

**ACCOUNTING STANDARD**

**AASB 133**  
July 2004

# **Earnings per Share**



**Australian Government**

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**Australian Accounting  
Standards Board**

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**BASIS FOR CONCLUSIONS ON IAS 33**  
(available to AASB online subscribers or through the IASB)

Australian Accounting Standard AASB 133 *Earnings per Share* is set out in paragraphs 1 – 73 and in the Appendix. All the paragraphs have equal authority. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 133 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the UIG Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

## **PREFACE**

### **Reasons for Issuing AASB 133**

The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB is using the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards; and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) UIG Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

## **Main Features of this Standard**

### **Application Date**

This Standard is applicable to annual reporting periods beginning on or after 1 January 2005. To promote comparability among the financial reports of Australian entities, early adoption of this Standard is not permitted.

### **First-time Application and Comparatives**

Application of this Standard will begin in the first annual reporting period beginning on or after 1 January 2005 in the context of adopting all Australian equivalents to IFRSs. The requirements of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Standard had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

### **Main Requirements**

The Standard:

- (a) applies to listed reporting entities and entities in the process of listing which have ordinary shares, and entities that voluntarily disclose earnings per share;
- (b) requires basic earnings per share and, where applicable, diluted earnings per share, to be disclosed on the face of the income statement:
  - (i) in respect of profit or loss attributable to ordinary equity holders of the parent entity; and
  - (ii) if presented, in respect of profit or loss from continuing operations attributable to ordinary equity holders of the parent entity;
- (c) requires the weighted average number of ordinary shares outstanding during a reporting period used in calculating basic earnings per share to 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 the recognised resources;

- (d) in the calculation of diluted earnings per share, requires the use of:
  - (i) the profit or loss used in calculating basic earnings per share adjusted for the effects of all dilutive potential ordinary shares; and
  - (ii) the weighted average number of ordinary shares outstanding during a reporting period used in calculating basic earnings per share adjusted for the effects of all dilutive potential ordinary shares;
- (e) requires potential ordinary shares to 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; and
- (f) requires specific disclosures in relation to basic earnings per share and, where applicable, diluted earnings per share.

### **Differences between this Standard and AASB 1027**

The primary differences between this Standard and the AASB standard that it supersedes, AASB 1027 *Earnings per Share*, is that this Standard:

- (a) gives rise to a lower basic earnings per share amount than AASB 1027 where there are mandatorily convertible securities; and
- (b) gives rise to a higher diluted earnings per share amount than AASB 1027 where potential ordinary shares of which the conversion to, calling of, or subscription for ordinary shares, is at the option of the entity.

A more detailed description of the differences between this Standard and AASB 1027 accompanies this Standard under the heading “Differences between AASB 133 and AASB 1027”.

## **COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS**

### **AASB 133 and IAS 33**

AASB 133 is equivalent to IAS 33 *Earnings per Share* issued by the IASB. Paragraphs that have been added to this Standard (and do not appear in the text of the equivalent IASB standard) are identified with the prefix “Aus”, followed by the number of the relevant IASB paragraph and decimal numbering.

### **Compliance with IAS 33**

Entities that comply with AASB 133 will simultaneously be in compliance with IAS 33.

### **AASB 133 and IPSASs**

International Public Sector Accounting Standards (IPSASs) are issued by the Public Sector Committee of the International Federation of Accountants.

There is no specific IPSAS dealing with accounting for earnings per share at present.

## ACCOUNTING STANDARD AASB 133

The Australian Accounting Standards Board makes Accounting Standard AASB 133 *Earnings per Share* under section 334 of the *Corporations Act 2001*.

Dated 15 July 2004

D.G. Boymal  
Chair – AASB

## ACCOUNTING STANDARD AASB 133

### *EARNINGS PER SHARE*

#### Objective

1. The objective of this Standard is 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. Even though earnings per share data have limitations because of the different accounting policies that may be used for determining 'earnings', a consistently determined denominator enhances financial reporting. The focus of this Standard is on the denominator of the earnings per share calculation.

#### Application

- Aus1.1 This Standard applies to each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is:**
- (a) a reporting entity with listed *ordinary shares*; or
  - (b) a reporting entity that has on issue ordinary shares and is in the process of listing; or
  - (c) an entity that discloses earnings per share.
- Aus1.2 This Standard applies to annual reporting periods beginning on or after 1 January 2005.**
- Aus1.3 This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.**

- Aus1.4** The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.
- Aus1.5** When applicable, this Standard supersedes AASB 1027 *Earnings per Share* as notified in the *Commonwealth of Australia Gazette*, No S 236, 29 June 2001.
- Aus1.6** When applicable, this Standard also supersedes the relief provided in paragraph 10 of AASB 1030 *Application of Accounting Standards to Financial Year Accounts and Consolidated Accounts of Disclosing Entities other than Companies* in respect of disclosing entities other than:
- (a) companies; and
  - (b) other bodies corporate;
- listed on the Australian Stock Exchange.
- Aus1.7** AASB 1027 remains applicable until superseded by this Standard.
- Aus1.8** Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

## Scope

2. [Deleted by the AASB]
3. **An entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.**
4. **When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with AASB 127 *Consolidated and Separate Financial Statements*, the disclosures required by this Standard need be presented only on the basis of the consolidated information. An entity that chooses to disclose earnings per share based on its separate financial statements shall present such earnings per share information only on the face of its separate income statement. An entity shall not present such earnings per share information in the consolidated financial statements.**

## Definitions

5. The following terms are used in this Standard with the meanings specified.

***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.

***Contingently issuable ordinary shares*** are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a *contingent share agreement*.

A ***contingent share agreement*** is an agreement to issue shares that is dependent on the satisfaction of specified conditions.

***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.

***Options, warrants and their equivalents*** are financial instruments that give the holder the right to purchase ordinary shares.

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.

***Put options*** on ordinary shares are contracts that give the holder the right to sell ordinary shares at a specified price for a given period.

6. 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.

7. Examples of *potential ordinary shares* are:
- (a) financial liabilities or equity instruments, including preference shares, that are convertible into ordinary shares;
  - (b) options and warrants;
  - (c) shares that would be issued upon the satisfaction of conditions resulting from contractual arrangements, such as the purchase of a business or other assets.
8. Terms defined in AASB 132 *Financial Instruments: Disclosure and Presentation* are used in this Standard with the meanings specified in paragraph 11 of AASB 132, unless otherwise noted. AASB 132 defines financial instrument, financial asset, financial liability, equity instrument and fair value, and provides guidance on applying those definitions.

## Measurement

### Basic Earnings per Share

9. **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.**
10. **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.**
11. The objective of basic earnings per share information is to provide a measure of the interests of each ordinary share of a parent entity in the performance of the entity over the reporting period.

### Earnings

12. **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.**

13. All items of income and expense attributable to ordinary equity holders of the parent entity that are recognised in a period, including tax expense and dividends on preference shares classified as liabilities, are included in the determination of profit or loss for the period attributable to ordinary equity holders of the parent entity (see AASB 101 *Presentation of Financial Statements*).
14. The after-tax amount of preference dividends that is deducted from profit or loss is:
  - (a) the after-tax amount of any preference dividends on non-cumulative preference shares declared in respect of the period; and
  - (b) 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.
15. Preference shares that provide for a low initial dividend to compensate an entity for selling the preference shares at a discount, or an above-market dividend in later periods to compensate investors for purchasing preference shares at a premium, are sometimes referred to as increasing rate preference shares. Any original issue discount or premium on increasing rate preference shares is amortised to retained earnings using the effective interest method and treated as a preference dividend for the purposes of calculating earnings per share.
16. Preference shares may be repurchased under an entity's tender offer to the holders. The excess of the fair value of the consideration paid to the preference shareholders over the carrying amount of the preference shares represents a return to the holders of the preference shares and a charge to retained earnings for the entity. This amount is deducted in calculating profit or loss attributable to ordinary equity holders of the parent entity.
17. Early conversion of convertible preference shares may be induced by an entity through favourable changes to the original conversion terms or the payment of additional consideration. The excess of the fair value of the ordinary shares or other consideration paid over the fair

value of the ordinary shares issuable under the original conversion terms is a return to the preference shareholders, and is deducted in calculating profit or loss attributable to ordinary equity holders of the parent entity.

18. Any excess of the carrying amount of preference shares over the fair value of the consideration paid to settle them is added in calculating profit or loss attributable to ordinary equity holders of the parent entity.

### **Shares**

- 19. 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.**
20. Using the weighted average number of ordinary shares outstanding during the period reflects the possibility that the amount of shareholders' capital varied during the period as a result of a larger or smaller number of shares being outstanding at any time. The weighted average number of ordinary shares outstanding during the period is 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. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances.
21. Shares are usually included in the weighted average number of shares from the date consideration is receivable (which is generally the date of their issue), for example:
  - (a) ordinary shares issued in exchange for cash are included when cash is receivable;
  - (b) ordinary shares issued on the voluntary reinvestment of dividends on ordinary or preference shares are included when dividends are reinvested;
  - (c) 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;
  - (d) ordinary shares issued in place of interest or principal on other financial instruments are included from the date that interest ceases to accrue;

- (e) ordinary shares issued in exchange for the settlement of a liability of the entity are included from the settlement date;
- (f) 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
- (g) ordinary shares issued for the rendering of services to the entity are included as the services are rendered.

The timing of the inclusion of ordinary shares is determined by the terms and conditions attaching to their issue. Due consideration is given to the substance of any contract associated with the issue.

- 22. Ordinary shares issued as part of a business combination are included in the weighted average number of shares from the acquisition date. This is because the acquirer incorporates into its income statement the acquiree's profits and losses from that date.
- 23. Ordinary shares that will be issued upon the conversion of a mandatorily convertible instrument are included in the calculation of basic earnings per share from the date the contract is entered into.
- 24. Contingently issuable shares are treated as outstanding and are included in the calculation of basic earnings per share only from the date when all necessary conditions are satisfied (i.e. the events have occurred). Shares that are issuable solely after the passage of time are not contingently issuable shares, because the passage of time is a certainty.
- 25. Outstanding ordinary shares that are contingently returnable (i.e. subject to recall) are not treated as outstanding and are excluded from the calculation of basic earnings per share until the date the shares are no longer subject to recall.
- 26. **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.**
- 27. Ordinary shares may be issued, or the number of ordinary shares outstanding may be reduced, without a corresponding change in resources. Examples include:
  - (a) a capitalisation or bonus issue (sometimes referred to as a stock dividend);

- (b) a bonus element in any other issue, for example a bonus element in a rights issue to existing shareholders;
  - (c) a share split; and
  - (d) a reverse share split (consolidation of shares).
28. 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.
29. A consolidation of ordinary shares generally reduces the number of ordinary shares outstanding without a corresponding reduction in resources. However, when the overall effect is a share repurchase at fair value, the reduction in the number of ordinary shares outstanding is the result of a corresponding reduction in resources. An example is a share consolidation combined with a special dividend. The weighted average number of ordinary shares outstanding for the period in which the combined transaction takes place is adjusted for the reduction in the number of ordinary shares from the date the special dividend is recognised.

