

## AS 20 - Earnings Per Share (EPS)

- \* EPS is financial ratio indicating the amount of profit/loss for the period attributable to each equity share.
- \* EPS to be presented even if amount disclosed are negative (loss per share)
- \* EPS is of 2 types
  - 1) Basic EPS
  - 2) Diluted EPS

### Basic EPS

$$\frac{\text{Net Profit attributable to Equity Shareholders}}{\text{Weighted Average no. of Equity shares O/s}}$$

#### A) Net Profit attributable to Equity Shareholders

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

#### Note:

- 1) Do not deduct any Reserve from PAT to calculate earnings
- 2) Deduction of Preference Dividend
  - \* Non Cumulative Preference shares: Only when declared
  - \* Cumulative Preference shares: Always whether declared or not

B) Weighted Average means average according to the period

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

### Partly Paid Shares

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

Example:

	FV	PU		FV	PU
200 shares	10	10	⇒	200 shares	10
500 shares	10	6		300 shares	10
				[500 × 6/10]	

### Bonus Issue

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

(Date of Issue is not relevant)

Compute Adjusted / Restated / Recomputed EPS of Previous Year EPS considering bonus issue for correct comparative analysis.

Note: Same treatment in case of split up & Reverse split up.

## Right Issue

Paid Part: Date is Relevant

Bonus Part: Date is not Relevant

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

$$\frac{\left( \text{No. of Shares Before Right} \times \text{Price Before Right} \right) + \left( \text{No. of Right Shares} \times \text{Right Price} \right)}{\text{Shares Before Right} + \text{Right Shares}}$$

Step 2: Calculate Paid Part & Bonus Part in Right

$$\text{Paid Part} = \text{Right Shares} \times \frac{\text{Right Price}}{\text{Fair Value Ex-Right}}$$

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

Step 3: Calculate Basic EPS considering

\* Bonus Part since Beginning

\* Paid Part from Date of Issue

Note: Since there is Bonus Part so compute Adjusted / Restated / Recomputed EPS of Previous Year as well.

## Diluted EPS

It is Basic EPS after adjusting effects of Potential Equity shares (PES)

Potential Equity shares (PES): These are those instruments against which

- Resources/Benefits have been availed & applied in business
- but equity shares have not been issued

(It is financial instrument/contract that entitles or may entitle its holder to equity shares)

Example: Convertible Debentures, Convertible Preference shares, ESOP, share warrants, Partly Paid shares without Dividend Right, etc.

$$\text{Diluted EPS} = \frac{\text{Net Profit attributable to ESH} + \text{Effect of PES on Earnings}^*}{\text{Weighted Average Equity shares} + \text{Effect of PES on Equity shares}^{**}}$$

### \* Effect of PES on Earnings

Convertible Debentures = Interest on Debentures (1-Tax)

Convertible Preference shares = Preference Dividend

ESOP & share warrant = Nil

### \*\* Effect of PES on Equity shares

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

Convertible Debentures, Share warrants, Convertible Preference shares

⇒ Equity shares converted/issued

Note: If PES issued during the year & not ops for entire year then date of Issue is relevant,

E.g.: If convertible Deb. issued on 1/7 (FY April to March), then for computing

Int. on Deb. (Numerator) : consider 9 months

Effect on Equity shares (Denominator) : consider Time Period i.e. 9/12

(For Time Factor all cases for PES: Refer Table in Book)

### More than One PES

Step 1: Identify PES in Question

Step 2: Calculate Incremental EPS (IEPS) =  $\frac{\text{Effect of PES on Earnings}}{\text{Effect of PES on Equity shares}}$

Step 3: Calculate Diluted EPS

	<u>Numerator</u>	<u>Denominator</u>	<u>Ratio</u>
BEPS	xx	xx	xx
+ PES	xx	xx	
	<u>xx</u>	<u>xx</u>	<u>xx</u>

Note: 1) PES should be adjusted according to IEPS in increasing order  
(Ranking of IEPS in increasing order)

2) Diluted EPS should be lower than Basic EPS from continuing operations

# Amalgamation

Nature of Purchase

Date is Relevant

(Earnings of old co. not to be considered)

Nature of Merger

Date is not relevant

(Earnings of old co. to be considered)

Example:

Earnings 10,00,000

1/4 Opening Balance = 10000 shares

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

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

Earnings of Merged entity from 1/4 - 1/7 was 2,00,000. Calculate Basic EPS.