

AS-20

Earnings per share

CONCEPT

SUMMARY

Formula of Basic EPS

$$\text{Basic EPS} = \frac{\text{Profit available for equity shareholders}}{\text{Weighted average No. of equity shares}}$$

PAFESH

PAFESH =) PAT (-) Preference dividend (-) Tax on preference dividend

1. Transfer to reserves not to be deducted.
2. Preference dividend on cumulative preference shares to be deducted whether or not provided for.
3. Preference dividend on non-cumulative preference shares to be deducted only when company has adequate profits to pay dividend to them.

Weighted Average No. of Equity Shares (WANOES)

It refers to no. of equity shares outstanding during the reporting period considering time factor as weights.

Rationale = So that real effect of shares issued/bought back on earnings during the period can be taken.

WANOES & EPS in case of different classes of equity shares

- a) If there more than one class of equity shareholders, EPS shall be calculated & disclosed separately for each class of shares.
- b) While calculating WANOES, all equity shares must be converted into shares of an equivalent face value/paid up value.

Bonus Shares

- a) **Bonus shares** shall be **included in WANOES** from **beginning of the period** irrespective of the date of issue of such shares.
- b) The reported EPS of last year shall be adjusted or restated to the effect of bonus shares considering that bonus shares were issued at the beginning of earliest reported period.

Right Shares

- a) For calculation of EPS & WANOES, in case of right issue during the period, it must be noted that the right shares being issued at concessional price have a bonus element in it.
- b) While calculating WANOES, the **bonus element** shall be included in WANOES from **beginning of the period** and the **consideration element** (Shares issued for fair consideration) shall be included from **the date when such shares are allotted**.

CONCEPT

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- c) Last year's reported EPS shall be restated to include the effect of bonus element considering that those shares were issued at the beginning of earliest reported period.

Steps:

- 1) Calculate Theoretical Ex-Right Price

(Fair value of shares immediately prior to exercise of rights +
Total amount received from exercise)

(Number of shares outstanding prior to exercise + Number of
shares issued in the exercise)

- 2) Calculate Right Adjustment Factor (RAF)

Fair value per share immediately prior to the exercise of rights

Theoretical ex-rights price

- 3) Calculate WANOES

Shares before Right X RAF X (Period before Right/12)
+ Total Shares including Right X (Period after Right/12)

Diluted EPS

- a) EPS after considering the effect of **Potential Equity Shares**.
b) Potential equity shares are instruments which will result in issue of new equity shares by the company in future like convertible Debentures, convertible preference shares, share warrants, share options etc.
c) Potential equity shares will be considered **dilutive if they reduce EPS from continuing ordinary operations**.

Diluted EPS in case of Convertible debentures

$$DEPS = \frac{\text{PAFESH (+) Saving in Interest (Post tax)}}{\text{WANOES (+) Equity Shares issued on conversion}}$$

Note:

In case Debentures are of o/s from the beginning of the period, then conversion to equity shares will be assumed from beginning but in case debentures are issued during the year, equity shares will be included in WANOES from date of issue of debentures and saving in interest also from date of issue.

CONCEPT	SUMMARY									
Diluted EPS in case of Convertible preference shares	$\text{DEPS} = \frac{\text{PAFESH (+) Preference dividend (including tax)}}{\text{WANOES (+) Equity Shares to be issued on conversion}}$									
Diluted EPS in case of Share options	$\text{DEPS} = \frac{\text{PAFESH (+) (No changes in earning)}}{\text{WANOES (+) Free shares issued}}$ <p>Free shares under options:</p> <table> <tr> <td>No . of shares under options</td> <td>=</td> <td>xxx</td> </tr> <tr> <td>Less : No. of shares to be issued if shares were issued at fair value</td> <td>=</td> <td>(xxx)</td> </tr> <tr> <td>Free Shares</td> <td>=</td> <td><u>xxx</u></td> </tr> </table>	No . of shares under options	=	xxx	Less : No. of shares to be issued if shares were issued at fair value	=	(xxx)	Free Shares	=	<u>xxx</u>
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