### **Diluted Earnings per Share**

30. **An entity shall calculate diluted 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.**
31. **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, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.**
32. The objective of diluted earnings per share is consistent with that of basic earnings per share, to provide a measure of the interest of each ordinary share in the performance of an entity, while giving effect to all dilutive potential ordinary shares outstanding during the period. As a result:

- (a) profit or loss attributable to ordinary equity holders of the parent entity 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; and
- (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.

### **Earnings**

- 33. 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, as calculated in accordance with paragraph 12, 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 accordance with paragraph 12;**
  - (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.**
34. After the potential ordinary shares are converted into ordinary shares, the items identified in paragraph 33(a)-(c) no longer arise. Instead, the new ordinary shares are entitled to participate in profit or loss attributable to ordinary equity holders of the parent entity. Therefore, profit or loss attributable to ordinary equity holders of the parent entity calculated in accordance with paragraph 12 is adjusted for the items identified in paragraph 33(a)-(c) and any related taxes. The expenses associated with potential ordinary shares include transaction costs and discounts accounted for in accordance with the effective interest method (see paragraph 9 of AASB 139 *Financial Instruments: Recognition and Measurement*).
35. The conversion of potential ordinary shares may lead to consequential changes in income or expenses. For example, the reduction of interest expense related to potential ordinary shares and the resulting increase in profit or reduction in loss may lead to an increase in the expense related to a non-discretionary employee profit-sharing plan. For the

purpose of calculating diluted earnings per share, profit or loss attributable to ordinary equity holders of the parent entity is adjusted for any such consequential changes in income or expense.

## Shares

- 36. 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 accordance with paragraphs 19 and 26, 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.**
37. Dilutive potential ordinary shares shall be determined independently for each period presented. The number of dilutive potential ordinary shares included in the year-to-date period is not a weighted average of the dilutive potential ordinary shares included in each interim computation.
38. Potential ordinary shares are weighted for the period they are outstanding. Potential ordinary shares that are cancelled or allowed to lapse during the period are included in the calculation of diluted earnings per share only for the portion of the period during which they are outstanding. Potential ordinary shares that are converted into ordinary shares during the period are included in the calculation of diluted earnings per share from the beginning of the period to the date of conversion; from the date of conversion, the resulting ordinary shares are included in both basic and diluted earnings per share.
39. The number of ordinary shares that would be issued on conversion of dilutive potential ordinary shares is determined from the terms of the potential ordinary shares. When more than one basis of conversion exists, the calculation assumes the most advantageous conversion rate or exercise price from the standpoint of the holder of the potential ordinary shares.
40. A subsidiary, joint venture or associate may issue to parties other than the parent, venturer or investor potential ordinary shares that are convertible into either ordinary shares of the subsidiary, joint venture or associate, or ordinary shares of the parent, venturer or investor (the reporting entity). If these potential ordinary shares of the subsidiary, joint venture or associate have a dilutive effect on the basic earnings per share of the reporting entity, they are included in the calculation of diluted earnings per share.

## **Dilutive Potential Ordinary Shares**

- 41. 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.**
42. An entity uses profit or loss from continuing operations attributable to the parent entity as the control number to establish whether potential ordinary shares are dilutive or antidilutive. Profit or loss from continuing operations attributable to the parent entity is adjusted in accordance with paragraph 12 and excludes items relating to discontinued operations.
43. Potential ordinary shares are antidilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share.
44. In determining whether potential ordinary shares are dilutive or antidilutive, each issue or series of potential ordinary shares is considered separately rather than in aggregate. The sequence in which potential ordinary shares are considered may affect whether they are dilutive. Therefore, to maximise the *dilution* of basic earnings per share, each issue or series of potential ordinary shares is considered in sequence from the most dilutive to the least dilutive, that is, dilutive potential ordinary shares with the lowest 'earnings per incremental share' are included in the diluted earnings per share calculation before those with a higher earnings per incremental share. Options and warrants are generally included first because they do not affect the numerator of the calculation.

### *Options, warrants and their equivalents*

- 45. For the purpose of calculating diluted earnings per share, an entity shall assume the exercise of dilutive options and warrants of the entity. The assumed proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period shall be treated as an issue of ordinary shares for no consideration.**

46. Options and warrants are dilutive when they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the period. The amount of the dilution is the average market price of ordinary shares during the period minus the issue price. Therefore, to calculate diluted earnings per share, potential ordinary shares are treated as consisting of both the following:
- (a) a contract to issue a certain number of the ordinary shares at their average market price during the period. Such ordinary shares are assumed to be fairly priced and to be neither dilutive nor antidilutive. They are ignored in the calculation of diluted earnings per share; and
  - (b) a contract to issue the remaining ordinary shares for no consideration. Such ordinary shares generate no proceeds and have no effect on profit or loss attributable to ordinary shares outstanding. Therefore, such shares are dilutive and are added to the number of ordinary shares outstanding in the calculation of diluted earnings per share.
47. Options and warrants have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the options or warrants (i.e. they are 'in the money'). Previously reported earnings per share are not retroactively adjusted to reflect changes in prices of ordinary shares.
- 47A. For share options and other share-based payment arrangements to which AASB 2 *Share-based Payment* applies, the issue price referred to in paragraph 46 and the exercise price referred to in paragraph 47 shall include the fair value of any goods or services to be supplied to the entity in the future under the share option or other share-based payment arrangement.
48. Employee share options with fixed or determinable terms and non-vested ordinary shares are treated as options in the calculation of diluted earnings per share, even though they may be contingent on vesting. They are treated as outstanding on the grant date. Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

***Convertible instruments***

49. The dilutive effect of convertible instruments shall be reflected in diluted earnings per share in accordance with paragraphs 33 and 36.

50. Convertible preference shares are antidilutive whenever the amount of the dividend on such shares declared in or accumulated for the current period per ordinary share obtainable on conversion exceeds basic earnings per share. Similarly, convertible debt is antidilutive whenever its interest (net of tax and other changes in income or expense) per ordinary share obtainable on conversion exceeds basic earnings per share.
51. The redemption or induced conversion of convertible preference shares may affect only a portion of the previously outstanding convertible preference shares. In such cases, any excess consideration referred to in paragraph 17 is attributed to those shares that are redeemed or converted for the purpose of determining whether the remaining outstanding preference shares are dilutive. The shares redeemed or converted are considered separately from those shares that are not redeemed or converted.

***Contingently issuable shares***

52. As in the calculation of basic earnings per share, *contingently issuable ordinary shares* are treated as outstanding and included in the calculation of diluted earnings per share if the conditions are satisfied (i.e. the events have occurred). Contingently issuable shares are included from the beginning of the period (or from the date of the contingent share agreement, if later). If the conditions are not satisfied, the number of contingently issuable shares included in the diluted earnings per share calculation is based on the number of shares that would be issuable if the end of the period were the end of the contingency period. Restatement is not permitted if the conditions are not met when the contingency period expires.
53. If attainment or maintenance of a specified amount of earnings for a period is the condition for contingent issue and if that amount has been attained at the end of the reporting period but must be maintained beyond the end of the reporting period for an additional period, then the additional ordinary shares are treated as outstanding, if the effect is dilutive, when calculating diluted earnings per share. In that case, the calculation of diluted earnings per share is based on the number of ordinary shares that would be issued if the amount of earnings at the end of the reporting period were the amount of earnings at the end of the contingency period. Because earnings may change in a future period, the calculation of basic earnings per share does not include such contingently issuable ordinary shares until the end of the contingency period because not all necessary conditions have been satisfied.

54. The number of ordinary shares contingently issuable may depend on the future market price of the ordinary shares. In that case, if the effect is dilutive, the calculation of diluted earnings per share is based on the number of ordinary shares that would be issued if the market price at the end of the reporting period were the market price at the end of the contingency period. If the condition is based on an average of market prices over a period of time that extends beyond the end of the reporting period, the average for the period of time that has lapsed is used. Because the market price may change in a future period, the calculation of basic earnings per share does not include such contingently issuable ordinary shares until the end of the contingency period because not all necessary conditions have been satisfied.
55. The number of ordinary shares contingently issuable may depend on future earnings and future prices of the ordinary shares. In such cases, the number of ordinary shares included in the diluted earnings per share calculation is based on both conditions (i.e. earnings to date and the current market price at the end of the reporting period). Contingently issuable ordinary shares are not included in the diluted earnings per share calculation unless both conditions are met.
56. In other cases, the number of ordinary shares contingently issuable depends on a condition other than earnings or market price (e.g. the opening of a specific number of retail stores). In such cases, assuming that the present status of the condition remains unchanged until the end of the contingency period, the contingently issuable ordinary shares are included in the calculation of diluted earnings per share according to the status at the end of the reporting period.
57. Contingently issuable potential ordinary shares (other than those covered by a contingent share agreement, such as contingently issuable convertible instruments) are included in the diluted earnings per share calculation as follows:
- (a) an entity determines whether the potential ordinary shares may be assumed to be issuable on the basis of the conditions specified for their issue in accordance with the contingent ordinary share provisions in paragraphs 52-56; and
  - (b) if those potential ordinary shares should be reflected in diluted earnings per share, an entity determines their impact on the calculation of diluted earnings per share by following the provisions for options and warrants in paragraphs 45-48, the provisions for convertible instruments in paragraphs 49-51, the provisions for contracts that may be settled in ordinary shares or cash in paragraphs 58-61, or other provisions, as appropriate.

However, exercise or conversion is not assumed for the purpose of calculating diluted earnings per share unless exercise or conversion of similar outstanding potential ordinary shares that are not contingently issuable is assumed.

*Contracts that may be settled in ordinary shares or cash*

- 58. When an entity has issued a contract that may be settled in ordinary shares or in cash at the entity's option, the entity shall presume that the contract will be settled in ordinary shares, and the resulting potential ordinary shares shall be included in diluted earnings per share if the effect is dilutive.**
59. When such a contract is presented for accounting purposes as an asset or a liability, or has an equity component and a liability component, the entity shall adjust the numerator for any changes in profit or loss that would have resulted during the period if the contract had been classified wholly as an equity instrument. That adjustment is similar to the adjustments required in paragraph 33.
- 60. For contracts that may be settled in ordinary shares or cash at the holder's option, the more dilutive of cash settlement and share settlement shall be used in calculating diluted earnings per share.**
61. An example of a contract that may be settled in ordinary shares or in cash is a debt instrument that, on maturity, gives the entity the unrestricted right to settle the principal amount in cash or in its own ordinary shares. Another example is a written put option that gives the holder a choice of settling in ordinary shares or in cash.

*Purchased options*

62. Contracts such as purchased *put options* and purchased call options (i.e. options held by the entity on its own ordinary shares) are not included in the calculation of diluted earnings per share because including them would be antidilutive. The put option would be exercised only if the exercise price were higher than the market price and the call option would be exercised only if the exercise price were lower than the market price.

