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CL-25-1 | Corporate Financial Reporting

Corporate Level (2025 – Curriculum)

- LKAS 33 – Earnings per Share

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Earnings per Share

LKAS 33

LKAS 33 Earnings per Share is a disclosure standard. It is concerned with calculating the amount of profit attributable to each ordinary share in a year and presenting that amount in the financial statements.

01. 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.
- The **focus** of this standard is **on the denominator** of the earnings per share calculation.

02. SCOPE

The requirement of LKAS 33 to present earnings per share applies only to:

- **Companies** whose ordinary shares are **traded in a public market** (including companies which are in the process of being listed)
- **Groups** with a parent whose ordinary shares are **traded in a public market**

Where an entity prepares both separate and consolidated financial statements, earnings per share is only required to be presented on the basis of the consolidated information. Where a company whose shares are not listed chooses to present earnings per share, they must do so in accordance with LKAS 33.

03. BASIC EARNINGS PER SHARE (BASIC EPS)

Basic EPS is calculated by **dividing** the net profit or loss for the period attributable to ordinary shareholders (the numerator) by the weighted average number of ordinary shares outstanding during the period (the denominator) **(Para 10)**.

$$\text{Basic EPS} = \frac{\text{Net profit /(loss) attributable to ordinary shareholders}}{\text{Weighted average number of ordinary shares outstanding during the period}}$$

3.1 Profit attributable to ordinary shareholders (Earnings)

The earnings figure on which the basic EPS calculation is based should be the consolidated net profit or loss for the year after tax, non-controlling interests and after adjusting for returns to preference shareholders that are not already included in net profit (as will be the case for preference shares classified as liabilities under LKAS 32)

	Rs.
Profit after tax for the year	XXX
(-) Profit attributable to the NCI	(XXX)
(-) Profit attributable to preference shareholders not already recognized in profit or loss (Note 1)	(XXX)
Profit attributable to ordinary shareholders	XXX

Note 1 - The adjustments to net profit attributable to ordinary shareholders in relation to returns to preference shareholders should include:

- Dividends
 - *Preference dividends on non-cumulative preference shares declared in respect of the period*
 - *Preference dividends for cumulative preference shares for the period, whether or not they have been declared (excluding those paid/declared during the period in respect of previous periods)*
- The excess that arises where an entity purchases its own preference shares for more than their carrying amount

Question 01 – Earnings

Pacific Power PLC reported retained profits of Rs. 120 million in the year ended 31 December 2025. The company has the following shares in issue at that date:

- 50 million ordinary shares Rs. 700,000,000
- 6 million 3% redeemable preference shares Rs. 9,000,000
- 10 million 5% irredeemable cumulative preference shares Rs. 60,000,000

Fixed dividends are paid on the preference shares at the relevant coupon rate on carrying amount. There have been no issues of shares during the year.

Required:

- (a) **Calculate** the profit attributable to ordinary shareholders for the year ended 31 December 2025?

- (b) **State** how might your answer differ if the irredeemable preference shares were non-cumulative?

3.2 Weighted average number of ordinary shares

Ordinary Share	An equity instrument that is subordinate to all other classes of equity instruments
Equity Instrument	Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities (<i>LKAS 32</i>)

The basic rule in LKAS 33 is that **all outstanding ordinary shares are brought into the basic EPS computation** while **time-weighted for changes** happened during the period.

Weighted average number of ordinary shares outstanding during the period	The number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor (<i>para 33</i>)
Time-weighting factor	The number of days that the shares are outstanding as a proportion of the total number of days in the period (<i>para 33</i>)

The **date** on which **shares are deemed to be issued** for the purposes of the calculation of the weighted average number of ordinary shares is as follows:

Consideration for share issue	Inclusion date
Cash	When cash is receivable
Voluntary reinvestment of dividends	Dividend payment date
Conversion of debt instrument to ordinary shares	Date interest ceases accruing
In place of principal or interest on other financial instruments	Date interest ceases accruing
In exchange for settlement of a liability	Settlement date
Acquisition of an asset	Date on which acquisition recognized
Rendering of services	As services are rendered

3.2.1 Share issue

Where new shares are priced at a market price and issued for cash, there is a corresponding increase in resources, which are used to generate profits. The

calculation of weighted average number of shares is therefore a simple pro-rating exercise.

