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LKAS 33 : Earnings per share

Chartered Accountancy
Strategic Level
Advanced Business Reporting (ABR)

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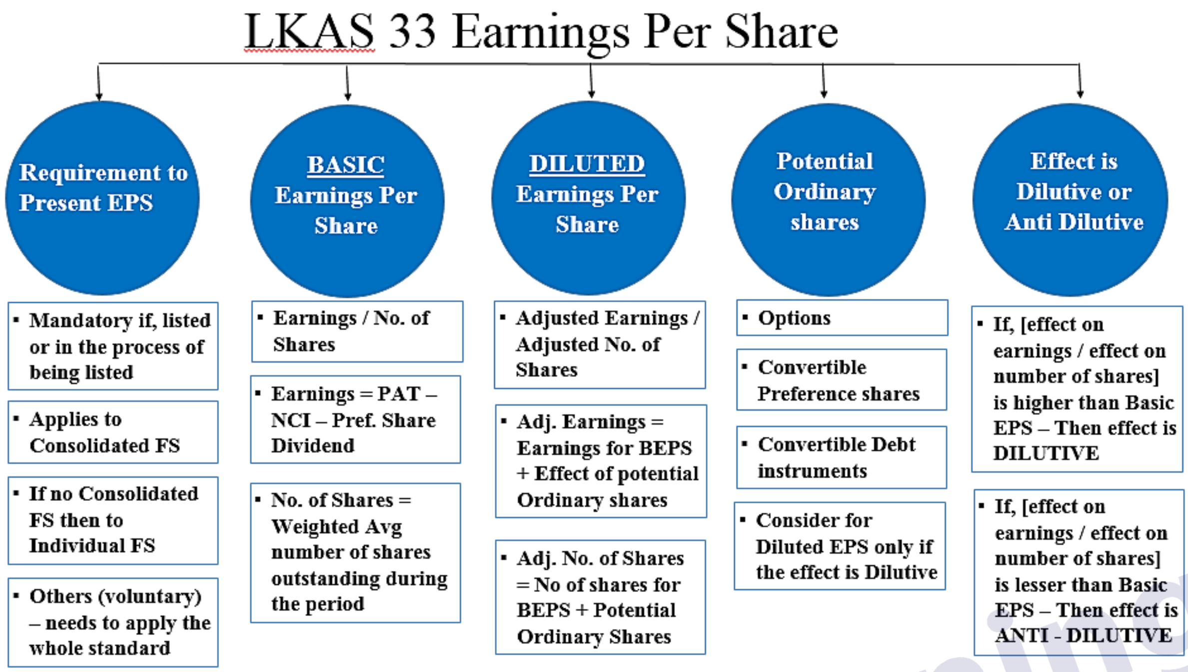
LKAS 33 – Earnings per share



1.) Scope

Mandatory if:

- ♦ Ordinary / potential ordinary shares traded in a public market
- ♦ File or in process of filing ordinary shares in a public market

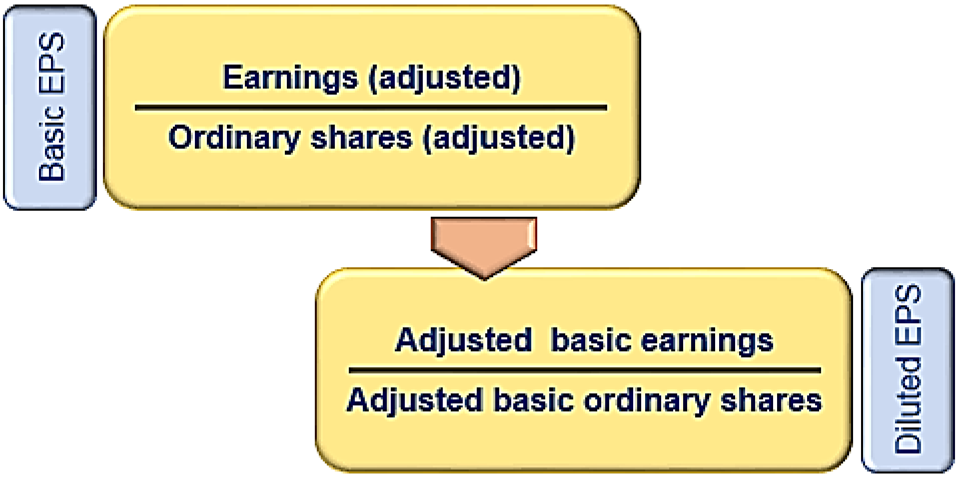
Applies to:

