Introduction to Ind AS 33

- Earnings Per Share (EPS) is a measure of performance of the company.
- This Ind AS requires the entity to calculate & present the EPS on the face of Statement of Profit & Loss for Current Year & Previous Year.
- EPS is of 2 types: Basic EPS & Diluted EPS

Basic EPS

Calculation of Basic EPS

$$BEPS = \frac{\text{Profit | Loss attributable to Ordinary Equity Shareholders}}{\text{Weighted Average No. of Ordinary Equity Shares}}$$

Note:-

(i) EPS can be negative also.

(ii) Ordinary Equity Share means Original Equity Shares only [i.e. It does not consider classified Equity Instruments as per Ind AS 109.

Profit | Loss attributable to Ordinary Equity Shareholders

It is calculated as follows:-

Earnings Before Interest & Tax [EBIT]	xxx
(-) Interest Expense on Loan | Debentures | Bonds etc.	(xxx)
Profit Before Tax [PBT]	xxx
(-) Tax	(xxx)
Profit After Tax | Profit for the Year | Net Profit [PAT]	xxx
(-) Preference Dividend	(xxx)
Profit | (Loss) attributable to Ordinary Equity Shareholders	xxx | (xxx)

Note:-

(i) Other Comprehensive Income (OCI) part is not considered for calculation of EPS.

(ii) General Assumption for Ind AS 33 Questions

↓

Ignore Ind AS 109 [Unless Market Interest Rate on such financial Instrument is given in question]

Loan | Debenture | Bonds [Treated as Liability] ↓

Preference Shares [Treated as Equity] ↓

Interest = Face Value × Coupon Interest Rate

Dividend = Face Value × Coupon Dividend Rate

Weighted Average No. of Ordinary Equity Shares [WANES]

(1) It means No. of Ordinary Equity Shares are adjusted by Time Factor [i.e. No. of days for which shares are outstanding as a proportion of Total No. of Days in a Year]

(2) It is calculated as follows :-

No. of Equity Shares Outstanding at the beginning of Year ✓

(+) No. of Equity Shares issued during the year × $\frac{\text{No. of days / months}}{365 / 12}$ ✓

(−) No. of Equity Shares Buy Back during the Year (Treasury Shares) × $\frac{\text{No. of days / months}}{365 / 12}$ (✓)

✓

(3) Calculation of Weighted Average No. of Ordinary Equity Shares in following Special Cases :-

- Partly Paid up Shares :

  If Shares are partly paid up, then Multiply No. of Shares by $\left[\frac{\text{Partly Paid up Value}}{\text{Issue Price}}\right]$ in WANES Calculation

- Bonus Issue :

  In Case of Bonus Issue, Shares are issued to existing shareholders without consideration by capitalisation of reserves.

  ⇓

  Therefore

  Multiply No. of Shares Outstanding before date of bonus issue by Bonus Adjustment factor [BAF] in WANES calculation

  Previous Year EPS is also Restated by Multiplying No. of Shares by BAF in WANES calculation for Previous Year

  Note :- Bonus Adjustment factor [BAF] = 1 + Bonus Ratio

  Example : If Bonus Ratio is 1:4 ; So BAF = $1 + \frac{1}{4} = \frac{4+1}{4} = \frac{5}{4}$

- Rights Issue :

  In Case of Rights Issue, Shares are issued to existing shareholders at a Price below the Current Market Price of Share.

  ⇓

  Therefore Rights Issue has some Bonus element which needs to be adjusted

  Multiply No. of Shares Outstanding before date of rights issue by Rights Adjustment factor [RAF] in WANES calculation as follows

  ⇓

  Previous Year EPS is also Restated by Multiplying No. of Shares by RAF in WANES calculation for Previous Year

$$\left[\text{No. of Equity Shares outstanding before date of Rights Issue} \times RAF \times \frac{\text{No. of months till date of Rights Issue}}{12}\right]$$

$$+$$

$$\left[\text{Total No. of Equity Shares after Rights Issue} \times \frac{\text{No. of months after date of Rights Issue}}{12}\right]$$

<u>Note</u>:- Rights Adjustment Factor [RAF] is calculated as follows:

Step 1: Calculate Theoretical Ex Rights Value Per Share

$$\Rightarrow \frac{\left[\text{Existing MPS} \times \text{No. of Existing Shares}\right] + \left[\text{Right Issue Price} \times \text{No. of Right Shares}\right]}{\text{No. of Existing Shares} + \text{No. of Right Shares}}$$

Step 2: Calculate RAF

$$\Rightarrow \frac{\text{MPS}}{\text{Theoretical Ex Rights Value Per Share}}$$

<u>Example</u>:

F.Y. : 1^{st} Jan. 20X1 to 31^{st} Dec. 20X1

A ltd. has 1,000 Equity Shares outstanding on 1^{st} Jan. 20X1.