Question 02 – Share Issue

Rathnayake Imports PLC has a profit after tax of Rs. 200m. The company had 120 million ordinary shares in issue at 1 January 2025 and issued a further 30 million on 1 June 2025 at the full market price for cash.

Required: Calculate the basic earnings per share for the year ended 31 December 2025.

3.2.2 Bonus Issue (Reserve Capitalization)

Where there is a bonus issue, the **number of shares in issue increase**; however, these are '**free**' shares and there is **no corresponding increase in resources** available to the entity to use to make profits.

This **problem is solved** by **adjusting the number of ordinary shares outstanding before the event** for the proportionate change in the number of shares outstanding as if the event had occurred at the beginning of the earliest period reported.

$$\text{Bonus Adjustment Fraction} = \frac{\text{Number of shares in issue after bonus issue}}{\text{Number of shares in issue before bonus issue}}$$

The **additional shares** should be treated as **having been in issue for the whole period** and **also included in the EPS calculation of all earlier periods presented** so as to give a comparable result.

- *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*

Question 03 – Bonus Issue

Fernando Plantations PLC had a profit after tax of Rs. 160m in the year ended 31 December 2024. This increased to Rs. 190m in the year ended 31 December 2025. The company had 15 million ordinary shares in issue at 1 January 2024 and 2025, and issued a further 5 million on 1 July 2025 by way of a 1 for 3 bonus issue.

Required: Calculate the basic earnings per share for the year ended 31 December 2024 and 2025.

3.2.3 Rights Issue

In a rights issue, **existing shareholders** are given the opportunity to acquire **further shares** in the entity *on a pro rata basis* to their existing shareholdings at a **price below the current market value**.

For the purposes of calculating EPS, this is treated as a combination of a bonus issue and an issue at fair value.

As with a bonus issue, a **bonus fraction** is used to calculate weighted average number of ordinary shares; this is calculated as:

$$\text{Right Issue Adjustment} = \frac{\text{Fair value per share immediately before the exercise of rights}}{\text{Theoretical ex-rights fair value per share (TERP)}}$$

*The fair value per share immediately before the exercise of rights is **the actual price** at which the shares are quoted inclusive of the right to take up the future shares under the rights issue. Where the rights are to be traded separately from the shares the fair value used is the **closing price on the last day** on which the shares are traded inclusive of the right.*

The **TERP** is calculated as:

$$\text{TERP} = \frac{\text{Total Market value of all outstanding shares before rights issue} + \text{Proceeds from rights issue}}{\text{Number of shares after rights issue}}$$

The 'ex-rights fair value' is the theoretical price at which the shares would be expected to be quoted after the rights issue shares have been issued without considering other stock market factors.

Question 04 – Rights Issue

Rupasinghe Industries PLC had a profit after tax of Rs. 30m in the year ended 31 December 2023. This increased to Rs. 32m in the year ended 31 December 2024.

The company had 25 million ordinary shares in issue at 1 January 2023 and 2024 and issued a further 5 million on 1 July 2024 by way of a 1 for 5 rights issue. The market price of one share immediately before the rights issue was Rs. 4.50; the exercise price was Rs. 3.30.

Required: Calculate the basic earnings per share for the year ended 31 December 2023 and 2024.

Question 05 – Basic EPS

Typhoon Tea PLC had a profit after tax of Rs. 81 million in the year ended 31 December 2023. This increased to Rs. 83 million in the year ended 31 December 2024. The company had 100 million ordinary shares in issue at 1 January 2023 and 2024 and made the following issues in 2024:

- A bonus issue of 1 for 10 on 1 March 2024
- A 1 for 5 rights issue on 1 July 2024. The market price of one share immediately before the rights issue was Rs. 16.20; the exercise price was Rs. 12.50.

Required: What are the basic earnings per share for the year ended 31 December 2023 and 2024?