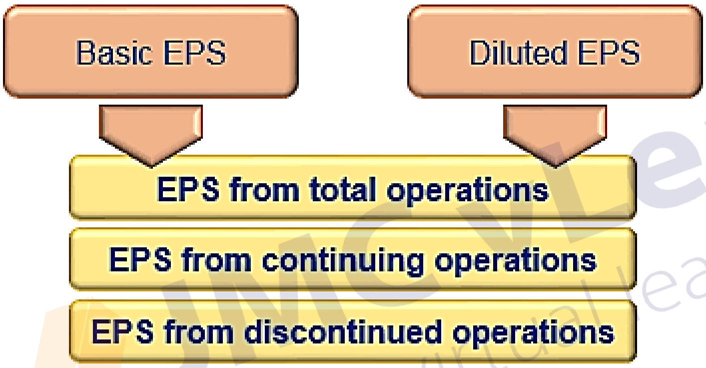
- ♦ Consolidated financial statements
- ♦ Separate or individual financial statements
- ♦ If separates and consolidated presented, applies to consolidated financial statements

Voluntary application:

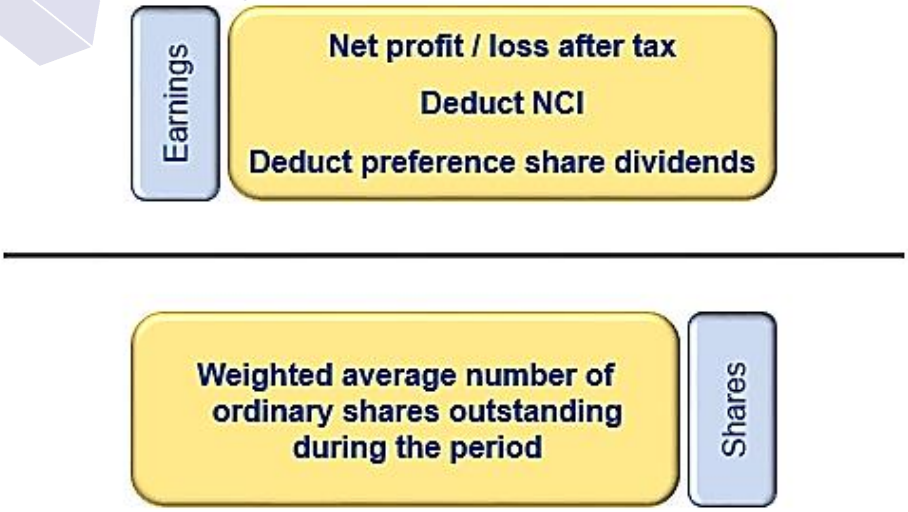
- ♦ Apply standard in its entirety

2.) Summary of requirements

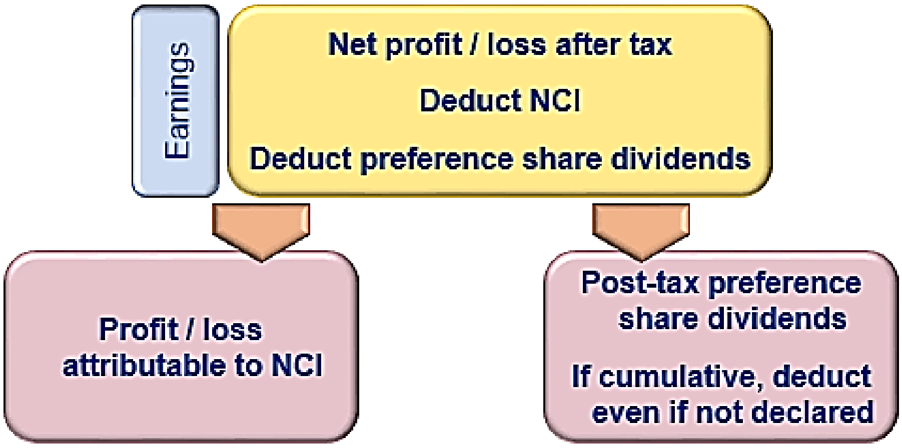




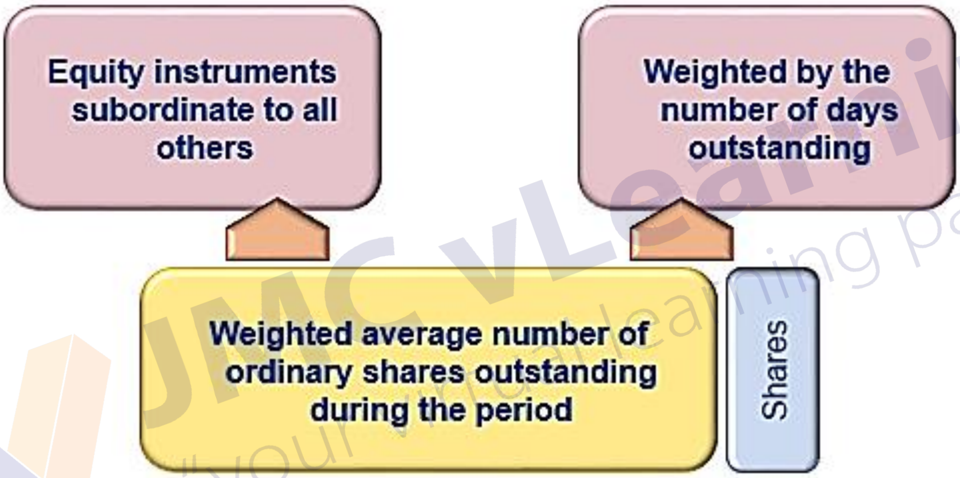
3.) EPS Calculation



3.1) EPS numerator



3.2) EPS denominator



4.) Diluted EPS

4.1) Potential ordinary shares

a.) Options

b.) Warrants

c.) Convertible preference shares

d.) Convertible debt securities

4.2) Calculation of Diluted EPS

The 6 steps

1. Identify all potential ordinary shares

2. For each potential ordinary share, calculate earnings per incremental share

3. Rank potential ordinary shares from smallest to largest earnings per incremental share

4. Calculate basic EPS from continuing operations

5. Identify dilutive potential ordinary shares based on their effect on basic EPS

6. Calculate diluted EPS

Ex : 01 – Share options

A Ltd had 100,000 options in issue with an exercise price of Rs.10. No options were exercised during the period. Average market price for the period was Rs.25

Earnings – Rs. 1,500,000 Number of shares for basic EPS – 500,000

Calculate Basic and Diluted EPS

Ex : 02 – Convertible instruments

The following information is available for B Ltd.

- 5% interest on convertible bonds; tax rate 20%
- At the option of B Ltd, 100 bonds can be converted to 5 shares or are repaid in cash
- 1m bonds on issue (Rs.1m)

Earnings – Rs. 1,500,000 Number of shares for basic EPS – 500,000

Calculate Basic and Diluted EPS

Past papers

December 2017

Q1. c)

Samanala PLC has made a bonus issue to its existing shareholders, at a ratio of 2:1. Details of the issue are given below.

