorded in the statement of profit and loss for this transaction. However, for EPS purposes, Rs 20 for each share is charged to the statement of profit or loss for the period of the transaction.

6.2.2 Early conversion of Preference shares at premium :

Early conversion of convertible preference shares may be induced by an entity through favourable 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.

6.3 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.

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.

6.3.1 Deciding the date for issue of shares :

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)

6.3.2 Contingently issuable shares :

- 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 (i.e. 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.

Example :

ABC Ltd. buys a company for shares in 2011. If the profits for calendar years 2011 and 2012 meet budget, ABC Ltd. will issue more shares to the vendor in February 2013. These additional shares will be included in the weighted-average calculation from 1 January 2013 (considering reporting date as December end), if the targets are met.

6.3.3 Change in the number of shares without change in value of capital :

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 capitalisation 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).

6.3.4 Rights issues :

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

where,

Theoretical ex-rights fair value per share

$$= \frac{\textit{Fair value of all outstanding shares before exercise of right} + \textit{Total amount received from exercise of rights}}{\textit{No of shares outstanding before exercise} + \textit{No of shares issued in exercise}}$$

Question 1 – (Dividend to Preference based on EIR)

Calculate Basic EPS for RM Limited from the following information

1.	No of shares		100 lakhs
2.	8% cumulative preference shares		
	a.	Face Value	Rs. 100 each
	b.	Issued at	Rs. 92 each
	c.	Maturity	5 years
	d.	Date of issue	1/4/17
	e.	Number of shares of issue	10 lakhs
	f.	EIR	10.12 %
	g.	Dividend Distribution Tax	17%
3.	PAT		280 lakhs

Question 2 – (Premium on Redemption)

RM Ltd. issues 10000 11% preference shares of Rs.100 each @ 102 each. Other details are as follows

Maturity	5 years
Dividend Distribution Tax	17%
EIR	10.47 %
PAT	3,00,000
No of equity shares	1,00,000

RM Ltd redeems the preference shares early at year end @ Rs.104.

Calculate Basic EPS?

Question 3 – An entity

An entity has following preference shares in issue at the end of 2014:

- 5% redeemable, non-cumulative preference shares: These shares are classified as liabilities. During the year, a dividend was paid on the 5% preference shares – Rs.100,000.
- Increasing-rate, cumulative, non-redeemable preference shares issued at a discount in 2010, with a cumulative dividend rate from 2015 of 10%: The shares were issued at a discount to compensate the holders, because dividend payments will not commence until 2015. The accrual for the discount in the current year, calculated using the effective interest method amounted to, say, Rs.18,000. These shares are classified as equity – Rs.200,000.
- 8% non-redeemable, non-cumulative preference shares: At the beginning of the year, the entity had Rs.100,000 8% preference shares outstanding but, at 30

June 2014, it repurchased Rs.50,000 of these at a discount of Rs.1,000 – Rs.50,000.

- 7% cumulative, convertible preference shares (converted in the year): These shares were classified as equity, until their conversion into ordinary shares at the beginning of the year. No dividend was accrued in respect of the year, although the previous year's dividend was paid immediately prior to conversion. To induce conversion, the terms of conversion of the 7% convertible preference shares were also amended, and the revised terms entitled the preference shareholders to an additional 100 ordinary shares on conversion with a fair value of Rs.300 – Nil.

The profit attributable to ordinary equity holders for the year 2014 is Rs.150,000. Determine the adjustments for the purpose of calculating EPS.

Question 4 – ABC Ltd.

ABC Ltd. issues 9% preference shares of fair value of Rs.10 each on 1.4.2011. Total value of the issue is Rs.10,00,000. The shares are issued for a period of 5 years and would be redeemed at the end of 5th year. The shares are to be redeemed at Rs.11 each.

At the end of the year 3, i.e. on 31.3.2014, 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 Rs.12 each instead of original agreement of Rs.11. Comment on the earnings for the year 2013-2014. Ignore the EIR impact in the solution and answer on the basis of Ind AS 33 only.

