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PKF

ACCOUNTING SUMMARY 2017 - 07

IAS 33 Earnings per share

Objective

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.

Scope

This Standard shall apply to:

(a) the separate or individual financial statements of an entity:
- (i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market; and

(b) the consolidated financial statements of a group with a parent:
- (i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market.

Effective date

An entity shall apply this Standard for annual periods beginning on or after 1 January 2005.

Defined terms

An *ordinary share* is an equity instrument that is subordinate to all other classes of equity instruments.

A *potential ordinary share* is a financial instrument or other contract that may entitle its holder to ordinary shares.

Examples of potential ordinary shares include:

- financial liabilities or equity instruments, including preference shares, that are convertible into ordinary shares; or
- options and warrants; or
- shares that would be issued upon the satisfaction of conditions resulting from contractual arrangements, such as the purchase of a business or other assets

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.

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.

Measurement

Basic earnings per share (EPS)

An entity shall calculate basic 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.

Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

Formula
Basic earnings per share =

$$\frac{\text{(Profit or loss attributable to the ordinary equity holders of the parent entity)}}{\text{Weighted average number of ordinary shares outstanding (i.e. in issue)}}$$

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.

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 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.

Date consideration for the inclusion if shares in determining the weighted average number of shares outstanding:

- 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.

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 comprehensive income the acquiree's profits and losses from that date

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

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

Diluted earnings per share (DEPS)

An entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, and the weighted average number of ordinary shares outstanding, for the effects 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, 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 in basic earnings per share;
(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.

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 the determination of basic earnings per share and adjusted earnings per share, taking into account potential 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.

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.

Examples include:

- Options, warrants and their equivalents;
- Convertible instruments;
- Contingently issuable shares;
- Contracts that may be settled in ordinary shares or cash;
- Purchased options;
- Written put options.

Where more than one basis of conversion exists, the most dilutive basis is used in the computation of diluted earnings per share.

Retrospective adjustments

If the number of shares increase as a result of a capitalisation, bonus issue or share spilt, or decreases as a result of a reverse share split – the calculation of the 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 authorised for issue, the share calculations for those and any prior period financial statements presented shall be based on the new number of shares. 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.

Presentation and disclosure

An entity shall present in the statement of comprehensive income 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 of the period.

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 comprehensive income or in the notes.

In the Notes to the financial statement:

(a) An entity shall disclose the following:

- (i) 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;
- (ii) 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;
- (iii) 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;
- (iv) a description of ordinary share transactions or potential ordinary share transactions, other than those accounted for retrospectively, 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 have occurred before the end of the reporting period.

(b) If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the statement of comprehensive income 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.

(c) Basic and diluted amounts per share relating to such a component shall be disclosed with equal prominence and presented in the notes.

(d) 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 comprehensive income is used that is not reported as a line item in the statement of comprehensive income, a reconciliation shall be provided between the component used and a line item that is reported in the statement of comprehensive income.