*Written put options*

- 63. Contracts that require the entity to repurchase its own shares, such as written put options and forward purchase contracts, are reflected in the calculation of diluted earnings per share if the effect is dilutive. If these contracts are 'in the money' during the period (i.e. the exercise or settlement price is above the average**

market price for that period), the potential dilutive effect on earnings per share shall be calculated as follows:

- (a) it shall be assumed that at the beginning of the period sufficient ordinary shares will be issued (at the average market price during the period) to raise proceeds to satisfy the contract;
- (b) it shall be assumed that the proceeds from the issue are used to satisfy the contract (i.e. to buy back ordinary shares); and
- (c) the incremental ordinary shares (the difference between the number of ordinary shares assumed issued and the number of ordinary shares received from satisfying the contract) shall be included in the calculation of diluted earnings per share.

## **Information Based on an Alternative Number of Shares**

**Aus63.1** Notwithstanding paragraph 73, when, and only when, an entity has undergone a major capital restructuring during the reporting period, the entity shall disclose an additional basic earnings per share and, where applicable, diluted earnings per share, using an alternative denominator where this is considered by the entity to be more meaningful than the earnings per share information calculated in accordance with paragraphs 9-29 in determining basic earnings per share, and paragraphs 30-63 in determining diluted earnings per share, where applicable.

**Aus63.2** When an entity undergoes a major capital restructuring, a number of shares other than the weighted average calculated in accordance with paragraphs 9-29 in determining basic earnings per share, and paragraphs 30-63 in determining diluted earnings per share, may give the most relevant earnings per share information. Alternative numbers of shares that may be more relevant include:

- (a) where the number of shares has increased significantly during the period, the number of shares outstanding at the reporting date; and

- (b) where an entity is newly incorporated before the business began operations, the weighted average number of shares for the period the business was operating.

- Aus63.3** Where an entity discloses basic earnings per share and, where applicable, diluted earnings per share, in accordance with paragraph Aus63.1, the information shall be disclosed less prominently than the earnings per share information calculated in accordance with paragraphs 9-29 in determining basic earnings per share, and paragraphs 30-63 in determining diluted earnings per share, where applicable.
- Aus63.4** Where an entity discloses basic and diluted earnings per share in accordance with paragraph Aus63.1, it shall disclose them with equal prominence.
- Aus63.5** Where an entity discloses earnings per share information in accordance with paragraph Aus63.1, the following disclosures shall be made in respect of basic earnings per share and, where applicable, diluted earnings per share:
- (a) the alternative denominator; and
  - (b) the reasons why the alternative denominator is considered by the entity to provide more meaningful earnings per share information than that required.

## **Retrospective Adjustments**

- 64.** 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 date but before the financial report is 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.
- 65.** An entity does not restate diluted earnings per share of any prior period presented for changes in the assumptions used in earnings per share

calculations or for the conversion of potential ordinary shares into ordinary shares.

## **Presentation**

- 66. An entity shall present on the face of the income statement 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 for the period. An entity shall present basic and diluted earnings per share with equal prominence for all periods presented.**
67. Earnings per share is presented for every period for which an income statement is presented. If diluted earnings per share is reported for at least one period, it shall be reported for all periods presented, even if it equals basic earnings per share. If basic and diluted earnings per share are equal, dual presentation can be accomplished in one line on the income statement.
- 68. An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either on the face of the income statement or in the notes to the financial statements.**
69. An entity shall present basic and diluted earnings per share, even if the amounts are negative (i.e. a loss per share).

## **Disclosure**

70. An entity shall disclose the following:
  - (a) **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;**
  - (b) **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;**

- (c) **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; and**
- (d) **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 date 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.**

**Aus70.1 An entity shall disclose the weighted average number of converted, lapsed or cancelled potential ordinary shares included in the calculation of diluted earnings per share.**

71. Examples of transactions in paragraph 70(d) include:

- (a) an issue of shares for cash;
- (b) an issue of shares when the proceeds are used to repay debt or preference shares outstanding at the reporting date;
- (c) the redemption of ordinary shares outstanding;
- (d) the conversion or exercise of potential ordinary shares outstanding at the reporting date into ordinary shares;
- (e) an issue of options, warrants, or convertible instruments; and
- (f) the achievement of conditions that would result in the issue of contingently issuable shares.

Earnings per share amounts are not adjusted for such transactions occurring after the reporting date because such transactions do not affect the amount of capital used to produce profit or loss for the period.

72. Financial instruments and other contracts generating potential ordinary shares may incorporate terms and conditions that affect the measurement of basic and diluted earnings per share. These terms and conditions may determine whether any potential ordinary shares are dilutive and, if so, the effect on the weighted average number of shares outstanding and any consequent adjustments to profit or loss attributable to ordinary equity holders. The disclosure of the terms and

conditions of such financial instruments and other contracts is encouraged, if not otherwise required (see AASB 132).

- 73. If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the income statement 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. Basic and diluted amounts per share relating to such a component shall be disclosed with equal prominence and presented in the notes to the financial statements. 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 income statement is used that is not reported as a line item in the income statement, a reconciliation shall be provided between the component used and a line item that is reported in the income statement.**

### **Effective Date of IAS 33**

74. [Deleted by the AASB]  
75. [Deleted by the AASB]  
76. [Deleted by the AASB]

## APPENDIX

### APPLICATION GUIDANCE

*This Appendix is an integral part of AASB 133.*

#### **Profit or loss attributable to the parent entity**

- A1. For the purpose of calculating earnings per share based on the consolidated financial statements, profit or loss attributable to the parent entity refers to profit or loss of the consolidated entity after adjusting for minority interests.

#### **Rights issues**

- A2. The issue of ordinary shares at the time of exercise or conversion of potential ordinary shares does not usually give rise to a bonus element. This is because the potential ordinary shares are usually issued for full value, resulting in a proportionate change in the resources available to the entity. In a rights issue, however, the exercise price is often less than the fair value of the shares. Therefore, as noted in paragraph 27(b), such a rights issue includes a bonus element. If a rights issue is offered to all existing shareholders, the number of ordinary shares to be used in calculating basic and diluted earnings per share for all periods before the rights issue is the number of ordinary shares outstanding before the issue, multiplied by the following factor:

$$\frac{\text{Fair value per share immediately before the exercise of rights}}{\text{Theoretical ex-rights fair value per share}}$$

The theoretical ex-rights fair value per share is calculated by adding the aggregate market value of the shares immediately before the exercise of the rights to the proceeds from the exercise of the rights, and dividing by the number of shares outstanding after the exercise of the rights. Where the rights are to be publicly traded separately from the shares before the exercise date, fair value for the purposes of this calculation is established at the close of the last day on which the shares are traded together with the rights.

#### **Control number**

- A3. To illustrate the application of the control number notion described in paragraphs 42 and 43, assume that an entity has profit from continuing operations attributable to the parent entity of CU4,800<sup>1</sup>, a loss from

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<sup>1</sup> In this guidance, monetary amounts are denominated in 'currency units' (CU).

discontinued operations attributable to the parent entity of (CU7,200), a loss attributable to the parent entity of (CU2,400), and 2,000 ordinary shares and 400 potential ordinary shares outstanding. The entity's basic earnings per share is CU2.40 for continuing operations, (CU3.60) for discontinued operations and (CU1.20) for the loss. The 400 potential ordinary shares are included in the diluted earnings per share calculation because the resulting CU2.00 earnings per share for continuing operations is dilutive, assuming no profit or loss impact of those 400 potential ordinary shares. Because profit from continuing operations attributable to the parent entity is the control number, the entity also includes those 400 potential ordinary shares in the calculation of the other earnings per share amounts, even though the resulting earnings per share amounts are antidilutive to their comparable basic earnings per share amounts, that is, the loss per share is less [(CU3.00) per share for the loss from discontinued operations and (CU1.00) per share for the loss for the period].

#### **Average market price of ordinary shares**

- A4. For the purpose of calculating diluted earnings per share, the average market price of ordinary shares assumed to be issued is calculated on the basis of the average market price of the ordinary shares during the period. Theoretically, every market transaction for an entity's ordinary shares could be included in the determination of the average market price. As a practical matter, however, a simple average of weekly or monthly prices is usually adequate.
- A5. Generally, closing market prices are adequate for calculating the average market price. When prices fluctuate widely, however, an average of the high and low prices usually produces a more representative price. The method used to calculate the average market price is used consistently unless it is no longer representative because of changed conditions. For example, an entity that uses closing market prices to calculate the average market price for several years of relatively stable prices might change to an average of high and low prices if prices start fluctuating greatly and the closing market prices no longer produce a representative average price.

#### **Options, warrants and their equivalents**

- A6. Options or warrants to purchase convertible instruments are assumed to be exercised to purchase the convertible instrument whenever the average prices of both the convertible instrument and the ordinary shares obtainable upon conversion are above the exercise price of the options or warrants. However, exercise is not assumed unless

conversion of similar outstanding convertible instruments, if any, is also assumed.

- A7. Options or warrants may permit or require the tendering of debt or other instruments of the entity (or its parent or a subsidiary) in payment of all or a portion of the exercise price. In the calculation of diluted earnings per share, those options or warrants have a dilutive effect if (a) the average market price of the related ordinary shares for the period exceeds the exercise price or (b) the selling price of the instrument to be tendered is below that at which the instrument may be tendered under the option or warrant agreement and the resulting discount establishes an effective exercise price below the market price of the ordinary shares obtainable upon exercise. In the calculation of diluted earnings per share, those options or warrants are assumed to be exercised and the debt or other instruments are assumed to be tendered. If tendering cash is more advantageous to the option or warrant holder and the contract permits tendering cash, tendering of cash is assumed. Interest (net of tax) on any debt assumed to be tendered is added back as an adjustment to the numerator.
- A8. Similar treatment is given to preference shares that have similar provisions or to other instruments that have conversion options that permit the investor to pay cash for a more favourable conversion rate.
- A9. The underlying terms of certain options or warrants may require the proceeds received from the exercise of those instruments to be applied to redeem debt or other instruments of the entity (or its parent or a subsidiary). In the calculation of diluted earnings per share, those options or warrants are assumed to be exercised and the proceeds applied to purchase the debt at its average market price rather than to purchase ordinary shares. However, the excess proceeds received from the assumed exercise over the amount used for the assumed purchase of debt are considered (i.e. assumed to be used to buy back ordinary shares) in the diluted earnings per share calculation. Interest (net of tax) on any debt assumed to be purchased is added back as an adjustment to the numerator.

### **Written put options**

- A10. To illustrate the application of paragraph 63, assume that an entity has outstanding 120 written put options on its ordinary shares with an exercise price of CU35. The average market price of its ordinary shares for the period is CU28. In calculating diluted earnings per share, the entity assumes that it issued 150 shares at CU28 per share at the beginning of the period to satisfy its put obligation of CU4,200. The difference between the 150 ordinary shares issued and the 120 ordinary shares received from satisfying the put option (30 incremental

ordinary shares) is added to the denominator in calculating diluted earnings per share.