Question 5 – A (Fresh issue and Buy Back)

Calculate EPS for 2017-18 and 2018-19 from the following information

Shares outstanding on 1/4/17	100 lakhs
Fresh Issue on 1/10/17	100 lakhs
Buy back 1/10/2018	20 lakhs
PAT (2017-18)	1000 lakhs
PAT (2018-19)	1300 lakhs

Question 6 – XYZ

Following is the data for company XYZ in respect of number of equity shares during the financial year 2011-2012. Find out the number of shares for the purpose of calculation of basic EPS as per Ind AS 33.

No.	Date	Particulars	No of shares

1	1/4/2011	Opening balance of outstanding equity shares	100,000
2	15/6/2011	Issue of equity shares	75,000
3	8/11/2011	Conversion of convertible preference shares in Equity	50,000
4	22/2/2012	Buy back of shares	(20,000)
5	31/3/2012	Closing balance of outstanding equity shares	205,000

Question 7 – (Bonus Issue)

PAT for 17/18	Rs.60,00,000
PAT for 18/19	Rs.75,00,000
No of shares on 31/12/18	1,50,000 shares
Bonus on 1/1/19	1 : 2

Calculate basic EPS for 17/18 and 18/19.

Question 8 –

On 31 March, 2012, the issued share capital of a company consisted of Rs.100,000,000 in ordinary shares of Rs.25 each and Rs.500,000 in 10% cumulative preference shares of Re 1 each. On 1 October, 2012, the company issued 1,000,000 ordinary shares fully paid by way of capitalization of reserves in the proportion 1:4 for the year ended 31 March, 2013.

Profit for 2011-2012 and 2012-2013 is Rs.450,000 and Rs.550,000 respectively.

Calculate the basic EPS for 2011-2012 and 2012-2013.

Question 9 – X Ltd.

X Ltd.

1 January	1,000,000 shares in issue
28 February	Issued 200,000 shares at fair value
31 August	Bonus issue 1 share for 3 shares held
30 November	Issued 250,000 shares at fair value

Calculate the number of shares which would be used in the basic EPS calculation. Consider reporting date as December end.

Question 10 – (Bonus Issue)

PAT for 17/18	Rs.10,00,000
PAT for 18/19	Rs.12,00,000
No of shares on 1/4/17	10,000 shares

Issue 1/1/18	5000 shares for cash
Issue 1/7/18	3000 shares for cash
Bonus on 1/12/18	1 : 1

Calculate basic EPS for 17/18 and 18/19

Question 11 – (Bonus Issue)

No of shares on 1/1/18	10,000 shares
Issue on 1/4/18	2,000 Bonus
Issue on 1/7/18	2,000 for cash
Issue on 1/10/18	3,000 Bonus

Calculate No of shares.

Question 12 –

At 31 December 2011, the issued share capital of a company consisted of 1.8 million ordinary shares of Rs.10 each, fully paid. The profits for the year ended 31 December 2011 and 2012 amounted to Rs.630,000 and Rs.875,000 respectively. On 31 March 2012, the company made a rights issue on a 1 for 4 basis at Rs.30. The market price of the shares immediately before the rights issue was Rs.60. Calculate EPS.

Question 13 – (Right Issue)

Calculate Basic EPS from the following information

No of shares at the beginning	1,00,000 shares
Right issue (After 3 months)	Ratio 1 : 5 @ 20
Fair Value before right issue	Rs.30
PAT for current year	18,00,000
PAT for Previous Year	14,00,000

Question 14 – (Stock Split)

Calculate EPS from the following information

PAT for Current Year	Rs.10,00,000
PAT for Previous Year	Rs.5,00,000
No of shares on 1/4/17	1,00,000 shares

Split on 1/11/17 in the ratio of 10 : 1

Deciding the date for issue of shares

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:

Situation of issuance of ordinary shares	Ordinary shares are included in the weighted average number of shares from the date
When issued in exchange for cash	When cash is receivable
When issued on voluntary reinvestment of dividends (on ordinary or preference shares)	When dividends are reinvested
When issued as a result of conversion of a debt instrument to ordinary shares	When Interest ceases to accrue
Issued in place of interest or principal on other financial instruments	When Interest ceases to accrue
Issued in exchange for the settlement of a liability	On settlement date
Issued as consideration for the acquisition of an asset other than cash	When the acquired asset is recognised
Issued for rendering of services to the entity	When the services are rendered
Issued as a part of the consideration transferred in a business combination	From the date of acquisition
Issued upon the conversion of a mandatorily convertible instrument	From the date of entering into the contract

7. DILUTED EARNINGS PER SHARE :

7.1 SCOPE, MEANING AND FORMULA :

- 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.
- Dilution is a 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.

Example :
One may convert some low interest debt to ordinary shares. The interest saved (earnings) decreases the earnings per share, as the additional shares in issue increase substantially.

- Potential ordinary share is a financial instrument or other contract that may entitle its holder to ordinary shares. Contracts that might result in the issue of ordinary shares of the entity to the holder of the contract, at the option of the issuer or the holder, are potential ordinary shares.

Example
ABC & Co has issued preference shares with the option to convert these into an equal no of ordinary shares in 2 years' time. They represent potential ordinary shares, even though you do not know whether the holders will convert them (it will depend on the prices of each class of share at the time). If the price of the ordinary share is higher than that of the preferred share, the holders will convert, and will make a profit. If the price is lower, they will not.

- 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:
  - ✓ profit or loss attributable to ordinary equity holders of the parent entity is increased by the after-tax amount of dividend and interest recognised 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
  - ✓ 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.

The formula can be mathematically expressed as follows:

$$\frac{\text{Profit/Loss attributable to Equity share holders when dilutive potential shares are converted into ordinary shares}}{\text{Weighted average number of Equity shares + Weighted average number of dilutive potential ordinary shares}}$$

7.2 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, by the after-tax effect of:
  - (a) any dividend or other items related to dilutive potential ordinary shares is deducted in arriving at profit or loss attributable to ordinary equity holders of the parent entity;
  - (b) any interest recognised 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 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 is adjusted for the items 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).

7.3 SHARES :

7.3.1 Base for calculation :

For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares 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.

7.3.2 Calculation of Weighted average to be done independently for every period :

- 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.
- 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.

- All potential ordinary shares are assumed converted into ordinary shares at the beginning of the period or, if not in existence at the beginning of the period, at the date of issue of the potential ordinary shares. The date of issue is the date the financial instrument was issued or the granting of the rights by which they are generated. This is sometimes referred to as the 'if converted' method.
- The conversion into ordinary shares should be determined from the terms of the financial instrument or the rights granted. This determination should assume the most advantageous conversion rate or exercise price from the standpoint of the holder of the potential ordinary shares.
- Only potential ordinary shares that are dilutive are considered in the calculation of diluted EPS. Potential ordinary shares should be treated as dilutive only when their conversion to ordinary shares would decrease profit per share or increase loss per share from continuing operations attributable to ordinary equity holders.
- The effects of anti-dilutive potential ordinary shares are ignored in calculating diluted EPS. An entity might have a number of different types of potential ordinary shares in issue. Each one would need to be considered separately rather than in aggregate.
- Convertible preference shares are dilutive where the amount of dividend on such shares, declared or accrued in the period per ordinary share obtainable on conversion, is below basic EPS for continuing operations. If the amount exceeds basic EPS, the convertible preference shares are anti-dilutive.

7.3.3 EMPLOYEE STOCK OPTIONS :

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.

7.3.4 CONVERTIBLE INSTRUMENTS :

- The dilutive effect of convertible instruments shall be reflected in diluted earnings per share.
- 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 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.

7.3.5 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 (i.e. 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.
- 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.
- 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 (i.e. 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.

7.3.6 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 an issued contract that may be settled in ordinary shares or cash at the entity's option may give rise to an asset or a liability, or a hybrid instrument with both an equity and a liability component under Ind AS 32, the entity should adjust the numerator (profit or loss attributable to ordinary equity holders) for any changes in the profit or loss that would have resulted during the period if the contract had been classified wholly as an equity instrument.
- 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.

