



PASSFR.EU

A Digital Learning Platform for Generation Z:
Passport to IFRS®

IAS® Standard 33 Earnings Per Share





Ordinary share

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

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Potential ordinary share

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

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Antidilution

- Antidilution refers to an increase in EPS or a reduction in loss per share, assuming that potential ordinary shares are converted into ordinary shares.

Basic EPS = Net profit or loss for the period attributable to ordinary equity holders

$$\text{Basic EPS} = \frac{\text{Net profit or loss for the period attributable to ordinary equity holders}}{\text{The average number of ordinary shares for the period}}$$

When calculating net profit or loss for the period attributable to ordinary equity holders, adjusted for the after-tax amounts of preference dividends should be deducted from profits or losses from continuing operations attributable to the parent entity

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Newly issued shares are multiplied by a **time-weighting factor** and added to the outstanding ordinary shares. Bought back shares, multiplied by a **time-weighting factor** and subtracted from outstanding ordinary shares.

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Newly issued shares are multiplied by a **time-weighting factor** and added to the outstanding ordinary shares. If an entity bought back shares, in this case, bought back shares multiplied by a **time-weighting factor** and subtracted from outstanding ordinary shares.

The time-weighted factor = $\frac{\text{The number of days/months that the ordinary shares are in circulation during the period}}{\text{Total number of /months in a year}}$

EXAMPLE

White Company has CU5,000,000 equity and 5,000,000 shares on January 1, 2022. On July 1, 2022, the entity issued 1,000,000 new shares, and its total equity is now CU6,000,000. White Company bought back 120,000 shares on December 1, 2022. White Company's profit attributable to ordinary shareholders was CU1,000,000 in 2021 and it is CU1,045,000 in 2022.

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Calculation of weighted average number of shares in 2022

Date	Number of months (time proportion)(a)	Number of shares (b)	Adjusted number of shares (axb)
January 1, 2022	12/12	5,000,000	5,000,000

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July 1, 2022	6/12	1,000,000	500,000

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December 1, 2022	1/12	-120,000	-10,000

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The weighted average number of shares			5,490,000

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July 1, 2022	6/12	1,000,000	500,000
December 1, 2022	1/12	120,000	-10,000
The weighted average number of shares			5,490,000

Calculation of Basic EPS

Date	December 31, 2021
Profit attributable to ordinary shareholder (c)	1,000,000
Average number of shares (d)	5,000,000
Basic EPS (c/d)	0.2

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The weighted average number of shares			5,490,000

Calculation of Basic EPS

Date	December 31, 2021	December 31, 2022
Profit attributable to ordinary shareholder (c)	1,000,000	1,045,000
Average number of shares (d)	5,000,000	5,490,000
Basic EPS (c/d)	0.2	0.19

Sometimes entities issue shares without a change in resources.

For example, when a bonus issue is issued:

- the total resources of the entity do not change,
- the total number of shares does change.

EXAMPLE

Orange Company has CU5,000,000 equity and 5,000,000 shares on January 1, 2022. On July 1, 2022, the entity issued 1,000,000 new bonus issues using cash reserves. Orange Company's profit attributable to ordinary shareholders was CU 1,000,000 in 2021 and it is CU1,045,000 in 2022.

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Orange Company has CU5,000,000 equity and 5,000,000 shares on January 1, 2022. On July 1, 2022, the entity issued 1,000,000 new bonus issues using cash reserves. Orange Company's profit attributable to ordinary shareholders was CU1,000,000 in 2021 and it is CU1,045,000 in 2022.

Calculation of Basic EPS

Date	December 31, 2021
Profit attributable to the ordinary shareholder (c)	1,000,000
Average number of shares (d)	6,000,000
Basic EPS (c/d)	0.167

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Calculation of EPS

Date	December 31, 2021	December 31, 2022
Profit attributable to the ordinary shareholder (c)	1,000,000	1,045,000
Average number of shares (d)	6,000,000	6,000,000
Basic EPS (c/d)	0.167	0.174

According to IAS Standard 33, entities should present both basic EPS and diluted EPS in their financial statements. Basic EPS expresses how much the company actually earns per share. Whereas diluted EPS enables financial statement users to see the entity's future.