### **Instruments of subsidiaries, joint ventures or associates**

A11. Potential ordinary shares of a subsidiary, joint venture or associate convertible into either ordinary shares of the subsidiary, joint venture or associate, or ordinary shares of the parent, venturer or investor (the reporting entity) are included in the calculation of diluted earnings per share as follows:

- (a) instruments issued by a subsidiary, joint venture or associate that enable their holders to obtain ordinary shares of the subsidiary, joint venture or associate are included in calculating the diluted earnings per share data of the subsidiary, joint venture or associate. Those earnings per share are then included in the reporting entity's earnings per share calculations based on the reporting entity's holding of the instruments of the subsidiary, joint venture or associate; and
- (b) instruments of a subsidiary, joint venture or associate that are convertible into the reporting entity's ordinary shares are considered among the potential ordinary shares of the reporting entity for the purpose of calculating diluted earnings per share. Likewise, options or warrants issued by a subsidiary, joint venture or associate to purchase ordinary shares of the reporting entity are considered among the potential ordinary shares of the reporting entity in the calculation of consolidated diluted earnings per share.

A12. For the purpose of determining the earnings per share effect of instruments issued by a reporting entity that are convertible into ordinary shares of a subsidiary, joint venture or associate, the instruments are assumed to be converted and the numerator (profit or loss attributable to ordinary equity holders of the parent entity) adjusted as necessary in accordance with paragraph 33. In addition to those adjustments, the numerator is adjusted for any change in the profit or loss recorded by the reporting entity (such as dividend income or equity method income) that is attributable to the increase in the number of ordinary shares of the subsidiary, joint venture or associate outstanding as a result of the assumed conversion. The denominator of the diluted earnings per share calculation is not affected because the number of ordinary shares of the reporting entity outstanding would not change upon assumed conversion.

## **Participating equity instruments and two-class ordinary shares**

A13. The equity of some entities includes:

- (a) instruments that participate in dividends with ordinary shares according to a predetermined formula (for example, two for one) with, at times, an upper limit on the extent of participation (for example, up to, but not beyond, a specified amount per share); and
- (b) a class of ordinary shares with a different dividend rate from that of another class of ordinary shares but without prior or senior rights.

A14. For the purpose of calculating diluted earnings per share, conversion is assumed for those instruments described in paragraph A13 that are convertible into ordinary shares if the effect is dilutive. For those instruments that are not convertible into a class of ordinary shares, profit or loss for the period is allocated to the different classes of shares and participating equity instruments in accordance with their dividend rights or other rights to participate in undistributed earnings.

To calculate basic and diluted earnings per share:

- (a) profit or loss attributable to ordinary equity holders of the parent entity is adjusted (a profit reduced and a loss increased) by the amount of dividends declared in the period for each class of shares and by the contractual amount of dividends (or interest on participating bonds) that must be paid for the period (for example, unpaid cumulative dividends);
- (b) the remaining profit or loss is allocated to ordinary shares and participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature; and
- (c) the total amount of profit or loss allocated to each class of equity instrument is divided by the number of outstanding instruments to which the earnings are allocated to determine the earnings per share for the instrument.

For the calculation of diluted earnings per share, all potential ordinary shares assumed to have been issued are included in outstanding ordinary shares.

### **Partly paid shares**

- A15. Where ordinary shares are issued but not fully paid, they are treated in the calculation of basic earnings per share as a fraction of an ordinary share to the extent that they were entitled to participate in dividends during the period relative to a fully paid ordinary share.
- A16. To the extent that partly paid shares are not entitled to participate in dividends during the period they are treated as the equivalent of warrants or options in the calculation of diluted earnings per share. The unpaid balance is assumed to represent proceeds used to purchase ordinary shares. The number of shares included in diluted earnings per share is the difference between the number of shares subscribed and the number of shares assumed to be purchased.

## **ILLUSTRATIVE EXAMPLES**

### **CONTENTS**

*These examples accompany, but are not part of, AASB 133.*

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## Example 1 – Increasing Rate Preference Shares

### Reference: AASB 133, paragraphs 12 and 15

Entity D issued non-convertible, non-redeemable class A cumulative preference shares of CU100 par value on 1 January 20X1. The class A preference shares are entitled to a cumulative annual dividend of CU7 per share starting in 20X4.

At the time of issue, the market rate dividend yield on the class A preference shares was 7 per cent a year. Thus, Entity D could have expected to receive proceeds of approximately CU100 per class A preference share if the dividend rate of CU7 per share had been in effect at the date of issue.

In consideration of the dividend payment terms, however, the class A preference shares were issued at CU81.63 per share, that is, at a discount of CU18.37 per share. The issue price can be calculated by taking the present value of CU100, discounted at 7 per cent over a three-year period.

Because the shares are classified as equity, the original issue discount is amortised to retained earnings using the effective interest method and treated as a preference dividend for earnings per share purposes. To calculate basic earnings per share, the following imputed dividend per class A preference share is deducted to determine the profit or loss attributable to ordinary equity holders of the parent entity:

Year	<i>Carrying amount of class A preference shares 1 January</i>	<i>Imputed Dividend<sup>1</sup></i>	<i>Carrying amount of class A preference shares 31 December<sup>2</sup></i>	<i>Dividend paid</i>
	<u>CU</u>	<u>CU</u>	<u>CU</u>	<u>CU</u>
20X1	81.63	5.71	87.34	–
20X2	87.34	6.12	93.46	–
20X3	93.46	6.54	100.00	–
Thereafter:	100.00	7.00	107.00	(7.00)

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1 At 7%.

2 This is before dividend payment.

## Example 2 – Weighted Average Number of Ordinary Shares

Reference: AASB 133, paragraphs 19-21

		<i>Shares issued</i>	<i>Treasury shares<sup>3</sup></i>	<i>Shares outstanding</i>
1 January 20X1	Balance at beginning of year	2,000	300	1,700
31 May 20X1	Issue of new shares for cash	800	–	2,500
1 December 20X1	Purchase of treasury shares for cash	–	250	2,250
31 December 20X1	Balance at year-end	<u>2,800</u>	<u>550</u>	<u>2,250</u>

Calculation of weighted average:

$$(1,700 \times 5/12) + (2,500 \times 6/12) + (2,250 \times 1/12) = 2,146 \text{ shares } or$$

$$(1,700 \times 12/12) + (800 \times 7/12) - (250 \times 1/12) = 2,146 \text{ shares}$$

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<sup>3</sup> Treasury shares are equity instruments re-acquired and held by the issuing entity itself or by its subsidiaries.

### Example 3 – Bonus Issue

Reference: AASB 133, paragraphs 26, 27(a) and 28

Profit attributable to ordinary equity holders of the parent entity 20X0	CU180
Profit attributable to ordinary equity holders of the parent entity 20X1	CU600
Ordinary shares outstanding until 30 September 20X1	200

Bonus issue 1 October 20X1      2 ordinary shares for each ordinary share outstanding at 30 September 20X1  
 $200 \times 2 = 400$

Basic earnings per share 20X1       $\frac{\text{CU}600}{(200 + 400)} = \text{CU}1.00$

Basic earnings per share 20X0       $\frac{\text{CU}180}{(200 + 400)} = \text{CU}0.30$

Because the bonus issue was without consideration, it is treated as if it had occurred before the beginning of 20X0, the earliest period presented.

## Example 4 – Rights Issue

Reference: AASB 133, paragraphs 26, 27(b) and A2

	<u>20X0</u>	<u>20X1</u>	<u>20X2</u>
Profit attributable to ordinary equity holders of the parent entity	<u>CU1,100</u>	<u>CU1,500</u>	<u>CU1,800</u>
Shares outstanding before rights issue	500 shares		
Rights issue	One new share for each five outstanding shares (100 new shares total)		
	Exercise price: CU5.00		
	Date of rights issue: 1 January 20X1		
	Last date to exercise rights: 1 March 20X1		
Market price of one ordinary share immediately before exercise on 1 March 20X1:	CU11.00		
Reporting date	31 December		

### Calculation of theoretical ex-rights value per share

$$\frac{\text{Fair value of all outstanding shares before the exercise of rights} + \text{total amount received from exercise of rights}}{\text{Number of shares outstanding before exercise} + \text{number of shares issued in the exercise}}$$

$$\frac{(\text{CU}11.00 \times 500 \text{ shares}) + (\text{CU}5.00 \times 100 \text{ shares})}{500 \text{ shares} + 100 \text{ shares}}$$

Theoretical ex-rights value per share = CU10.00

### Calculation of adjustment factor

$$\frac{\text{Fair value per share before exercise of rights}}{\text{Theoretical ex-rights value per share}} = \frac{\text{CU}11.00}{\text{CU}10.00} = 1.10$$

### Calculation of basic earnings per share

		<u>20X0</u>	<u>20X1</u>	<u>20X2</u>
20X0 basic EPS as originally reported:	$\text{CU}1,100 \div 500 \text{ shares}$	<u>CU2.20</u>		
20X0 basic EPS restated for rights issue:	$\frac{\text{CU}1,100}{(500 \text{ shares} \times 1.1)}$		<u>CU2.00</u>	
20X1 basic EPS including effects of rights issue:	$\frac{\text{CU}1,500}{(500 \times 1.1 \times 2/12) + (600 \times 10/12)}$			<u>CU2.54</u>
20X2 basic EPS:	$\text{CU}1,800 \div 600 \text{ shares}$			<u>CU3.00</u>

## Example 5 – Effects of Share Options on Diluted Earnings per Share

Reference: AASB 133, paragraphs 45-47

Profit attributable to ordinary equity holders of the parent entity for year 20X1	CU1,200,000
Weighted average number of ordinary shares outstanding during year 20X1	500,000 shares
Average market price of one ordinary share during year 20X1	CU20.00
Weighted average number of shares under option during year 20X1	100,000 shares
Exercise price for shares under option during year 20X1	CU15.00

### Calculation of earnings per share

	<i>Earnings</i> <u>CU</u>	<i>Shares</i>	<i>Per share</i> <u>CU</u>
Profit attributable to ordinary equity holders of the parent entity for year 20X1	1,200,000		
Weighted average shares outstanding during year 20X1		500,000	
<b><i>Basic earnings per share</i></b>			2.40
Weighted average number of shares under option		100,000	
Weighted average number of shares that would have been issued at average market price: (100,000 × CU15.00) ÷ CU20.00	<sup>4</sup>	(75,000)	
<b><i>Diluted earnings per share</i></b>	1,200,000	525,000	2.29

<sup>4</sup> Earnings have not increased because the total number of shares has increased only by the number of shares (25,000) deemed to have been issued for no consideration (see paragraph 46(b) of the Standard).