04. DILUTED EARNINGS PER SHARE (DILUTED EPS)

The presentation of **basic EPS** seeks to show a **performance measure**, by computing how much profit an entity has earned for each of the shares in issue for the period. Entities often enter into **commitments to issue shares in the future** which would result in a change in basic EPS. For example,

- Financial liabilities or equity instruments, including preference shares, that are convertible into ordinary shares
- Options and warrants

When potential shares are actually issued, the impact on basic EPS will be two-fold.

- First, the **number of shares in issue will change**
- Second, **profits could be affected**
 - *For example, by lower interest charges or the return made on cash inflows*

Scenarios whereby such an adjustment to basic EPS is unfavorable are described by the standard as **dilution**.

Dilution	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	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 on the satisfaction of specified conditions
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This potential fall in EPS is quantified by computing diluted EPS, and as a result:

- (a) **Profit or loss attributable to equity holders is increased** by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares and is adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares
- (b) The **weighted average number of ordinary shares outstanding is increased** by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares

It is **important** to note following.

- Dilutive potential ordinary shares decrease EPS on conversion because the number of shares ranking for dividend will increase but profits will not increase proportionately
- Antidilutive potential ordinary shares increase EPS on conversion because the number of shares ranking for dividend will increase but profits increase to a greater extent

When calculating diluted EPS, only dilutive potential ordinary shares are taken into account. It is therefore important to check each group of potential ordinary shares on a stand-alone basis to see whether they are dilutive or antidilutive before calculating diluted EPS.

Question 06 – Antidilutive Potential Ordinary Shares

Abekoon Electricals PLC has Rs. 20m 10% convertible loan stock in issue. This is convertible in the future at a rate of one share for every Rs. 10 loan stock. The company pays corporate income tax at 28% and has basic EPS of 70 cents. The carrying amount of the debt element of the loan stock at the start of the year was Rs. 19,039,267m and the effective interest rate was 12%.

Required: Calculate the effect on conversion and identify whether those potential shares are dilutive or antidilutive.

4.1 Calculation

$$\text{Dilutive EPS} = \frac{\text{Earnings in Basic EPS + Effect on earnings of dilutive potential ordinary shares}}{\text{Number of shares in basic EPS + Dilutive potential ordinary shares}}$$

The calculation should be **performed in steps** with each group of dilutive potential ordinary shares added in turn, starting with the most dilutive. **After each addition**, diluted EPS is calculated and the diluted earnings per share figure is that which is the **lowest calculated at any stage**.

4.2 Profits

The earnings used in diluted EPS are those calculated for basic EPS, adjusted by the **post-tax** effect of:

- (a) Any **dividends** on dilutive potential ordinary shares that were deducted to arrive at earnings for basic EPS
- (b) **Interest recognised** in the period for the dilutive potential ordinary shares (convertible debt)
- (c) Any **other changes in income or expenses** (fees or discount) that would result from the conversion of the dilutive potential ordinary shares

The conversion of some potential ordinary shares may lead **to changes in other income or expenses**.

- *For example, the **reduction of interest expense** related to potential ordinary shares and the resulting increase in net profit for the year may lead to an increase in the expense relating to a non-discretionary employee profit-sharing plan. When calculating diluted EPS, the net profit or loss for the year is adjusted for any such consequential changes in income or expense.*

4.3 Number of Shares

The number of ordinary shares is the weighted average number of ordinary shares calculated for basic EPS **plus** the weighted average number of ordinary shares that would be issued on the conversion of the **dilutive potential ordinary shares** into ordinary shares.

- It should be assumed that dilutive ordinary shares were converted into ordinary shares at the **beginning of the period** or, if later, **at the actual date of issue**.
- The computation assumes the most **advantageous conversion rate** or exercise rate from the standpoint of the holder of the potential ordinary shares.

4.3.1 Share options

On exercise, share options **will increase the number of ordinary shares** in issue; however, **they will not affect profits**. For the purposes of calculating diluted EPS, it is **assumed that all options will be exercised**. Share options normally have an exercise price below the market price of a share.