Diluted EPS = Net profit or loss for the period attributable to ordinary equity holders

$$\text{Diluted EPS} = \frac{\text{Net profit or loss for the period attributable to ordinary equity holders}}{\text{The average number of ordinary shares for the period}}$$

- 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
- any interest recognised in the period related to dilutive potential ordinary shares; and
- any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.


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the weighted average of the number of ordinary shares

+

the weighted average of the number of shares that would be issued if potential dilutive shares were converted to ordinary shares.

An orange oval with a thin black border, containing the text "Potential ordinary shares" in white. The oval is positioned on the left side of the page.

Potential
ordinary shares



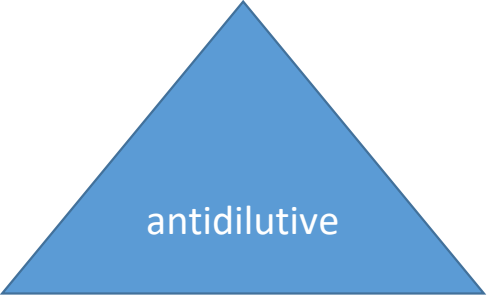
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can have

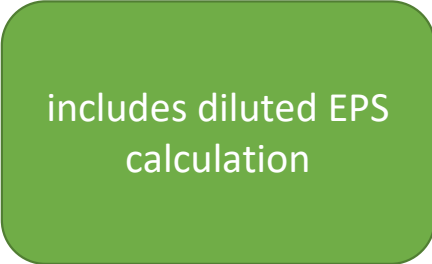


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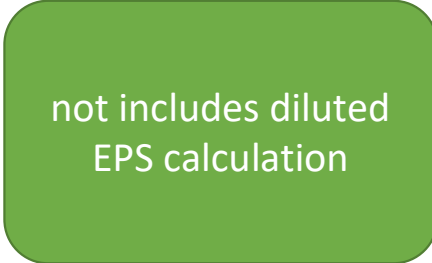
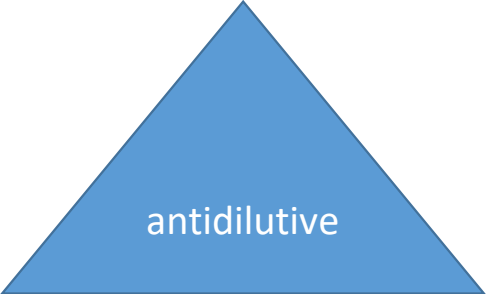




can have



or



Potential ordinary shares

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convertible instruments,

Potential ordinary shares

convertible instruments,

options and warrants

Potential ordinary shares

convertible instruments,

options and warrants

contracts that give the right to buy shares
of the entity's

OPTION

- Share options are financial contracts that give the holder the right to buy or sell a particular share at a specified price within or at the end of a specified period. A put option gives the holder the right to sell a certain share at a certain price within a certain period or at the end of a certain period, while a call option gives the holder the right to buy a certain share at a certain price within a certain period or at the end of such period.
- As long as the price determined in the put options is above the market price, using the option is advantageous for the owner, and exercising the option will have a dilution effect on EPS.

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Blue Company sold 10,000 share options at CU3 in 3 years. Share options were sold on January 1, 2022.

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If the average market price of Blue Company's share during 2022 was CU4, this option would be advantageous for the owner. If options are exercised, there will be a dilution effect.

If the average market price of Blue Company's share during 2022 were CU2, this option would be disadvantageous for the owner. If options are exercised, there will be an antidilution effect.



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- The number of shares this income will correspond to if ordinary shares are purchased at the average market price is calculated. These shares have an antidilutive effect.
- The difference between option shares and shares that have antidilutive effects is assumed as an issue of ordinary shares for no consideration. These shares are taken into account to calculate diluted EPS.

