

Accounting Standard

**AASB 1027**  
June 2001

# Earnings per Share



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Defined words are <i>italicised</i> each time they appear. The definitions are in Section 23. Standards are printed in <b>bold</b> type and commentary in light type.
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## MAIN FEATURES OF THE STANDARD

The Standard sets out requirements for determining the earnings (numerators) and the numbers of shares (denominators) to be used in calculating basic earnings per share (EPS) and, where applicable, diluted EPS, and requires specific disclosures in relation to basic EPS and, where applicable, diluted EPS. The Standard:

- (a) applies to listed reporting entities and entities in the process of listing which have ordinary shares or partly-paid ordinary shares, and entities which voluntarily disclose earnings per share;
- (b) requires basic EPS and, where applicable, diluted EPS, to be disclosed on the face of the statement of financial performance;
- (c) requires net profit or loss (which includes extraordinary items) for the reporting period calculated in accordance with Accounting Standard AASB 1018 “Statement of Financial Performance”, adjusted to exclude any portion attributable to outside equity interest and any costs of servicing equity other than dividends on ordinary shares, to be used as the earnings numerator in calculating basic EPS;
- (d) requires the weighted average number of ordinary shares outstanding during a reporting period 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 of the entity, for example, a bonus issue or share split;
- (e) requires those entities with more than one category of ordinary shares to disclose basic EPS and, where applicable, diluted EPS, for each category of ordinary shares; and
- (f) requires net profit or loss from continuing ordinary operations to be used to assess whether potential ordinary shares are dilutive, and then requires that the earnings figure used in the calculation of diluted EPS includes any effects of discontinuing operations, extraordinary items, adjustments for changes in accounting policies and corrections of fundamental errors.

## ACCOUNTING STANDARD AASB 1027

The Australian Accounting Standards Board makes Accounting Standard AASB 1027 “Earnings per Share” under section 334 of the Corporations Law.

Dated 28 June 2001

F.K. Alfredson  
Chair – AASB

## ACCOUNTING STANDARD AASB 1027 “EARNINGS PER SHARE”

### 1 Application

1.1 This Standard applies to each *entity* that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Law and that is:

- (a) a reporting entity with listed *ordinary shares* or listed *partly-paid ordinary shares*; or
- (b) a reporting entity that has on issue *ordinary shares* or *partly-paid ordinary shares* and is in the process of listing; or
- (c) an *entity* that discloses earnings per share (EPS).

1.1.1 The application of this Standard extends to listed *companies* and to all other *entities* which are listed or have on issue *ordinary shares* or *partly-paid ordinary shares* and are in the process of listing. Certain entities are exempted from this Standard under Accounting Standard AASB 1030 “Application of Accounting Standards to Financial Year Accounts and Consolidated Accounts of Disclosing Entities other than Companies”.

1.1.2 An *entity* can be considered to be in the process of listing where:

- (a) an application to list *ordinary shares* of the *entity* has been lodged with a stock exchange; or

- (b) the *entity* is in the process of preparing supporting documentation to list on a stock exchange; or
- (c) the governing body of the *entity* has resolved to list its securities and active steps are being taken to prepare the relevant documentation.

**1.2 Where an *entity* is the *parent entity* in an *economic entity* and the financial report of the *parent entity* is presented with the consolidated financial report of that *economic entity*, this Standard applies only to the consolidated financial report.**

- 1.2.1 The standards specified in this Standard apply to the financial report where information resulting from their application is material. This requirement is set out in Accounting Standard AASB 1031 “Materiality” which provides guidance on the role of materiality in making judgements in the preparation and presentation of financial reports. Materiality may, for example, apply in determining whether adjustment should be made for a bonus element arising from a particular event.
- 1.2.2 In the context of this Standard, the disclosure of diluted EPS (required by paragraph 17.1) does not depend on materiality.

## **2 Operative Date**

- 2.1 **This Standard applies to *annual reporting periods* beginning on or after 1 July 2001.**
- 2.2 **This Standard may be applied to *annual reporting periods* beginning before 1 July 2001 where an election has been made in accordance with subsection 334(5) of the Corporations Law.**
- 2.3 **When applied or operative, this Standard supersedes Accounting Standard AASB 1027 “Earnings per Share” as approved by notice and published in the *Commonwealth of Australia Gazette* No. S 534 on 5 October 2000.**
  - 2.3.1 Notice of this Standard was published in the *Commonwealth of Australia Gazette* on 29 June 2001.