### **Example 5A – Determining the Exercise Price of Employee Share Options**

Weighted average number of unvested share options per employee	1,000
Weighted average amount per employee to be recognised over the remainder of the vesting period for employee services to be rendered as consideration for the share options, determined in accordance with AASB 2 <i>Share-based Payment</i>	CU1,200
Cash exercise price of unvested share options	CU15
<b>Calculation of adjusted exercise price</b>	
Fair value of services yet to be rendered per employee:	CU1,200
Fair value of services yet to be rendered per option: (CU1,200 ÷ 1,000)	CU1.20
Total exercise price of share options: (CU15.00 + CU1.20)	CU16.20

## Example 6 – Convertible Bonds<sup>5</sup>

Reference: AASB 133, paragraphs 33, 34, 36 and 49

Profit attributable to ordinary equity holders of the parent entity	CU1,004
Ordinary shares outstanding	1,000
Basic earnings per share	CU1.00
Convertible bonds	100
Each block of 10 bonds is convertible into three ordinary shares	
Interest expense for the current year relating to the liability component of the convertible bonds	CU10
Current and deferred tax relating to that interest expense	CU4
Note: the interest expense includes amortisation of the discount arising on initial recognition of the liability component (see AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> ).	
Adjusted profit attributable to ordinary equity holders of the parent entity	$CU1,004 + CU10 - CU4 = CU1,010$
Number of ordinary shares resulting from conversion of bonds	30
Number of ordinary shares used to calculate diluted earnings per share	$1,000 + 30 = 1,030$
Diluted earnings per share	$\frac{CU1,010}{1,030} = CU0.98$

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<sup>5</sup> This example does not illustrate the classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by AASB 132.

## Example 7 – Contingently Issuable Shares

**Reference: AASB 133, paragraphs 19, 24, 36, 37, 41-43 and 52**

Ordinary shares outstanding during 20X1 1,000,000 (there were no options, warrants or convertible instruments outstanding during the period)

An agreement related to a recent business combination provides for the issue of additional ordinary shares based on the following conditions:

5,000 additional ordinary shares for each new retail site opened during 20X1

1,000 additional ordinary shares for each CU1,000 of consolidated profit in excess of CU2,000,000 for the year ended 31 December 20X1

Retail sites opened during the year: One on 1 May 20X1

One on 1 September 20X1

Consolidated year-to-date profit attributable to ordinary equity holders of the parent entity:

CU1,100,000 as of 31 March 20X1

CU2,300,000 as of 30 June 20X1

CU1,900,000 as of 30 September 20X1 (including a CU450,000 loss from a discontinuing operation)

CU2,900,000 as of 31 December 20X1

## Basic earnings per share

	<i>First quarter</i>	<i>Second quarter</i>	<i>Third quarter</i>	<i>Fourth quarter</i>	<i>Full year</i>
Numerator (CU)	1,100,000	1,200,000	(400,000)	1,000,000	2,900,000
Denominator:					
Ordinary shares outstanding	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Retail site contingency	–	3,333 <sup>(a)</sup>	6,667 <sup>(b)</sup>	10,000	5,000 <sup>(c)</sup>
Earnings contingency <sup>(d)</sup>	–	–	–	–	–
Total shares	<u>1,000,000</u>	<u>1,003,333</u>	<u>1,006,667</u>	<u>1,010,000</u>	<u>1,005,000</u>
Basic earnings per share (CU)	<u>1.10</u>	<u>1.20</u>	<u>(0.40)</u>	<u>0.99</u>	<u>2.89</u>

(a)  $5,000 \text{ shares} \times 2/3$

(b)  $5,000 \text{ shares} + (5,000 \text{ shares} \times 1/3)$

(c)  $(5,000 \text{ shares} \times 8/12) + (5,000 \text{ shares} \times 4/12)$

(d) The earnings contingency has no effect on basic earnings per share because it is not certain that the condition is satisfied until the end of the contingency period. The effect is negligible for the fourth-quarter and full-year calculations because it is not certain that the condition is met until the last day of the period.

## Diluted earnings per share

	<i>First quarter</i>	<i>Second quarter</i>	<i>Third quarter</i>	<i>Fourth quarter</i>	<i>Full year</i>
Numerator (CU)	1,100,000	1,200,000	(400,000)	1,000,000	2,900,000
Denominator:					
Ordinary shares outstanding	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Retail site contingency	–	5,000	10,000	10,000	10,000
Earnings contingency	– <sup>(e)</sup>	300,000 <sup>(f)</sup>	– <sup>(g)</sup>	900,000 <sup>(h)</sup>	900,000 <sup>(h)</sup>
Total shares	<u>1,000,000</u>	<u>1,305,000</u>	<u>1,010,000</u>	<u>1,910,000</u>	<u>1,910,000</u>
Diluted earnings per share (CU)	<u>1.10</u>	<u>0.92</u>	<u>(0.40)<sup>(i)</sup></u>	<u>0.52</u>	<u>1.52</u>

(e) Company A does not have year-to-date profit exceeding CU2,000,000 at 31 March 20X1. This Standard does not permit projecting future earnings levels and including the related contingent shares.

(f)  $[(\text{CU}2,300,000 - \text{CU}2,000,000) \div 1,000] \times 1,000$  shares = 300,000 shares.

(g) Year-to-date profit is less than CU2,000,000.

(h)  $[(\text{CU}2,900,000 - \text{CU}2,000,000) \div 1,000] \times 1,000$  shares = 900,000 shares.

(i) Because the loss during the third quarter is attributable to a loss from a discontinuing operation, the *antidilution* rules do not apply. The control number (i.e. profit or loss from continuing operations attributable to the equity holders of the parent entity) is positive. Accordingly, the effect of potential ordinary shares is included in the calculation of diluted earnings per share.

## Example 8 – Convertible Bonds Settled in Shares or Cash at the Issuer’s Option

**Reference: AASB 133, paragraphs 31-33, 36, 58 and 59**

An entity issues 2,000 convertible bonds at the beginning of Year 1. The bonds have a three-year term, and are issued at par with a face value of CU1,000 per bond, giving total proceeds of CU2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6 per cent. Each bond is convertible at any time up to maturity into 250 common shares. The entity has an option to settle the principal amount of the convertible bonds in ordinary shares or in cash.

When the bonds are issued, the prevailing market interest rate for similar debt without a conversion option is 9 per cent. At the issue date, the market price of one common share is CU3. Income tax is ignored.

Profit attributable to ordinary equity holders of the parent entity Year 1	CU1,000,000
Ordinary shares outstanding	1,200,000
Convertible bonds outstanding	2,000
Allocation of proceeds of bond issue:	
Liability component	CU1,848,122 <sup>6</sup>
Equity component	CU151,878
	<u>CU2,000,000</u>

The liability and equity components would be determined in accordance with AASB 132. These amounts are recognised as the initial carrying amounts of the liability and equity components. The amount assigned to the issuer conversion option equity element is an addition to equity and is not adjusted.

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<sup>6</sup> This represents the present value of the principal and interest discounted at 9% – CU2,000,000 payable at the end of three years; CU120,000 payable annually in arrears for three years.

**Basic earnings per share Year 1:**

$$\frac{\text{CU}1,000,000}{1,200,000} = \text{CU}0.83 \text{ per ordinary share}$$

**Diluted earnings per share Year 1:**

It is presumed that the issuer will settle the contract by the issue of ordinary shares. The dilutive effect is therefore calculated in accordance with paragraph 59 of the Standard.

$$\frac{\text{CU}1,000,000 + \text{CU}166,331^{(a)}}{1,200,000 + 500,000^{(b)}} = \text{CU}0.69 \text{ per ordinary share}$$

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(a) Profit is adjusted for the accretion of CU166,331 (CU1,848,122 × 9%) of the liability because of the passage of time.

(b) 500,000 ordinary shares = 250 ordinary shares × 2000 convertible bonds.

## Example 9 – Calculation of Weighted Average Number of Shares: Determining the Order in Which to Include Dilutive Instruments<sup>7</sup>

Primary reference: AASB 133, paragraph 44

Secondary reference: AASB 133, paragraphs 10, 12, 19, 31-33, 36, 41-47, 49 and 50

Earnings	<u>CU</u>
Profit from continuing operations attributable to the parent entity	16,400,000
Less dividends on preference shares	<u>(6,400,000)</u>
Profit from continuing operations attributable to ordinary equity holders of the parent entity	10,000,000
Loss from discontinued operations attributable to the parent entity	<u>(4,000,000)</u>
Profit attributable to ordinary equity holders of the parent entity	<u>6,000,000</u>
Ordinary shares outstanding	2,000,000
Average market price of one ordinary share during year	CU75.00

### Potential Ordinary Shares

Options	100,000 with exercise price of CU60.00
Convertible preference shares	800,000 shares with a par value of CU100 entitled to a cumulative dividend of CU8 per share. Each preference share is convertible to two ordinary shares.
5% convertible bonds	Nominal amount CU100,000,000. Each CU1,000 bond is convertible to 20 ordinary shares. There is no amortisation of premium or discount affecting the determination of interest expense.
Tax rate	40%

<sup>7</sup> This example does not illustrate the classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by AASB 132.

**Increase in Earnings Attributable to Ordinary Equity Holders on Conversion of Potential Ordinary Shares**

		<i>Increase in earnings</i>	<i>Increase in number of ordinary shares</i>	<i>Earnings per incremental share</i>
		<u>CU</u>		<u>CU</u>
<b><i>Options</i></b>				
Increase in earnings		Nil		
Incremental shares issued for no consideration	$\frac{100,000 \times (\text{CU}75 - \text{CU}60)}{\div \text{CU}75}$		20,000	Nil
<b><i>Convertible preference shares</i></b>				
Increase in profit	$\text{CU}800,000 \times 100 \times .08$	6,400,000		
Incremental shares	$2 \times 800,000$		1,600,000	4.00
<b><i>5% convertible bonds</i></b>				
Increase in profit	$\text{CU}100,000,000 \times 0.05 \times (1 - 0.40)$	3,000,000		
Incremental shares	$100,000 \times 20$		2,000,000	1.50

The order in which to include the dilutive instruments is therefore:

- (1) Options
- (2) 5% convertible bonds
- (3) Convertible preference shares

### Calculation of Diluted Earnings per Share

	<i>Profit from continuing operations attributable to ordinary equity holders of the parent entity (control number)</i>	<i>Ordinary shares</i>	<i>Per share</i>	
	<u>CU</u>		<u>CU</u>	
As reported	10,000,000	2,000,000	5.00	
Options	–	20,000		
	<u>10,000,000</u>	<u>2,020,000</u>	4.95	Dilutive
5% convertible bonds	3,000,000	2,000,000		
	<u>13,000,000</u>	<u>4,020,000</u>	3.23	Dilutive
Convertible preference shares	6,400,000	1,600,000		
	<u>19,400,000</u>	<u>5,620,000</u>	3.45	Antidilutive

Because diluted earnings per share is increased when taking the convertible preference shares into account (from CU3.23 to CU3.45), the convertible preference shares are antidilutive and are ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share for profit from continuing operations is CU3.23:

	<i>Basic EPS</i>	<i>Diluted EPS</i>
	<u>CU</u>	<u>CU</u>
Profit from continuing operations attributable to ordinary equity holders of the parent entity	5.00	3.23
Loss from discontinued operations attributable to ordinary equity holders of the parent entity	(2.00) <sup>(a)</sup>	(0.99) <sup>(b)</sup>
Profit attributable to ordinary equity holders of the parent entity	3.00 <sup>(c)</sup>	2.24 <sup>(d)</sup>

(a)  $(\text{CU}4,000,000) \div 2,000,000 = (\text{CU}2.00)$

(b)  $(\text{CU}4,000,000) \div 4,020,000 = (\text{CU}0.99)$

(c)  $\text{CU}6,000,000 \div 2,000,000 = \text{CU}3.00$

(d)  $(\text{CU}6,000,000 + \text{CU}3,000,000) / 4,020,000 = \text{CU}2.24$

## Example 10 – Instruments of a Subsidiary: Calculation of Basic and Diluted Earnings per Share<sup>8</sup>

Reference: AASB 133, paragraphs 40, A11 and A12

### Parent:

Profit attributable to ordinary equity holders of the parent entity	CU12,000 (excluding any earnings of, or dividends paid by, the subsidiary)
Ordinary shares outstanding	10,000
Instruments of subsidiary owned by the parent	800 ordinary shares 30 warrants exercisable to purchase ordinary shares of subsidiary 300 convertible preference shares

### Subsidiary:

Profit	CU5,400
Ordinary shares outstanding	1,000
Warrants	150, exercisable to purchase ordinary shares of the subsidiary
Exercise price	CU10
Average market price of one ordinary share	CU20
Convertible preference shares	400, each convertible into one ordinary share
Dividends on preference shares	CU1 per share

*No inter-company eliminations or adjustments were necessary except for dividends.*

*For the purposes of this illustration, income taxes have been ignored.*

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<sup>8</sup> This example does not illustrate the classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by AASB 132.

### Subsidiary's earnings per share

Basic EPS CU5.00 calculated:  $\frac{\text{CU}5,400^{(a)} - \text{CU}400^{(b)}}{1,000^{(c)}}$

Diluted EPS CU3.66 calculated:  $\frac{\text{CU}5,400^{(d)}}{(1,000 + 75^{(e)} + 400^{(f)})}$

### Consolidated earnings per share

Basic EPS CU1.63 calculated:  $\frac{\text{CU}12,000^{(g)} + \text{CU}4,300^{(h)}}{10,000^{(i)}}$

Diluted EPS CU1.61 calculated:  $\frac{\text{CU}12,000 + \text{CU}2,928^{(j)} + \text{CU}55^{(k)} + \text{CU}1,098^{(l)}}{10,000}$

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- (a) Subsidiary's profit attributable to ordinary equity holders.  
(b) Dividends paid by subsidiary on convertible preference shares.  
(c) Subsidiary's ordinary shares outstanding.  
(d) Subsidiary's profit attributable to ordinary equity holders (CU5,000) increased by CU400 preference dividends for the purpose of calculating diluted earnings per share.  
(e) Incremental shares from warrants, calculated:  $[(\text{CU}20 - \text{CU}10) \div \text{CU}20] \times 150$ .  
(f) Subsidiary's ordinary shares assumed outstanding from conversion of convertible preference shares, calculated: 400 convertible preference shares  $\times$  conversion factor of 1.  
(g) Parent's profit attributable to ordinary equity holders of the parent entity.  
(h) Portion of subsidiary's profit to be included in consolidated basic earnings per share, calculated:  $(800 \times \text{CU}5.00) + (300 \times \text{CU}1.00)$ .  
(i) Parent's ordinary shares outstanding.  
(j) Parent's proportionate interest in subsidiary's earnings attributable to ordinary shares, calculated:  $(800 \div 1,000) \times (1,000 \text{ shares} \times \text{CU}3.66 \text{ per share})$ .  
(k) Parent's proportionate interest in subsidiary's earnings attributable to warrants, calculated:  $(30 \div 150) \times (75 \text{ incremental shares} \times \text{CU}3.66 \text{ per share})$ .  
(l) Parent's proportionate interest in subsidiary's earnings attributable to convertible preference shares, calculated:  $(300 \div 400) \times (400 \text{ shares from conversion} \times \text{CU}3.66 \text{ per share})$ .

## Example 11 – Participating Equity Instruments and Two-Class Ordinary Shares<sup>9</sup>

**Reference: AASB 133, paragraphs A13 and A14**

Profit attributable to equity holders of the parent entity	CU100,000
Ordinary shares outstanding	10,000
Non-convertible preference shares	6,000
Non-cumulative annual dividend on preference shares (before any dividend is paid on ordinary shares)	CU5.50 per share

After ordinary shares have been paid a dividend of CU2.10 per share, the preference shares participate in any additional dividends on a 20:80 ratio with ordinary shares (i.e. after preference and ordinary shares have been paid dividends of CU5.50 and CU2.10 per share, respectively, preference shares participate in any additional dividends at a rate of one-fourth of the amount paid to ordinary shares on a per-share basis).

Dividends on preference shares paid	CU33,000	(CU5.50 per share)
Dividends on ordinary shares paid	CU21,000	(CU2.10 per share)

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<sup>9</sup> This example does not illustrate the classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by AASB 132.

**Basic earnings per share is calculated as follows:**

	<u>CU</u>	<u>CU</u>
Profit attributable to equity holders of the parent entity		100,000
Less dividends paid:		
Preference	33,000	
Ordinary	<u>21,000</u>	
		(54,000)
Undistributed earnings		<u><u>46,000</u></u>

**Allocation of undistributed earnings:**

Allocation per ordinary share = A

Allocation per preference share = B; B = 1/4 A

$$(A \times 10,000) + (1/4 \times A \times 6,000) = \text{CU}46,000$$

$$A = \text{CU}46,000 \div (10,000 + 1,500)$$

$$A = \text{CU}4.00$$

$$B = 1/4 A$$

$$B = \text{CU}1.00$$

**Basic per share amounts:**

	<i>Preference shares</i>	<i>Ordinary shares</i>
Distributed earnings	CU5.50	CU2.10
Undistributed earnings	CU1.00	CU4.00
Totals	<u><u>CU6.50</u></u>	<u><u>CU6.10</u></u>

## Example 12 – Calculation of Basic and Diluted Earnings per Share and Income Statement Presentation (Comprehensive Example)<sup>10</sup>

This example illustrates the quarterly and annual calculations of basic and diluted earnings per share in the year 20X1 for Company A, which has a complex capital structure. The control number is profit or loss from continuing operations attributable to the parent entity. Other facts assumed are as follows:

**Average market price of ordinary shares:** The average market prices of ordinary shares for the calendar year 20X1 were as follows:

First quarter	CU49
Second quarter	CU60
Third quarter	CU67
Fourth quarter	CU67

The average market price of ordinary shares from 1 July to 1 September 20X1 was CU65.

**Ordinary shares:** The number of ordinary shares outstanding at the beginning of 20X1 was 5,000,000. On 1 March 20X1, 200,000 ordinary shares were issued for cash.

**Convertible bonds:** In the last quarter of 20X0, 5 per cent convertible bonds with a principal amount of CU12,000,000 due in 20 years were sold for cash at CU1,000 (par). Interest is payable twice a year, on 1 November and 1 May. Each CU1,000 bond is convertible into 40 ordinary shares. No bonds were converted in 20X0. The entire issue was converted on 1 April 20X1 because the issue was called by Company A.

**Convertible preference shares:** In the second quarter of 20X0, 800,000 convertible preference shares were issued for assets in a purchase transaction. The quarterly dividend on each convertible preference share is CU0.05, payable at the end of the quarter for shares outstanding at that date. Each share is convertible into one ordinary share. Holders of 600,000 convertible preference shares converted their preference shares into ordinary shares on 1 June 20X1.

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<sup>10</sup> This example does not illustrate the classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by AASB 132.

**Warrants:** Warrants to buy 600,000 ordinary shares at CU55 per share for a period of five years were issued on 1 January 20X1. All outstanding warrants were exercised on 1 September 20X1.

**Options:** Options to buy 1,500,000 ordinary shares at CU75 per share for a period of 10 years were issued on 1 July 20X1. No options were exercised during 20X1 because the exercise price of the options exceeded the market price of the ordinary shares.

**Tax rate:** The tax rate was 40 per cent for 20X1.

<b>20X1</b>	<i>Profit (loss) from continuing operations attributable to the parent entity<sup>(a)</sup></i>	<i>Profit (loss) attributable to the parent entity</i>
	<u>CU</u>	<u>CU</u>
First quarter	5,000,000	5,000,000
Second quarter	6,500,000	6,500,000
Third quarter	1,000,000	(1,000,000) <sup>(b)</sup>
Fourth quarter	(700,000)	(700,000)
Full year	<u>11,800,000</u>	<u>9,800,000</u>

#### **First Quarter 20X1**

<i>Basic EPS calculation</i>	<u>CU</u>
Profit from continuing operations attributable to the parent entity	5,000,000
Less: preference shares dividends	<u>(40,000)<sup>(c)</sup></u>
<b>Profit attributable to ordinary equity holders of the parent entity</b>	<u><b>4,960,000</b></u>

<i>Dates</i>	<i>Shares Outstanding</i>	<i>Fraction of period</i>	<i>Weighted- average shares</i>
1 January – 28 February	5,000,000	2/3	3,333,333
<i>Issue of ordinary shares on 1 March</i>	<u>200,000</u>		
1 March – 31 March	5,200,000	1/3	1,733,333
<b>Weighted-average shares</b>			<u><b>5,066,666</b></u>
<b>Basic EPS</b>			<u><b>CU0.98</b></u>

(a) This is the control number (before adjusting for preference dividends).

(b) Company A had a CU2,000,000 loss (net of tax) from discontinued operations in the third quarter.

(c) 800,000 shares × CU0.05

*Diluted EPS calculation*

<b>Profit attributable to ordinary equity holders of the parent entity</b>		CU4,960,000
Plus: profit impact of assumed conversions		
Preference share dividends	CU40,000 <sup>(d)</sup>	
Interest on 5% convertible bonds	CU90,000 <sup>(e)</sup>	
<b>Effect of assumed conversions</b>		<u>CU130,000</u>
Profit attributable to ordinary equity holders of the parent entity including assumed conversions		<u>CU5,090,000</u>
<b>Weighted-average shares</b>		5,066,666
Plus: incremental shares from assumed conversions		
Warrants	0 <sup>(f)</sup>	
Convertible preference shares	800,000	
5% convertible bonds	480,000	
<b>Dilutive potential ordinary shares</b>		<u>1,280,000</u>
Adjusted weighted-average shares		<u>6,346,666</u>
<b><i>Diluted EPS</i></b>		<u><u>CU0.80</u></u>

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(d) 800,000 shares × CU0.05

(e) (CU12,000,000 × 5%) ÷ 4; less taxes at 40%

(f) The warrants were not assumed to be exercised because they were antidilutive in the period (CU55 [exercise price] > CU49 [average price]).