On 31. Mar. 20X1, Right Issue is made for 1 New share against each 5 outstanding shares.

MPS before Right Issue is ₹ 10 ; Rights Issue Exercise Price is ₹ 7.

Profit attributable to Equity Shareholders for 20X1 & Previous Year [20X0] is ₹ 1,10,000 & ₹ 1,00,000 respectively.

Calculate Basic EPS for 20X0 and 20X1.

<u>Solution</u>:

Calculation of RAF ⇒

Step 1: Theoretical Ex Rights Value Per Share $= \frac{10 \times 1{,}000 + 7 \times 200}{1{,}000 + 200} = ₹\ 9.50$

* No. of Right Shares $= 1{,}000 \times \frac{1}{5} = 200$ shares

Step 2: RAF $= \frac{10}{9.50}$

BEPS for Current Year [20X1] $= \frac{1{,}10{,}000}{\left[1{,}000 \times \frac{10}{9.5} \times \frac{3}{12}\right] + \left[1{,}200 \times \frac{9}{12}\right]} = ₹\ 94.57$

BEPS for Previous Year [20X0] (Original) $= \frac{1{,}00{,}000}{1{,}000} = ₹\ 100$

BEPS for Previous Year [20X0] (Restated) $= \frac{1{,}00{,}000}{1{,}000 \times \frac{10}{9.5}} = ₹\ 95$

Calculation of Basic EPS in case of Participating Preference Shares

- Participating Preference Shares are those Preference Shares which also participate in Undistributed Earnings [i.e. Right in Earnings remaining after distribution of dividend on Equity Shares].

- Steps to be followed to Calculate Basic EPS in this case :-

Step 1: Calculate Undistributed Earnings

PAT	xxx
(-) Dividend distributed on Preference Shares	(xxx)
(-) Dividend distributed on Equity Shares	(xxx)
	xxx

Step 2: Now, Allocate Undistributed Earnings to Equity Shares & Participating Preference Shares [By Assuming Allocation per Equity Share as 'x' & accordingly Allocation per Participating Preference Share is decided as per the information given in question]

⇓

Then, Make & Solve the Equation :

$$\text{Undistributed Earnings} = \left[\text{No. of Equity Shares} \times \text{Allocation of Undistributed Earnings per Equity Share}\right] + \left[\text{No. of Participating Preference Shares} \times \text{Allocation of Undistributed Earnings Per Participating Preference Share}\right]$$

Step 4: Basic EPS

⇒ Dividend distributed per Equity Share + Allocated Undistributed Earnings Per Equity Share (as calculated in Step 2)

Diluted EPS

- Diluted EPS means Reduction in Basic EPS calculated on the assumption that Potential Equity Shares are issued.

- Potential Equity Shares [PES] include Convertible Preference Shares, Convertible Bonds/Debentures, Options/Warrants, Contingent Shares.

Calculation of Diluted EPS

$$\text{DEPS} = \frac{\text{Profit / Loss used in BEPS} + \text{Adjustment in Earnings due to PES}}{\text{WANES used in BEPS} + \text{Adjustment in Shares due to PES}}$$

If it is Less than BEPS
⇓
It is dilutive & Hence, Reported as DEPS

If it is More than BEPS
⇓
It is Anti Dilutive & Hence, Not Reported as DEPS
⇓
Consider DEPS as same as BEPS

Note:- Sometimes question asks to Calculate Incremental EPS for PES

$$\text{Incremental EPS} = \frac{\text{Adjustment in Earnings due to PES}}{\text{Adjustment in Shares due to PES}}$$

Adjustment due to Potential Equity Shares in Calculation of Diluted EPS

Potential Equity Share [PES]	Adjustment in Earnings [Numerator]	Adjustment in Shares [Denominator]	Apply Time Factor in Numerator & Denominator	
			FROM Later of	TO Earlier of
(1.) Convertible Instruments • Convertible Preference Shares • Convertible Debentures/ Bonds	 + Preference Dividend + Interest (1−Tax)	 + No. of Equity Shares on Conversion + No. of Equity Shares on Conversion	Year Beginning OR Convertible Instrument Issue Date	Year End OR Conversion Date

Note :-

(i.) While calculating adjustment in earnings, Also consider all other impacts due to PES like Increase in Management Bonus along with its Tax impact, Fair Value Gain / Loss, etc.