- Shares in issue as of 1 January 2017 = 1,000,000
- Bonus issue as of 30 June 2017 = 1,000,000
- Total shares issued as of 31 December 2017 = 2,000,000
- Profit of the company for the years ended 31 December 2016 and 2017 were Rs. 800 million and Rs. 920 million respectively.

Required:

Compute the effect of the bonus issue on earnings per share for the years ended 31 December 2016 and 2017. (4 marks)

December 2016

Q1.

1. Earnings per share (EPS) calculation- A contract that may be settled in ordinary shares or cash

On 1 April 2015 Luxury Motors issued 2,000 convertible bonds for a 3 year term with a face value of Rs. 100 per bond. Each bond is convertible into 10 ordinary shares at any time up to maturity. The company has the option to settle the contract in ordinary shares or cash and assumes that the contract will be settled in ordinary shares. Per the information given by the company, conversion can be expected. However, no bonds have been converted as of yet. The liability component of this instrument has been calculated using a market rate of 8% for a similar debt instrument without the conversion option. The market price of a share at the date of issue of the bonds was Rs. 4. The following information is provided.

Liability component (i.e. present value of principle and interest, discounted using 8%)	Rs. 184,537
Equity component	Rs. 15,463
No. of shares outstanding as at 31 March 2016	10,000
Basic earnings per share (Rs. 25,032/10,000)	Rs. 2.50
Diluted earnings per share (Rs. 25,032/10,000 + 3,866) (Rs.15,463/Rs. 4= 3,866)	Rs. 1.80

Ramani has already checked the accuracy of the liability and equity components, but not the accuracy of the EPS computations.

Validate the above and propose required corrections together with explanations of relevant requirements from the accounting standards