### **3 Purpose of Standard**

**3.1 The purpose of this Standard is to:**

- (a) prescribe the method for determining basic EPS;**
- (b) prescribe the method for determining diluted EPS, where applicable; and**
- (c) require disclosure of basic EPS and, where applicable, diluted EPS, and other related information.**

3.1.1 EPS is a performance indicator that is primarily of interest to existing and potential shareholders and their advisers.

### **4 Calculation of Basic EPS**

**4.1 Basic EPS must be calculated by dividing the earnings of the *entity* for the reporting period, calculated in accordance with paragraph 5.1, by the weighted average number of *ordinary shares* of the *entity* calculated in accordance with paragraph 6.1, adjusted for the bonus element, if any, in accordance with paragraph 6.6.**

### **5 Earnings Used in Calculating Basic EPS**

**5.1 For the purpose of calculating basic EPS, earnings must be calculated as *net profit or loss* adjusted to exclude:**

- (a) any portion attributable to *outside equity interest*; and**
- (b) any costs of servicing equity, paid or provided for, other than dividends on *ordinary shares* and *partly-paid ordinary shares*; and**
- (c) any cumulative *preference share* dividends not already excluded;**

**in respect of the reporting period.**

5.1.1 For the purpose of calculating basic EPS, it is appropriate to deduct from earnings all of the costs of servicing equity, other than dividends relating to *ordinary shares* and *partly-paid ordinary shares*, in order to calculate earnings for the reporting period

attributable to ordinary shareholders. This would mean that, for example, dividends paid or payable and relating to the reporting period in respect of *preference shares* are treated as *expenses* in the calculation of basic EPS even if the *preference shares* are classified as equity in the statement of financial position. There may be a situation where an *entity* has cumulative *preference shares* but is not in a position to fully pay or provide for dividends because, for example, the *entity* has insufficient retained earnings. In such a situation, subparagraph 5.1(c) requires any unrecognised cumulative *preference share* dividends relating to the period to be excluded from the earnings used to calculate basic EPS.

- 5.1.2 Costs of servicing equity provided for are those costs of servicing equity, that have been determined or recommended by management, before the end of the reporting period.

## **6 Weighted Average Number of Ordinary Shares Used in Calculating Basic EPS**

- 6.1 The weighted average number of *ordinary shares* of the *entity* used in calculating basic EPS must be the total of:**

- (a) **the number of *ordinary shares* of the *entity* outstanding as at the beginning of the reporting period adjusted as follows:**
- (i) **increased by the number of *ordinary shares* issued during the reporting period;**
  - (ii) **decreased by reductions in the number of *ordinary shares* during the reporting period, including by way of share buy-backs;**

**where (i) and (ii) are weighted by reference to the number of days from, respectively, the date of issue of those shares or the date of reduction, to the *reporting date* as a proportion of the total number of days in the reporting period; and**

- (b) **the weighted average number of ordinary share equivalents outstanding during the reporting period in respect of *partly-paid ordinary shares* calculated in accordance with paragraph 6.2; and**

(c) **the weighted average number of contingently issuable shares outstanding during the reporting period, calculated in accordance with paragraph 6.4.**

- 6.1.1 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. Such shares are treated as *ordinary shares* for the purposes of calculating EPS provided that they would receive dividends if dividends were to be distributed.

### **Increases and Decreases in the Number of Ordinary Shares**

- 6.1.2 Where there is an increase in the number of *ordinary shares* during the reporting period, for example, from a rights issue, the weighted average number of *ordinary shares* is increased by the number of shares issued multiplied by the number of days from the date of issue to the *reporting date* and divided by the total number of days in the reporting period. Correspondingly, where there has been a reduction in the number of *ordinary shares* during the reporting period, for example, by way of a share buy-back, the weighted average number of *ordinary shares* is reduced by the number of shares bought back multiplied by the number of days from the date on which the shares are bought back to the *reporting date* and divided by the total number of days in the reporting period.