(ii.) If there are Multiple Conversion Ratios [i.e. Multiple Possible Scenarios for No. of Equity Shares on conversion], then Consider the Conversion Ratio involving Maximum No. of Equity Shares on Conversion.

Potential Equity Share [PES]	Adjustment in Earnings [Numerator]	Adjustment in Shares [Denominator]	FROM Later of	TO Earlier of
(2.) Options / Warrants	-	No. of Equity Shares Under Options $\times \left[\frac{\text{Market Price} - \text{Exercise Price}}{\text{Market Price}}\right]$	Year Beginning OR Grant Date	Year End OR Exercise Date
(3) Contingent Shares [It means shares to be issued in Business Combination subject to fulfillment of any condition in future. Eg:- Opening Retail Stores, Profit Targets, etc.]	-	No. of Equity Shares Promised	Year Beginning OR Contingent Share Agreement Date	Year End OR Share Issue Date

Calculation of Diluted EPS in case of Multiple Potential Equity Shares

Steps to be followed to solve the question if more than 1 type of PES are given in question :-

Step 1: Calculate Incremental EPS for each type of PES

Step 2: Rank each PES in ascending order of Incremental EPS
[i.e. Most Dilutive PES (Lowest Incremental EPS) are Ranked First]

Step 3: Calculate Diluted EPS by considering each PES one by one in order of Ranking on a cumulative basis.
[i.e. firstly, Calculate DEPS by considering Rank 1 PES and then calculate DEPS by considering Rank 1 & Rank 2 PES and so on.]

Step 4: Diluted EPS will be Lowest of All the EPS calculated in Step 3.

Other Topics

Presentation of EPS

- Entity shall present BEPS & DEPS on the face of Statement of Profit & Loss.
- Further, Entity needs to disclose EPS from
  → Continuing Operations
  → Discontinued Operations
  → Total Operations
- If DEPS calculated for Continuing Operations is

Dilutive
⇓
Then, Calculate & Present DEPS for Discontinued Operations and Total Operations irrespective of whether their DEPS is dilutive or anti-dilutive

Anti-Dilutive
⇓
Then, Consider DEPS as same as BEPS for Continuing Operations, Discontinued Operations and Total Operations
⇓
Do not calculate DEPS separately for any of the Operations

Calculation of EPS in Consolidated Financial Statements [CFS]

- EPS calculated for Consolidated Financial Statements is known as Group EPS or Consolidated EPS.

- $$\text{Group's Basic EPS} = \frac{\text{Profit / Loss attributable to Equity Shareholders of Parent Entity}}{\text{Weighted Average No. of Ordinary Equity Shares in Parent Entity}}$$

Here,
→ Profit / Loss attributable to Equity Shareholders of Parent Entity = Parent's own Profit / Loss attributable to its Equity Shareholders + [No. of Equity Shares of Subsidiary held by Parent × BEPS of Subsidiary]

- Group's Diluted EPS $= \dfrac{\text{Profit | Loss attributable to Equity Shareholders of Parent Entity adjusted due to effect of PES}}{\text{Weighted Average No. of Ordinary Equity Shares in Parent Entity adjusted due to effect of PES}}$

Here,

→ Profit | Loss attributable to Equity Shareholders of Parent Entity adjusted due to effect of PES = Parent's own Profit | Loss attributable to its Equity Shareholders + [No. of Equity Shares (including) Diluted Shares of Subsidiary held by Parent × DEPS of Subsidiary] + Parent's own adjustment in Earnings due to its PES [if any]

→ Weighted Average No. of Ordinary Equity Shares in Parent Entity adjusted due to effect of PES = Weighted Average No. of Ordinary Equity Shares in Parent Entity + Parent's own adjustment in Shares due to its PES [If Any]