Question 15 – Entity A

Entity A has in issue 25,000 4% debentures with a nominal value of Re 1. The debentures are convertible to ordinary shares at a rate of 1:1 at any time until 20X9. The entity's management receives a bonus based on 1% of profit before tax. Entity A's results for 20X2 showed a profit before tax of Rs.80,000 and a profit after tax of ` 64,000 (for simplicity, a tax rate of 20% is assumed in this example). Calculate Earnings for the purpose of diluted EPS.

Question 16 – ABC Ltd.

ABC Ltd. has 1,000,000 Rs.1 ordinary shares and 1,000 Rs.100 10% convertible bonds (issued at par), each convertible into 20 ordinary shares on demand, all of which have been in issue for the whole of the reporting period. ABC Ltd.'s share price is Rs.4.50 per share and earnings for the period are Rs.500,000. The tax rate applicable to the entity is 21%. Calculate earnings per incremental share for the convertible bonds.

Question 17 – (Convertible Debentures)

	Situation 1	**Situation 2**
PAT 2016 – 17	7,50,000	7,50,000
No	1,50,000	1,50,000
EPS	5	5
No of convertible debentures of Rs.100 each	10,000	10,000
Conversion Ratio	3 : 2	1 : 2

No of Shares on conversion	15,000	5,000
Interest	1,00,000	1,00,000
Income Tax (35%)	35,000	35,000

Question 18 –

At 30 June 20X1, the issued share capital of an entity consisted of 1,500,000 ordinary shares of Rs.1 each. On 1 October 20X1, the entity issued Rs.1,250,000 of 8% convertible loan stock for cash at par. Each Rs.100 nominal of the loan stock may be converted, at any time during the years ended 20X6 to 20X9, into the number of ordinary shares set out below:

30 June 20X6: 135 ordinary shares;

30 June 20X7: 130 ordinary shares;

30 June 20X8: 125 ordinary shares; and

30 June 20X9: 120 ordinary shares.

If the loan stocks are not converted by 20X9, they would be redeemed at par. There are two different ways of assessing these instruments under Ind AS 32: the conversion option, to convert to a number of shares which varies only with time, could be viewed as either an option to convert to a variable or a fixed number of shares and recognised as either a liability or equity respectively.

This illustration assumes that the written equity conversion option is accounted for as a derivative liability and marked to market through profit or loss. The change in the options' fair value reported in 20X2 and 20X3 amounted to losses of Rs.2,500 and Rs.2,650 respectively. It is assumed that there are no tax consequences arising from these losses.

The profit before interest, fair value movements and taxation for the year ended 30 June 20X2 and 20X3 amounted to Rs.825,000 and Rs.895,000 respectively and relate wholly to continuing operations. The rate of tax for both periods is 33%. Calculate Basic and Diluted EPS.

Question 19 – RM - A (Shares issued at less than FV)

RM has given option to its employee to subscribe 1,00,000 Equity shares @ 15 each within a period of 1 year. Fair value = Rs.25 at present.

The company has 5,00,000 Equity shares O/S and NP of current year is Rs.16,00,000. Calculate Basic and Diluted EPS from the following information.

Question 20 –

At 31 December 20X7 and 20X8, the issued share capital of an entity consisted of 4,000,000 ordinary shares of Rs.25 each. The entity has granted options that give holders the right to subscribe for ordinary shares between 20Y6 and 20Y9 at Rs.70 per share. Options outstanding at 31 December 20X7 and 20X8 were 630,000. There were no grants, exercises or lapses of options during the year. The profit after tax,

attributable to ordinary equity holders for the years ended 31 December 20X7 and 20X8, amounted to Rs.500,000 and Rs.600,000 respectively (wholly relating to continuing operations).
Average market price of share: Year ended 31 December 20X7 = Rs.120 Year ended 31 December 20X8 = Rs.160 Calculate basic and diluted EPS.