**Second Quarter 20X1**

<i>Basic EPS calculation</i>				<u>CU</u>
Profit from continuing operations attributable to the parent entity				6,500,000
Less: preference shares dividends				<u>(10,000)<sup>(g)</sup></u>
<b>Profit attributable to ordinary equity holders of the parent entity</b>				<u><b>6,490,000</b></u>
<i>Dates</i>	<i>Shares outstanding</i>	<i>Fraction of period</i>	<i>Weighted-average shares</i>	
1 April	5,200,000			
<i>Conversion of 5% bonds on 1 April</i>	<u>480,000</u>			
1 April – 31 May	5,680,000	2/3	3,786,666	
<i>Conversion of preference shares on 1 June</i>	<u>600,000</u>			
1 June – 30 June	6,280,000	1/3	<u>2,093,333</u>	
<b>Weighted-average shares</b>				<u><b>5,880,000</b></u>
<i>Basic EPS</i>				<u><u><b>CU1.10</b></u></u>

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(g) 200,000 shares × CU0.05

*Diluted EPS calculation*

<b>Profit attributable to ordinary equity holders of the parent entity</b>		CU6,490,000
Plus: profit impact of assumed conversions		
Preference share dividends	<u>CU10,000<sup>(h)</sup></u>	
<b>Effect of assumed conversions</b>		<u>CU10,000</u>
Profit attributable to ordinary equity holders of the parent entity including assumed conversions		<u>CU6,500,000</u>
<b>Weighted-average shares</b>		5,880,000
Plus: incremental shares from assumed conversions		
Warrants	50,000 <sup>(i)</sup>	
Convertible preference shares	<u>600,000<sup>(j)</sup></u>	
Dilutive potential ordinary shares		<u>650,000</u>
Adjusted weighted-average shares		<u>6,530,000</u>
<b>Diluted EPS</b>		<u><u>CU1.00</u></u>

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(h) 200,000 shares × CU0.05

(i)  $CU55 \times 600,000 = CU33,000,000$ ;  $CU33,000,000 \div CU60 = 550,000$ ;  
 $600,000 - 550,000 = 50,000$  shares

OR  $[(CU60 - CU55) \div CU60] \times 600,000$  shares = 50,000 shares

(j)  $(800,000 \text{ shares} \times 2/3) + (200,000 \text{ shares} \times 1/3)$

**Third Quarter 20X1**

<i>Basic EPS calculation</i>		<u>CU</u>	
Profit from continuing operations attributable to the parent entity		1,000,000	
Less: preference shares dividends		<u>(10,000)</u>	
<b>Profit from continuing operations attributable to ordinary equity holders of the parent entity</b>		990,000	
Loss from discontinuing operation attributable to the parent entity		<u>(2,000,000)</u>	
Loss attributable to ordinary equity holders of the parent entity		<u>(1,010,000)</u>	
<i>Dates</i>	<i>Shares outstanding</i>	<i>Fraction of period</i>	<i>Weighted-average shares</i>
1 July – 31 August	6,280,000	2/3	4,186,666
<i>Exercise of warrants on 1 September</i>	<u>600,000</u>		
1 September – 30 September	6,880,000	1/3	<u>2,293,333</u>
<b>Weighted-average shares</b>			6,480,000
<b>Basic EPS</b>			
Profit from continuing operations			<b>CU0.15</b>
Loss from discontinued operations			<u><b>(CU0.31)</b></u>
Loss			<u><u><b>(CU0.16)</b></u></u>

*Diluted EPS calculation*

<b>Profit from continuing operations attributable to ordinary equity holders of the parent entity</b>		CU990,000
Plus: profit impact of assumed conversions		
Preference shares dividends	<u>CU10,000</u>	
<b>Effect of assumed conversions</b>		<u>CU10,000</u>
Profit from continuing operations attributable to ordinary equity holders of the parent entity including assumed conversions		CU1,000,000
Loss from discontinued operations attributable to the parent entity		<u>(CU2,000,000)</u>
Loss attributable to ordinary equity holders of the parent entity including assumed conversions		<u>(CU1,000,000)</u>
<b>Weighted-average shares</b>		6,480,000
Plus: incremental shares from assumed conversions		
Warrants	61,538 <sup>(k)</sup>	
Convertible preference shares	<u>200,000</u>	
<b>Dilutive potential ordinary shares</b>		<u>261,538</u>
Adjusted weighted-average shares		<u>6,741,538</u>
<b>Diluted EPS</b>		
Profit from continuing operations		<b>CU0.15</b>
Loss from discontinued operations		<u><b>(CU0.30)</b></u>
Loss		<u><u><b>(CU0.15)</b></u></u>

Note: The incremental shares from assumed conversions are included in calculating the diluted per-share amounts for the loss from discontinued operations even though they are antidilutive. This is because the control number (profit from continuing operations attributable to ordinary equity holders of the parent entity, adjusted for preference dividends) is positive (i.e. profit, rather than loss).

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(k)  $[(CU65 - CU55) \div CU65] \times 600,000 = 92,308$  shares;  $92,308 \times 2/3 = 61,538$  shares

**Fourth Quarter 20X1**

<i>Basic and diluted EPS calculation</i>		<u>CU</u>
Loss from continuing operations attributable to the parent entity		(700,000)
Add: preference shares dividends		<u>(10,000)</u>
<b>Loss attributable to ordinary equity holders of the parent entity</b>		<b><u>(710,000)</u></b>

<i>Dates</i>	<i>Shares outstanding</i>	<i>Fraction of period</i>	<i>Weighted-average shares</i>
1 October – 31 December	6,880,000	3/3	<u>6,880,000</u>
<b>Weighted-average shares</b>			<b><u>6,880,000</u></b>

***Basic and diluted EPS***

Loss attributable to ordinary equity holders of the parent entity	<b><u>(CU0.10)</u></b>
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Note: The incremental shares from assumed conversions are not included in calculating the diluted per-share amounts because the control number (loss from continuing operations attributable to ordinary equity holders of the parent entity adjusted for preference dividends) is negative (i.e. a loss, rather than profit).

**Full year 20X1**

<i>Basic EPS calculation</i>		<u>CU</u>
Profit from continuing operations attributable to the parent entity	11,800,000	
Less: preference shares dividends	<u>(70,000)</u>	
<b>Profit from continuing operations attributable to ordinary equity holders of the parent entity</b>	<b>11,730,000</b>	
Loss from discontinued operations attributable to the parent entity	<u>(2,000,000)</u>	
Profit attributable to ordinary equity holders of the parent entity	<u><u>9,730,000</u></u>	

<i>Dates</i>	<i>Shares Outstanding</i>	<i>Fraction of period</i>	<i>Weighted-average shares</i>
1 January - 28 February	5,000,000	2/12	833,333
<i>Issue of ordinary shares on 1 March</i>	<u>200,000</u>		
1 March - 31 March	5,200,000	1/12	433,333
<i>Conversion of 5% bonds on 1 April</i>	<u>480,000</u>		
1 April - 31 May	5,680,000	2/12	946,667
<i>Conversion of preference shares on 1 June</i>	<u>600,000</u>		
1 June – 31 August	6,280,000	3/12	1,570,000
<i>Exercise of warrants on 1 September</i>	<u>600,000</u>		
1 September – 31 December	6,880,000	4/12	<u>2,293,333</u>
<b>Weighted-average shares</b>			<u><u>6,076,667</u></u>

**Basic EPS**

Profit from continuing operations	<b>CU1.93</b>
Loss from discontinued operations	<u><b>(CU0.33)</b></u>
Profit	<u><u><b>CU1.60</b></u></u>

*Diluted EPS calculation*

<b>Profit from continuing operations attributable to ordinary equity holders of the parent entity</b>		CU11,730,000
Plus: profit impact of assumed conversions		
Preference share dividends	CU70,000	
Interest on 5% convertible bonds	<u>CU90,000<sup>(l)</sup></u>	
<b>Effect of assumed conversions</b>		<u>CU160,000</u>
Profit from continuing operations attributable to ordinary equity holders of the parent entity including assumed conversions		CU11,890,000
Loss from discontinued operations attributable to the parent entity		<u>(CU2,000,000)</u>
Profit attributable to ordinary equity holders of the parent entity including assumed conversions		<u><u>CU9,890,000</u></u>
<b>Weighted-average shares</b>		6,076,667
Plus: incremental shares from assumed conversions		
Warrants	14,880 <sup>(m)</sup>	
Convertible preference shares	450,000 <sup>(n)</sup>	
5% convertible bonds	<u>120,000<sup>(o)</sup></u>	
<b>Dilutive potential ordinary shares</b>		<u>584,880</u>
Adjusted weighted-average shares		<u><u>6,661,547</u></u>
<b><i>Diluted EPS</i></b>		
Profit from continuing operations		<b>CU1.78</b>
Loss from discontinued operations		<b><u>(CU0.30)</u></b>
Profit		<b><u>CU1.48</u></b>

(l)  $(\text{CU}12,000,000 \times 5\%) \div 4$ ; less taxes at 40%

(m)  $[(\text{CU}57.125^* - \text{CU}55) \div \text{CU}57.125] \times 600,000 = 22,320$  shares;  
 $22,320 \times 8/12 = 14,880$  shares

\* The average market price from 1 January 20X1 to 1 September 20X1.

(n)  $(800,000 \text{ shares} \times 5/12) + (200,000 \text{ shares} \times 7/12)$

(o)  $480,000 \text{ shares} \times 3/12$

The following illustrates how Company A might present its earnings per share data on its income statement. Note that the amounts per share for the loss from discontinued operations are not required to be presented on the face of the income statement.

	<i>For the year ended 20X1</i>
	<u>CU</u>
<b>Earnings per ordinary share</b>	
Profit from continuing operations	1.93
Loss from discontinued operations	<u>(0.33)</u>
Profit	<u>1.60</u>
<b>Diluted earnings per ordinary share</b>	
Profit from continuing operations	1.78
Loss from discontinued operations	<u>(0.30)</u>
Profit	<u>1.48</u>

The following table includes the quarterly and annual earnings per share data for Company A. The purpose of this table is to illustrate that the sum of the four quarters' earnings per share data will not necessarily equal the annual earnings per share data. The Standard does not require disclosure of this information.

