

Seminar on Ind-AS

Earnings Per Share (Ind AS 33)

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Learning Objectives

Participants will be able to:

- Understand the key concepts and steps involved in calculating basic and diluted EPS
- Apply the steps involved in calculating diluted EPS when the entity has more than one type of potential ordinary share
- Understand the steps involved in applying the treasury share method of calculating EPS
- Describe the key potential differences between IAS 33 and Ind AS 33

Scope

- Ind AS 33 is applicable to companies that have issued ordinary shares to which Ind ASs notified under the Companies Act apply.
- When an entity presents both consolidated financial statements and separate financial statements, the disclosures required by Ind AS 33 shall be presented both in the consolidated financial statements and separate financial statements.

Key Concepts

Ordinary share

- Equity instrument subordinate to all other classes of equity instruments. In Indian context, the term 'ordinary shares' is equivalent to 'equity shares'

Potential ordinary share

- Financial instrument or contract that may entitle its holder to ordinary shares
 - Examples: convertibles, options and warrants
- Dilutive when conversion to ordinary shares would reduce EPS or increase loss per share

Dilution

- Reduction in EPS or an increase in loss per share
- Assumes conversion of convertible instruments, exercise of options or warrants or that ordinary shares are issued upon the satisfaction of specified conditions

Ordinary Shares

- 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 dividends.

Potential Ordinary Shares

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

Key Concepts

Item	Basic EPS
Earnings (the numerator)	• Profit or loss attributable to ordinary equity holders of the parent entity
Shares (the denominator)	• Weighted average number of ordinary shares outstanding during the period

Basic EPS Calculation

- 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.
- Profit or loss used is the after-tax profit or loss.
- Profit or loss for the year is adjusted for after-tax amounts of preference dividends, differences arising on settlement of preference shares and other similar effects relating to preference shares classified as equity.

Basic EPS Calculation (contd.)

- It is important to be clear about the classification of the preference shares (equity vs. debt) and the tax treatment of the preference share dividends.
- The after-tax amount of preference dividends that is deducted from profit or loss is:
 - The after-tax amount of any preference dividends on non-cumulative preference shares declared in respect of the period; and
 - The after-tax amount of the preference dividends for cumulative preference shares required for the period, whether or not the dividends have been declared. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.

Basic EPS Calculation (contd.)

- When calculating the weighted average number of ordinary shares during a period, use a daily time weighting factor or a reasonable approximation.
- 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 increase in resources (e.g., bonus issue, share-split).
- In a capitalisation or bonus issue or a share split, ordinary shares are issued to existing shareholders for no additional consideration. Therefore, the number of ordinary shares outstanding is increased without an increase in resources. The number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.
- For example, on a two-for-one bonus issue, the number of ordinary shares outstanding before the issue is multiplied by three to obtain the new total number of ordinary shares, or by two to obtain the number of additional ordinary shares.

Key Concepts

Contingently issuable share:

1. Ordinary shares issuable for little or no cash or other consideration
2. Dependent on the satisfaction of specified conditions
 - If conditions satisfied:
 - Include in diluted EPS from start of period, or if later from the date of contingent share agreement
 - Include in basic EPS from the date when all the necessary conditions are satisfied
 - If conditions not satisfied:
 - Include in diluted EPS based on the number of shares that would be issuable if the end of the period were the end of the contingency period.
3. Shares that are issuable solely after the passage of time are **not** contingently issuable shares, because the passage of time is a certainty.

Diluted EPS: Steps when there are multiple dilutive instruments

1. Calculate each instrument's incremental EPS and treat as dilutive when conversion would decrease earnings per share or increase loss per share from continuing operations
2. Take each dilutive instrument from lowest to highest earnings per incremental share
3. Calculate diluted EPS each time a new dilutive instrument is included
4. Stop at the lowest diluted EPS figure

Seminar on Ind-AS

Interim Financial Reporting (Ind AS 34)

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Definitions of key terms

- ✓ Interim period is a financial reporting period shorter than a full financial year.
- ✓ Interim financial report means a financial report containing either
 - ✓ a complete set of financial statements (as described in Ind AS 1, Presentation of Financial Statements, or
 - ✓ a set of condensed financial statements (as described in this Standard) for a interim period.

Interim Financial Report – Complete set

- ✓ a balance sheet as at the end of the period ;
- ✓ a statement of profit and loss for the period;
- ✓ a statement of changes in equity for the period;
- ✓ a statement of cash flows for the period;
- ✓ notes, comprising a summary of significant accounting policies and other explanatory information;
- ✓ comparative information in respect of the preceding period; and
- ✓ a balance sheet as at the beginning of the preceding period in selective cases.

Interim Financial Report - Condensed

- ✓ a condensed balance sheet ;
- ✓ a condensed statement of profit and loss;
- ✓ a condensed statement of changes in equity;
- ✓ a condensed statement of cash flows; and
- ✓ selected explanatory notes.

Include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard

Significant events and transactions - Disclosure

- ✓ the write-down of inventories to net realisable value and the reversal of such a write-down;
- ✓ recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, assets arising from contracts with customers, or other assets, and the reversal of such an impairment loss;
- ✓ the reversal of any provisions for the costs of restructuring;
- ✓ acquisitions and disposals of items of property, plant and equipment;
- ✓ commitments for the purchase of property, plant and equipment;
- ✓ litigation settlements;
- ✓ corrections of prior period errors;
- ✓ changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities,
- ✓ any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;

Other Disclosures

- ✓ a statement that the same accounting policies and methods of computation are followed;
- ✓ explanatory comments about the seasonality or cyclicity of interim operations;
- ✓ issues, repurchases and repayments of debt and equity securities.
- ✓ dividends paid (aggregate or per share) separately for ordinary shares and other shares.
- ✓ events after the interim period that have not been reflected in the financial statements for the interim period.
- ✓ the effect of changes in the composition of the entity during the interim period, including:
 - ✓ business combinations,
 - ✓ obtaining or losing control of subsidiaries and long-term investments,
 - ✓ restructurings, and discontinued operations.

Other Important Points

- ✓ **Income tax expense** is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.
- ✓ Revenues that are received **seasonally, cyclically, or occasionally** within a financial year shall not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the entity's financial year. (Example – Dividend Income, Seasonal industry (Retail footwear)).

Such revenues are recognised when they occur.

Thank You

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