Therefore, for the purposes of calculating diluted earnings per share, **share options are treated as a hybrid** of some shares issuable at full market price and a bonus issue. It is the bonus issue element that is dilutive and must be taken into account in the calculation of diluted EPS. **Where the exercise price of share options exceeds average market price in a period, the options are not dilutive.**

Question 07 – Antidilutive Potential Ordinary Shares

Wijekoon Botanicals PLC has the following results for the year ended 31 December 2017. Net profit for year Rs. 120,000,000 Weighted average number of ordinary shares 500,000 shares outstanding during year Average fair value of one ordinary share during year Rs. 20 Weighted average number of shares under option during year 100,000 shares Exercise price for shares under option during year Rs. 15

Required: Calculate both basic and diluted earnings per share.

4.3.2 Convertible Instruments

Convertible instruments may include loan stock and preference shares. As we have already seen, these potential ordinary shares may be dilutive or antidilutive

Question 08 – Convertible Instruments

Alahakoon PLC has 50,000,000 ordinary shares in issue, and also had in issue in 2024:

- (a) Rs. 10,000,000 of 14% convertible loan stock, convertible in two years' time at the rate of 2 shares per Rs. 10 of stock. The interest charge on the debt element of the loan stock in 20X4 was Rs. 1,465,752.
- (b) Rs. 20,000,000 of 10% convertible loan stock, convertible in one year's time at the rate of 3 shares per Rs. 10 of stock. The interest charge on the debt element of the loan stock in 20X4 was Rs. 2,469,888

The total earnings in 20X4 were Rs. 17,500,000. The rate of income tax is 28%. **Required to Calculate** the basic EPS and diluted EPS.

4.3.3 Contingently Issuable Shares

Where ordinary shares are issuable contingent on a future event occurring, these shares are included in the calculation of 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.**

Condition	Inclusion criteria
achieving a specified level of earnings after the period end	IF that level of earnings has been achieved by the period end
dependent on the market price of ordinary shares at a date after the period end	If the required market price has been achieved at the period end
dependent on another condition (e.g. opening a certain number of outlets by a given date)	According to the status

Question 09 – Contingently Issuable Shares

Required: Explain whether each of these groups of potential ordinary shares should be taken into account in the calculation of diluted earnings per share.

- (a) P Co acquired 75% of the shares in S Co on 1 March 2024 in exchange for cash consideration and 200,000 of its own shares that will be issued only if S Co achieves revenue of Rs. 60 million in the first year of ownership. At 31 December 2024 revenue is Rs. 51 million.
- (b) P Co also acquired 80% of C Co in May 2024. Part of the consideration for business combination is shares in P Co that will be issued only if the share price of P Co reaches Rs. 20 by the anniversary of the acquisition date. The share price has fluctuated significantly since the acquisition date, recording a low of Rs. 8.70 and a high at the year-end of Rs. 21.

05. RETROSPECTIVE ADJUSTMENTS

If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the **calculation of 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 per share calculations for those and any prior period financial statements presented **shall be based on the new number of shares**.

The fact that per share calculations reflect such changes in the number of shares shall be disclosed. 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

06. PRESENTATION AND DISCLOSURE

Presentation

Basic and diluted EPS should be presented

- in the statement of profit or loss for each class of ordinary share that has a different right to share in the net profit for the period.
- If an entity presents items of profit or loss in a separate statement in accordance with LKAS 1, it should present earnings per share only in that statement
- Disclosure must still be made where the EPS figures (basic and/or diluted) are negative (ie a loss per share).
- 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.

Disclosure

- The amounts used as the numerators in calculating basic and diluted EPS, and a reconciliation of those amounts to the net profit or loss for the period.
- The weighted average number of ordinary shares used as the denominator in calculating basic and diluted EPS, and a reconciliation of these denominators to each other.
- A description of ordinary share transactions or potential ordinary share transactions, other than those accounted for in accordance with paragraph 64, 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 had occurred before the end of the reporting period.

Alternative EPS Figures

An entity may present alternative EPS figures if it wishes. However, LKAS 33 lays out certain rules where this takes place.

- (a) The weighted average number of shares as calculated under LKAS 33 must be used.
- (b) A reconciliation must be given if necessary between the component of profit used in the alternative EPS and the line item for profit reported in the statement of comprehensive income.
- (c) Basic and diluted EPS must be shown with equal prominence.