EXAMPLE

Yellow Company has 100,000 ordinary shares. On May 1, 2020, Yellow Company issued and sold 10,000 share options at CU3 in 3 years. The average market price of Yellow Company's shares during 2021 is CU4. Yellow Company's profit attributable to ordinary shareholders was CU100,000 in 2021.

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The number of ordinary shares that can be purchased from the market at the average market price in case the option is exercised is 7,500 (30,000/4).

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$$\text{Diluted EPS} = \frac{100,000}{100,000+2,500} = 0.976$$

CONVERTIBLE INSTRUMENTS

- If the business owns convertible instruments, such as convertible bonds and convertible preferred shares, these instruments should also be considered when calculating diluted EPS.



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- Dividends paid on preferred stock should be added to the profit or loss attributable to ordinary equity holders.
- The increase in the number of ordinary shares due to the conversion of preferred shares to ordinary shares should be taken into account.
- When the number of ordinary shares emerging from the conversion of convertible instruments is being calculated, the time-weighting factor is taken into consideration.

EXAMPLE

Red Company has 100,000 ordinary shares. On May 1, 2020, Red Company issued and sold 10,000 convertible bonds. A bond can be converted into six ordinary shares. In 2022, interest worth CU20,000 was paid on convertible bonds. Red Company made profit worth CU100,000 in 2022. The corporate tax rate is 20%.

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The after-tax value of the interest paid on the bonds is CU16,000 (20,000 x (1 - 0.2)).

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Weighted average number of potential shares is 40,000 ($10,000 \times 6 \times (8/12)$).

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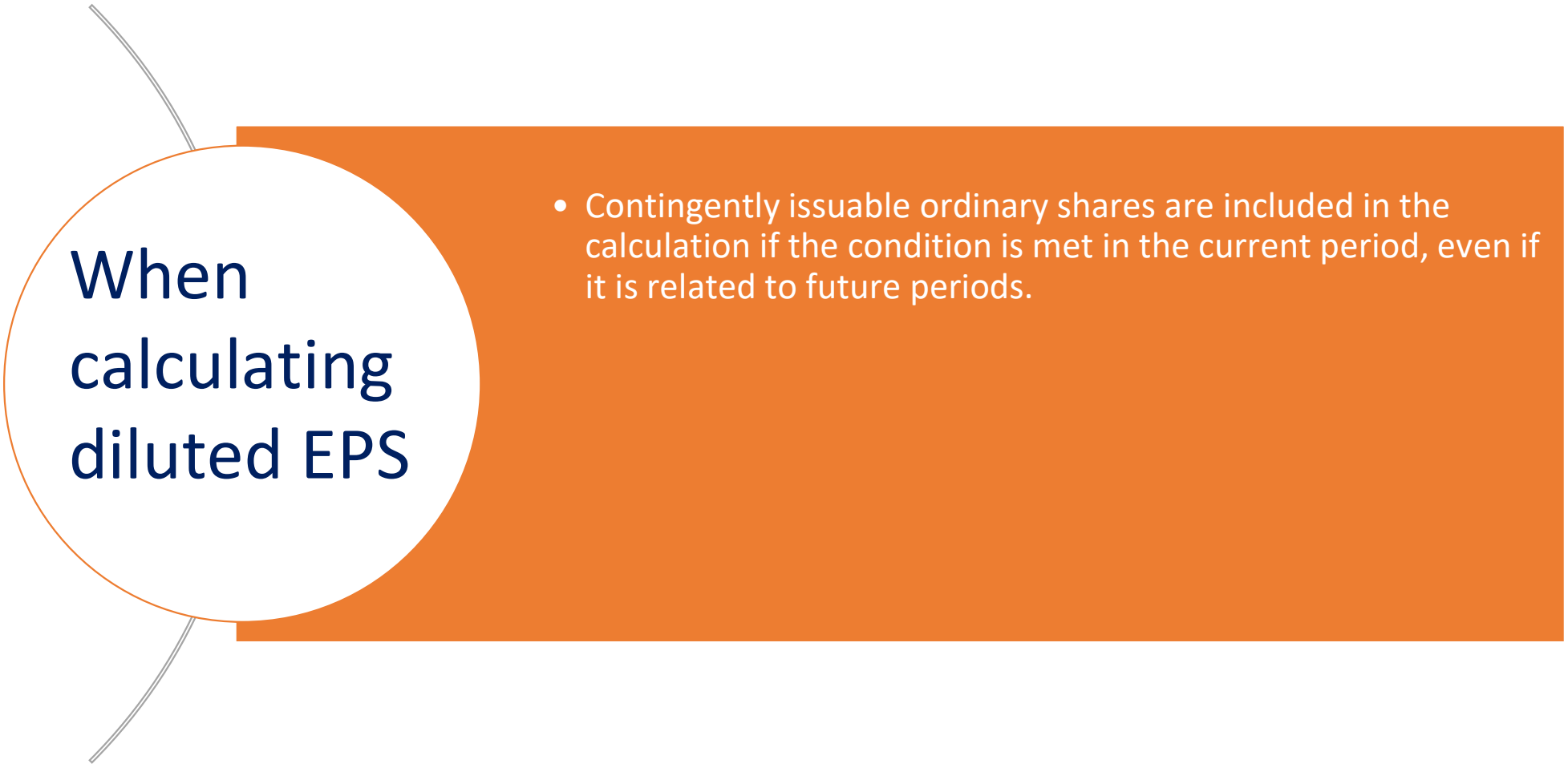
$$\text{Diluted EPS} = \frac{100,000 + 16,000}{100,000 + 40,000} = 0.83$$