### **Ordinary Shares Issued to Acquire an Asset**

- 6.1.3 An *asset* may be acquired using *ordinary shares* as purchase consideration. Accounting Standard AASB 1015 “Acquisitions of Assets” deals with this matter. An example is where an *entity* issues *ordinary shares* as full or partial consideration for an interest in another *entity*. The shares issued are considered to be issued from the time control of the acquired *assets* is obtained.
- 6.1.4 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* and the weighted average number of *ordinary shares* is unaffected by the issue of the *potential ordinary shares*. Where the *potential ordinary shares* are dilutive, in accordance with paragraph 12.1 they are included in the denominator in the calculation of diluted EPS.

### **Ordinary Shares Issued as a Result of Conversion of Securities**

- 6.1.5 Where *ordinary shares* are issued during the reporting period as a result of the conversion of a security to *ordinary shares*, the weighted average number of shares outstanding during the reporting period in respect of such an issue is based on a time weighting. The time weighting is calculated by reference to the number of days from the date of issue of those *ordinary shares* to the *reporting date* as a proportion of the total number of days in the reporting period in accordance with subparagraph 6.1(a). For example, *ordinary shares* issued as a result of the conversion of a debt instrument to *ordinary shares* are considered to have been issued as of the date interest ceased accruing.

### **Ordinary Shares Issued in Meeting the Costs of Servicing Equity or Debt**

- 6.1.6 Where *ordinary shares* are issued during the reporting period in meeting the costs of servicing equity or debt such as dividends on *ordinary shares* or *preference shares* or interest on other securities, the weighted average number of *ordinary shares* outstanding during the reporting period in respect of such issues is based on a time weighting. The time weighting is calculated by reference to the number of days from the date on which the dividends or interest became payable, under the terms and conditions attaching to their issue, to the *reporting date* as a proportion of the total number of days in the reporting period. Consideration is given to the substance of any contract associated with an issue of shares. For example:
- (a) *ordinary shares* issued on the voluntary reinvestment of dividends on *ordinary* or *preference shares* are considered to have been issued at the dividend payment date; and
  - (b) *ordinary shares* issued in place of accrued interest or principal on other financial instruments are considered to have been issued as of the date the interest ceased accruing.

### **Partly-Paid Ordinary Shares Which Carry a Right to Participate in Dividends**

- 6.2 For the purposes of subparagraph 6.1(b), the number of outstanding ordinary share equivalents must be calculated by reference to the extent to which *partly-paid ordinary shares* carried rights during the reporting period to participate in dividends relative to an *ordinary share*. The weighted average

**number of ordinary share equivalents outstanding during the reporting period in respect of such *ordinary shares* must be based on a time weighting calculated by reference to the number of days during the reporting period that the relevant *partly-paid ordinary shares* carried rights to participate in dividends as a proportion of the total number of days in the reporting period.**

- 6.3 Ordinary share equivalents determined in accordance with paragraph 6.2 must be treated as part of the category of *ordinary shares* that the relevant *partly-paid ordinary shares* would be if they were fully paid.**
- 6.3.1 Some *partly-paid ordinary shares* carry the right to participate in the earnings of the *entity* via dividends. To the extent that they participate in dividends, as a proportion of the participation enjoyed in respect of an *ordinary share*, they are treated as equivalents of *ordinary shares*. Where there is more than one category of *ordinary shares* in accordance with paragraph 10.2, ordinary share equivalents arising from *partly-paid ordinary shares* are treated as part of the category of *ordinary shares* that *the partly-paid ordinary shares* would be if they were fully paid.
- 6.3.2 *Partly-paid ordinary shares* that give rise to equivalents of *ordinary shares* are subject to the same requirements for adjustment as *ordinary shares*, for example in respect of adjustment for a bonus element in accordance with paragraph 6.6.
- 6.3.3 In accordance with paragraph 6.2, a *partly-paid ordinary share* that is entitled to the same dividend as an *ordinary share* is treated as equivalent to an *ordinary share* for the purposes of calculating EPS.
- 6.3.4 To the extent that *partly-paid ordinary shares* are not entitled to participate in dividends they are included in the calculation of diluted EPS in accordance with paragraph 15.6.