Question 21 – Effects of share options on diluted earnings per share

Profit attributable to ordinary equity holders of the parent entity for year 20X1	Rs.1,200,000
Weighted average number of ordinary shares outstanding during year 20X1	500,000 shares
Average market price of one ordinary share during year 20X1	Rs.20.00
Weighted average number of shares under option during year 20X1	100,000 shares
Exercise price for shares under option during year 20X1	Rs.15.00

Calculate basic and diluted EPS.

Question 22 – RM Limited - (Hierarchy of dilution)

RM Limited has provided the following information for your reference. Calculate Basic and Diluted EPS from the given information

1. No of shares outstanding at the beginning 10,00,000
2. Fair value = Rs.75
3. Net Profit = Rs.35,00,000
4. Potential Equity
   - A. 1,00,000 10% Preference shares of Rs.100 converted into 2 equity
   - B. Option to buy 2,50,000 shares @ 60 each
   - C. 2,00,000 12% convertible debentures convertible into 3 shares
5. Dividend tax 10%
6. Income tax 30%

Question 23 – RM Limited - (Contingently Issuable Shares)

On 1/4/18 RM Ltd offers 10 shares as ESOP to each employee if PAT of 18/19 exceeds Rs.5000 crores.
Shares on ESOP shall be issued on 31/12/19.
As on 31/3/19 PAT is 5100 crores. Shares to be issued on ESOP works out to be 50 lakhs shares.
Shares outstanding on 31/3/16 = 100. Calculate Basic EPS.

Question 24 –

Ordinary shares outstanding during 20X1	1,000,000 (there were no options, warrants or convertible instruments outstanding during the period)

An agreement related to a recent business combination provides for the issue of additional ordinary shares based on the following conditions:

5,000 additional ordinary shares for each new retail site opened during 20X1

1,000 additional ordinary shares for each Rs.1,000 of consolidated profit in excess of Rs.2,000,000 for the year ended 31 December 20X1

Retail sites opened during the year	:	one on 1 May 20X1
		one on 1 September 20X1

Consolidated year-to-date profit attributable to ordinary equity holders of the parent entity:

Rs.1,100,000 as of 31 March 20X1

Rs.2,300,000 as of 30 June 20X1

Rs.1,900,000 as of 30 September 20X1 (including a Rs.450,000 loss from a discontinued operation)

Rs.2,900,000 as of 31 December 20X1

Calculate basic and diluted EPS.

Question 25 – An entity

An entity issues 2,000 convertible bonds at the beginning of Year 1. The bonds have a three-year term, and are issued at par with a face value of Rs.1,000 per bond, giving total proceeds of Rs.2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6 per cent. Each bond is convertible at any time up to maturity into 250 ordinary shares. The entity has an option to settle the principal amount of the convertible bonds in ordinary shares or in cash.

When the bonds are issued, the prevailing market interest rate for similar debt without a conversion option is 9 per cent. At the issue date, the market price of one ordinary share is Rs.3. Income tax is ignored.

Calculate basic and diluted EPS when

Profit attributable to ordinary equity holders of the parent entity Year 1 Rs.1,000,000

Ordinary shares outstanding 1,200,000

Convertible bonds outstanding 2,000

8. RETROSPECTIVE ADJUSTMENTS

- Diluted EPS of any prior period presented should not be restated for changes in the assumptions used (such as for contingently issuable shares) or for the conversion of potential ordinary shares (such as convertible debt) outstanding at the end of the previous period. These factors are already taken into account in calculating the basic and, where applicable, the diluted EPS for the current period. Prior period's EPS data should be restated for the effects of errors and adjustments resulting from changes to accounting policies accounted for retrospectively.

- Basic and diluted EPS figures for the current period and for prior periods should include bonus issues, share splits, share consolidations and other similar events occurring during the period that change the number of shares in issue without a corresponding change in the resources of the entity (that is, retrospective application).