	<i>First quarter</i>	<i>Second quarter</i>	<i>Third quarter</i>	<i>Fourth quarter</i>	<i>Full year</i>
	<u>CU</u>	<u>CU</u>	<u>CU</u>	<u>CU</u>	<u>CU</u>
<b>Basic EPS</b>					
Profit (loss) from continuing operations	0.98	1.10	0.15	(0.10)	1.93
Loss from discontinued operations	<u>—</u>	<u>—</u>	<u>(0.31)</u>	<u>—</u>	<u>(0.33)</u>
Profit (loss)	<u>0.98</u>	<u>1.10</u>	<u>(0.16)</u>	<u>(0.10)</u>	<u>1.60</u>
<b>Diluted EPS</b>					
Profit (loss) from continuing operations	0.80	1.00	0.15	(0.10)	1.78
Loss from discontinued operations	<u>—</u>	<u>—</u>	<u>(0.30)</u>	<u>—</u>	<u>(0.30)</u>
Profit (loss)	<u>0.80</u>	<u>1.00</u>	<u>(0.15)</u>	<u>(0.10)</u>	<u>1.48</u>

## **DIFFERENCES BETWEEN AASB 133 AND AASB 1027**

*This analysis of differences accompanies, but is not part of, AASB 133.*

This section identifies differences between AASB 1027 *Earnings per Share* and AASB 133 *Earnings per Share* under the following headings.

- A: Incompatibilities between AASB 1027 and AASB 133
- B: AASB 1027 is more detailed or restrictive
- C: AASB 133 is more detailed or restrictive
- D: AASB 1027 disclosures are more extensive
- E: AASB 133 disclosures are more extensive

The analysis of differences should not be taken as providing an exhaustive list of differences.

### **Introduction**

AASB 133 and AASB 1027 apply to entities whose securities are publicly traded or that are in the process of being issued to the public, although AASB 1030 *Application of Accounting Standards to Financial Year Accounts and Consolidated Accounts of Disclosing Entities other than Companies* paragraph 10 provides relief from applying AASB 1027 to disclosing entities other than companies and other bodies corporate listed on the Australian Stock Exchange. Other entities that choose to present earnings per share (EPS) information must also comply with AASB 133 and AASB 1027. AASB 133 and AASB 1027 prescribe principles for use in the determination of basic and diluted EPS and their subsequent presentation.

The amount of earnings used in EPS calculations depends to a large extent on the requirements of other standards. Accordingly, the EPS determined under AASB 133 will differ from the EPS under AASB 1027 because of differences in other standards. These differences are not included in this analysis: this analysis only deals with differences between the requirements in AASB 133 and AASB 1027.

## **Differences**

### **A. Incompatibilities between AASB 1027 and AASB 133**

#### **A.1 Scope – managed investment schemes**

AASB 1030.10 relieves disclosing entities that are not companies or other bodies corporate that are listed on the Australian Stock Exchange from applying AASB 1027. Such entities would include listed managed investment schemes. AASB 133 does not provide this relief.

#### **A.2 Mandatorily convertible securities**

AASB 1027.12.2 and 15.1(b)(ii) require that potential ordinary shares for which conversion to, calling of, or subscription for ordinary share capital is mandatory be included in the calculation of diluted EPS.

AASB 133.23 comments that ordinary shares resulting from the conversion of mandatorily convertible securities are to be included in the calculation of basic EPS from the date the contract is entered into. Accordingly, where an entity has on issue the securities described in AASB 1027.12.2 and 15.1(b)(ii) and AASB 133.23, AASB 133 will give rise to a lower basic EPS than AASB 1027. However, the impact on diluted EPS is the same under both AASB 1027 and AASB 133.

#### **A.3 Potential ordinary shares at the discretion of the entity**

AASB 1027.12.3 and 15.1(b)(ii) require that potential ordinary shares for which conversion to, calling of, or subscription for ordinary share capital is at the option of the entity be included in the calculation of diluted EPS when, based on conditions at the reporting date, it is probable that the entity will successfully exercise its option at any time in the future.

AASB 133 does not specifically deal with this type of potential ordinary share. Therefore, such shares would be dealt with in accordance with the general requirement in AASB 133.41 and treated as dilutive only when their conversion to ordinary shares would decrease EPS (or increase loss per share) from continuing ordinary operations. Accordingly, where an entity has on issue the securities described in AASB 1027.12.3 and 15.1(b)(ii), and those securities would not otherwise be dilutive under AASB 133, AASB 1027 would give rise to a lower diluted EPS (that is, a lower EPS or a higher loss per share) than AASB 133.

## **B. AASB 1027 is more detailed or restrictive**

### **B.1 Identifying ordinary shares and the impact of acquisitions using potential ordinary shares**

In calculating the weighted average number of ordinary shares to be used in basic EPS, AASB 1027 includes more guidance than AASB 133 on the identification of ordinary shares and the impact of acquisitions using potential ordinary shares as purchase consideration:

- AASB 1027.6.1.1 comments that, in some cases, an entity will have on issue shares which do not receive dividends during the reporting period because the profits of the entity are not currently being distributed as dividends or there are currently no profits available for distribution. It also notes that such shares are treated as ordinary shares for the purpose of calculating basic EPS provided that they would receive dividends if dividends were to be distributed. AASB 133 has no equivalent guidance; and
- AASB 1027.6.1.4 comments that where an asset is acquired using as purchase consideration potential ordinary shares which remain potential ordinary shares at the end of the reporting period, the earnings used in the calculation of basic EPS includes any earnings resulting from the acquired asset. However, the weighted average number of ordinary shares is unaffected by the issue of the potential ordinary shares.

### **B.2 Bonus elements**

Both AASB 1027.6.6.1 and AASB 133.27 provide examples of events that could give rise to bonus elements. AASB 1027.6.6.1 contains examples not found in IAS 33.27, including a partly-paid ordinary share issue, a dividend reinvestment plan issue and a placement.

### **B.3 Basic and diluted EPS for more than one class of shares**

AASB 1027 (sections 10 and 19) deals in more detail than AASB 133.6, 66 and 70 with calculations and disclosure of basic and diluted EPS where there is more than one category of ordinary shares.

## **C. AASB 133 is more detailed or restrictive**

### **C.1 Earnings amount: basic and diluted EPS**

AASB 133.9 and 30 require EPS amounts to be calculated 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. AASB 133.66 presentation requirements follow suit.

AASB 1027.5.1 and 14.1 require that EPS amounts be calculated for net profit or loss.

### **C.2 The earnings amount used in calculating basic EPS**

AASB 133.14-18 deals in more detail than AASB 1027.5.1.1 with amounts relating to preference shares, in determining the earnings figure to be used in calculating basic EPS.

### **C.3 Shares to be included in the weighted average number of shares calculation for basic EPS**

AASB 133.21 and AASB 1027.6.1.3, 6.1.5 and 6.1.6 comment on the inclusion of shares in the weighted average number of shares calculation for basic EPS. AASB 133.21 comments that in most cases, shares are included in the weighted average number of shares from the date that consideration is receivable (which is generally the date of their issue), and includes examples not provided in AASB 1027, namely:

- where ordinary shares are issued for the rendering of services to the entity;
- where ordinary shares are issued in exchange for cash; and
- where ordinary shares are issued in exchange for the settlement of a liability of the entity.

### **C.4 Method used for calculating EPS**

The method adopted in AASB 133.19 and 37 requires that EPS be calculated on the basis that each reporting period is discrete. That is, each quarterly report would be prepared on the basis of the events of each quarter and the annual report would be prepared on the basis of the events of the whole year (not a weighted average of the quarters). AASB 1027 (sections 4 and 13) also requires the same treatment. However, unlike AASB 1027, AASB 133 provides more guidance in the form of illustrative examples on interim reporting period EPS calculations.

### **C.5 Convertible preference shares**

AASB 1027.12.2, 12.3 and 12.7 and AASB 133.49-51 both deal with convertible securities. AASB 133.50 and 51 comment specifically on the determination of diluted EPS with regard to convertible preference shares.

## **C.6 Contingently issuable shares**

AASB 1027.6.4, 15.2 and 15.3 and AASB 133.52-57 both deal with contingently issuable shares. AASB 133.56 concerns contingently issuable shares which depend on a condition other than earnings or market price. The example used in the paragraph is the opening of a specific number of retail stores. This type of contingently issuable share is not identified in AASB 1027.

AASB 133.57 specifically comments on contingently issuable potential ordinary shares not covered by a contingent share agreement.

## **C.7 Contracts settled in either cash or shares**

AASB 1027 does not specifically deal with contracts that may be settled in ordinary shares or cash. AASB 133.58 requires an entity to presume that contracts that may be settled in ordinary shares or cash at the entity's option will be settled in ordinary shares. The resulting potential ordinary shares are included in diluted EPS if the effect is dilutive.

## **C.8 Share options**

Both AASB 1027.15.4.2-15.4.4 and 18.1.1(c) and AASB 133.45-48, 61-63 and 70(d) deal with options. AASB 133.61-63 specifically deal with purchased share options and written put options.

## **D. AASB 1027 disclosures are more extensive**

### **D.1 Basic EPS**

AASB 1027.9.1 and AASB 133.70(a) and (b) both require disclosure of information about basic EPS. AASB 1027.9.1 extends the disclosures to include:

- an explanation, if necessary, of the classification of securities between ordinary shares and potential ordinary shares, for the purposes of determining basic EPS in the financial report; and
- any conversion to, calling of, or subscription for, ordinary shares that occurs between reporting date and the time of completion of the financial report.

It is noted that AASB 133.70(a) extends the disclosure concerning the reconciliation of the numerator, to profit or loss attributable to the parent entity for the period, to include the individual effect of each class of instruments affecting EPS.

## **D.2 Share transactions occurring after reporting date**

AASB 1027.18.1(e) and (f) require disclosure of the following:

- any conversion to, calling of, or subscription for, ordinary shares that occurs between the reporting date and the time of completion of the financial report; and
- any issue of potential ordinary shares that occurs between the reporting date and the time of completion of the financial report.

AASB 133.70(d), on the other hand, requires the disclosure of ordinary share transactions or potential ordinary share transactions that occur after the reporting date 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.

## **D.3 Presentation of parent-entity EPS figures**

AASB 133.4 prohibits the display of parent-entity EPS amounts from both the consolidated financial statements and notes even where the reports concerned present both consolidated and parent-entity amounts side-by-side in respect of each line item. There is no prohibition in AASB 1027 from displaying parent-entity EPS figures in the notes to consolidated financial statements. AASB 1027 (sections paragraphs 8 and 17) requires the presentation of EPS amounts in each reporting entity required to apply the Standard but AASB 1027.1.2 permits non-disclosure of parent EPS where the parent and consolidated financial statements are presented together.

## **E. AASB 133 disclosures are more extensive**

### **E.1 Reconciliation between denominators of basic EPS and diluted EPS**

AASB 1027.18.1(b) and AASB 133.70(b) both require a reconciliation between the basic EPS denominator and the diluted EPS denominator. AASB 133.70(b) extends the disclosure concerning the reconciliation of the denominators to include the individual effect of each class of instruments affecting EPS.

### **E.2 Additional EPS figures using information based on an alternative amount of earnings**

AASB 1027.20 and AASB 133.73 both outline the principle in dealing with additional EPS figures calculated using an alternative amount of earnings. AASB 133.73 goes further to require an entity to indicate the basis on which

the alternative earnings amount is determined, including whether amounts per share are before or after tax.