### **Contingently Issuable Shares**

- 6.4 For the purposes of subparagraph 6.1(c), *ordinary shares* which were to become issuable contingent on some future event and were issuable at *reporting date* as a result of the satisfaction of the contingency conditions must be included in the denominator in the calculation of basic EPS from the time that all the necessary conditions were satisfied as a proportion of the total number of days in the reporting period.**

## **Date of Issue of Shares Arising from a Bonus Issue or Share Split**

- 6.5** For the purposes of calculating basic EPS, the date of issue of shares arising from a bonus issue or share split in relation to *ordinary shares* or *potential ordinary shares* must be:
- (a) in respect of *ordinary shares* and *potential ordinary shares* outstanding at the beginning of the reporting period, the beginning of that reporting period; and
  - (b) in respect of *ordinary shares* and *potential ordinary shares* issued during the reporting period, the date when *ordinary shares* or *potential ordinary shares* were issued.

## **Adjustment for Bonus Element**

- 6.6** The weighted average number of *ordinary shares* used to calculate basic EPS (and, where applicable, diluted EPS as calculated in accordance with paragraph 13.1) must be adjusted for any event, other than the conversion of *potential ordinary shares*, that changes the number of *ordinary shares* outstanding without a corresponding change in the recognised resources of the *entity* which occurs during the reporting period or after the *reporting date* but before the *time of completion* of the financial report.
- 6.6.1 *Ordinary shares* may be issued, or the number of *ordinary shares* outstanding may be reduced, without a corresponding change in the recognised resources of the *entity*. Examples of events that could give rise to bonus elements include:
- (a) a bonus issue or share split;
  - (b) a reverse share split (consolidation of shares);
  - (c) a rights issue;
  - (d) a *partly-paid ordinary share* issue;
  - (e) a placement; and
  - (f) a dividend reinvestment plan issue.

- 6.6.2 In a 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 a corresponding increase in the recognised resources of the *entity*. 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 reporting period for which EPS is presented. For example, for a two-for-one bonus issue, the number of shares outstanding prior to the issue is multiplied by a factor of three to obtain the new total number of shares, or by a factor of two to obtain the number of additional shares.
- 6.6.3 In a rights issue, if the exercise price is less than the market price of the shares, the rights issue includes a bonus element. EPS for all reporting periods presented are adjusted by the following factor:

$$\frac{\text{Theoretical ex-rights value per share}}{\text{Market price per share immediately prior to the exercise of rights}}$$

The theoretical ex-rights value per share is:

$$\frac{\text{Aggregate market price per share immediately prior to exercise of rights} + \text{proceeds from the exercise of rights}}{\text{Number of shares outstanding after exercise of rights}}$$

The market price would be the last sale price or, if higher, the last bid price cum rights. Where the rights themselves are to be publicly traded separately from the shares prior to the exercise date, market price 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. Example 1 of the Appendix illustrates the manner in which the factor is used to adjust EPS.

## 7 Restatement of Basic EPS for Prior Periods

- 7.1 For each prior reporting period for which basic EPS is presented in the financial report, basic EPS must be restated for the effects of:
- (a) any change in *accounting policy* applied in preparing and presenting the financial report which has been adjusted directly against retained profits or accumulated losses in accordance with the transitional

**provisions of the Accounting Standard or Urgent Issues Group Consensus View giving rise to the change in *accounting policy*;**

- (b) *fundamental errors*; and**
- (c) any event, other than the conversion of *potential ordinary shares*, that changes the number of *ordinary shares* outstanding without a corresponding change in the recognised resources of the *entity* which occurs during the reporting period or after the *reporting date* but before the *time of completion* of the financial report.**

- 7.1.1 Basic EPS for all reporting periods presented is required to correspond to the information presented for the current reporting period and therefore such information needs to be presented on the same basis as the information presented for the current reporting period. For example, where a change in *accounting policy* has been adjusted directly against retained profits, it is necessary to recalculate basic EPS for all prior reporting periods that are presented in the financial report so that the information corresponds to the information presented for the current reporting period. This treatment of EPS information is different from the treatment of other information required by Accounting Standard AASB 1001 “Accounting Policies” that comparative information not be restated on the face of the *statement of financial performance* for changes in *accounting policy*.
- 7.1.2 For the purposes of *comparability* with EPS information for the current reporting period, in accordance with subparagraph 7.1(c), EPS information for previous reporting periods is restated for the effects of bonus issues and other events such as those noted in paragraph 6.6.1.