9. 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.
- If company does not have any potential ordinary shares, then company's basic and diluted EPS will be same. In such case company need not mention Basic EPS and Diluted EPS separately on two different lines. It can just mention on one line

	20X1	20X0
Basic and Diluted EPS	3.60	2.45

- 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).

10. ADDITIONAL TOPICS :

10.1 PARTICIPATING EQUITY INSTRUMENTS AND TWO-CLASS ORDINARY SHARES :

- The equity of some entities includes:
  - (a) instruments that participate in dividend 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 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 dividend declared in the period for each class of shares and by the contractual amount of dividend (or interest on participating bonds) that must be paid for the period (for example, unpaid cumulative dividend).

(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 dividend 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.

10.2 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 dividend during the period relative to a fully paid ordinary share.
- To the extent that partly paid shares are not entitled to participate in dividend 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.

11. SELF PRACTICE QUESTIONS :

Question 26 – (Different Class of shares)

Calculate EPS for both the class of shares from the following information

Type A : No of shares with voting rights	3000 shares (FV 100)
Type B : No of shares without voting rights	2000 shares (FV 100)

Shares without voting rights shall receive 50% more dividend than type A shares

PAT	Rs.1,40,000

Question 27 – An entity

An entity has two classes of shares in issue:

- 5,000 non-convertible preference shares
- 10,000 ordinary shares

The preference shares are entitled to a fixed dividend of Rs.5 per share before any dividends are paid on the ordinary shares. Ordinary dividends are then paid in which the preference shareholders do not participate. Each preference share then participates in any additional ordinary dividend above Rs.2 at a rate of 50% of any additional dividend payable on an ordinary share.
The entity's profit for the year is Rs.100,000, and dividends of Rs.2 per share are declared on the ordinary shares.
Compute the allocation of earnings for the purpose of calculation of Basic EPS when an entity has ordinary shares & participating equity instruments that are not convertible into ordinary shares.

Question 28 –

(This illustration does not illustrate the classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by Ind AS 32).

Profit attributable to equity holders of the parent entity	Rs.100,000
Ordinary shares outstanding	10,000
Non-convertible preference shares	6,000
Non-cumulative annual dividend on preference shares	
(before any dividend is paid on ordinary shares)	Rs.5.50 per share

After ordinary shares have been paid a dividend of Rs.2.10 per share, the preference shares participate in any additional dividends on a 20:80 ratio with ordinary shares.
Compute the allocation of earnings for the purpose of calculation of Basic EPS when an entity has ordinary shares & participating equity instruments that are not convertible into ordinary shares

Question 29 – (Paid up values)

Calculate Basic EPS from the following information

PAT	Rs.10,00,000
1/4/18	16500 FV 10 PU 7
1/7/18	10000 FV 10 PU 6
1/10/18	Calls received from 16400 shares @ 3 / share
1/11/18	Calls received from 10000 shares @ 4 / share

Question 30 – An entity

An entity issues 100,000 ordinary shares of Re 1 each for a consideration of Rs 2.50 per share. Cash of Rs.1.75 per share was received by the balance sheet date. The partly paid shares are entitled to participate in dividends for the period in proportion to the amount paid. Calculate number of shares for calculation of Basic EPS.

Question 31 – (EPS FOR SFS AND CFS)

On 31/3/18 RM holds 60% for Nish Ltd. Calculate Basic and Diluted EPS from the following information

	RM Ltd.	**Nish Ltd.**
PAT	130	30
No	5	2
Potential Equity	0.2	0.1

Question 32 – (Put option – Potential No)

Suppose an entity has entered into PUT option on 10,000 shares at exercise Price of Rs.100. Market Price = Rs.90. Find out Potential shares.

Question 33 – (Call Option – Potential No)

Suppose an entity has entered into call option on 10,000 shares at exercise price of Rs.100 @ 110. Calculate Potential Shares

Question 34 – RM Ltd. (Call Option – Potential No)

RM Ltd has outstanding 10,000 written put option on its ordinary shares with an exercise price of Rs.100. The average market price of its ordinary shares for the period is Rs..78. Find potential shares.

Thanks ....