CONTINGENTLY ISSUABLE SHARES

- Contingently issuable shares are shares that will be issued free of charge or for a low price if the conditions specified in the contingent share agreement are met. Conditions in the contingently issuable shares agreement may be factors such as realizing a certain sales volume, obtaining a certain amount of profit, etc.
- Contingently issuable shares are taken into account in the calculation of basic EPS only when the relevant condition is fulfilled.



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- If the contingent share agreement is made in the current period, the contingent shares are considered to exist as of the contract date.

EXAMPLE

Black Company has a contingent share agreement stating that 1% of the profit for the period will be distributed to the managers of the enterprise in case the net profit exceeds CU500,000. This agreement was made in 2020 and covered a period of ten years. The entity made a profit of CU600,000 at the end of 2021. The entity has 100,000 ordinary shares in 2021. The average market price of ordinary shares is CU2 in 2021.

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$$\text{Basic EPS} = \frac{600,000}{100,000} = \text{CU6}$$

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$$\text{Basic EPS} = \frac{600,000}{100,000} = \text{CU6}$$

The number of shares to be distributed to managers is 3,000 $((600,000 \times 0.01) / 2)$.

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$$\text{Basic EPS} = \frac{600,000}{100,000} = \text{CU}6$$

The number of shares to be distributed to managers is 3,000 $((600,000 \times 0.01) / 2)$.

$$\text{Diluted EPS} = \frac{600,000}{100,000 + 3,000} = \text{CU}5.82$$

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Basic and diluted earnings for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity

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Earnings per share is presented for every period for which a statement of comprehensive income is presented

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Basic and diluted earnings for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity

Earnings per share is presented for every period for which a statement of comprehensive income is presented

If the entity has a discontinued operation, it should also present basic earnings per share and diluted earnings per share for profit or loss from discontinued operations.

DISCLOSURES

- Basic and diluted EPS figures should be presented in the statement of comprehensive income.

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- In the notes, the entity should provide information on how these figures were accessed.

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- Moreover, if there are financial instruments that are not considered in the diluted EPS calculation because they did not have a dilutive effect in the current period, they should be disclosed in the notes.



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Co-funded by the
Erasmus+ Programme
of the European Union