## **8 Presentation of Basic EPS**

- 8.1 **Basic EPS must be presented on the face of the *statement of financial performance*.**
- 8.2 **Basic EPS must be presented even if the amounts are negative (a loss per share).**



## **9 Disclosure of Information about Basic EPS**

**9.1** The following must be disclosed in the financial report:

- (a) the amount used as the numerator in calculating basic EPS and a reconciliation of this amount to *net profit or loss* for the reporting period;
- (b) 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;
- (c) the weighted average number of *ordinary shares* of the *entity* used as the denominator in calculating basic EPS; and
- (d) 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.

### **Information on the Classification of Securities**

9.1.2 There is a variety of securities that are in the nature of either *ordinary shares* or *potential ordinary shares*. It may be difficult, in some cases, to determine whether a particular security falls within the definition of *ordinary share* or the definition of *potential ordinary share* that are set out in this Standard. In such cases, subparagraph 9.1(b) requires the disclosure of information to explain how securities have been classified.

## **10 Calculation and Disclosure of Basic EPS Where There is More than One Category of Ordinary Shares**

**10.1** Where an *entity* has on issue more than one category of *ordinary shares* in accordance with paragraph 10.2, basic EPS must be calculated and disclosed for each category of *ordinary shares*.

**10.2** For the purposes of this Standard, a different category of *ordinary shares* is deemed to exist where the *ordinary shares* are entitled to a disproportionate share of dividends as compared with other *ordinary shares* of the *entity*.

- 10.2.1 Different categories of *ordinary shares* exist where shares in each category of *ordinary shares* meet the definition of *ordinary share* in this Standard, but each category carries different rights to participate in the dividends of the *entity*, other than differences in the timing of the cash flows. An example of two categories of *ordinary shares* for the purposes of this Standard is where the holders of one category of *ordinary shares* are entitled to dividends per share equal to 110% of the dividends per share to which the holders of the other category of *ordinary shares* are entitled.
- 10.2.2 An *entity* may identify two separate categories of *ordinary shares* which, for the purposes of this Standard, fall within one category of *ordinary shares*. For example, there may be *ordinary shares* arising from an employee share scheme which do not carry the same voting rights as other *ordinary shares* of the *entity*. The voting rights attaching to *ordinary shares* do not affect their status as part of a category of *ordinary shares*. Provided the employee shares are entitled to participate in the same earnings stream at the same rate as other *ordinary shares* they are part of a single category of *ordinary shares*.
- 10.3 Earnings used to calculate basic EPS for each category of *ordinary shares* must be the amounts calculated in accordance with paragraph 5.1 that would be distributed to each category if all the earnings for the reporting period were distributed as dividends.**
- 10.3.1 Example 4 of the Appendix illustrates the treatment required by paragraph 10.3.
- 10.4 Where basic EPS is calculated for more than one category of *ordinary shares* in accordance with paragraph 10.1, EPS information must be calculated and disclosed in accordance with the requirements of Sections 4, 5, 6, 7, 8 and 9 for each category of *ordinary shares*.**
- 10.5 Basic EPS must be presented for each category of *ordinary shares* with equal prominence on the face of the *statement of financial performance*.**
- 10.6 Where a category of *ordinary shares* that existed in the prior reporting period no longer exists, comparative information is restated as if that category of *ordinary shares* had never existed.**

## 11 Diluted EPS

- 11.1 Diluted EPS must be calculated where an *entity* has on issue *potential ordinary shares* which are dilutive in accordance with paragraph 12.1.

## 12 Determining Whether Potential Ordinary Shares are Dilutive

- 12.1 Subject to paragraphs 12.2 and 12.3, *potential ordinary shares* must be treated as dilutive when and only when the conversion to, calling of, or subscription for, *ordinary shares* would decrease (or increase) net profit (or loss) from continuing ordinary operations per share as calculated in accordance with paragraph 12.4.
- 12.1.1 *Potential ordinary shares* are generally dilutive when their conversion to *ordinary shares* would decrease the net profit from continuing ordinary operations per share or increase the net loss from continuing ordinary operations per share. This is because, in most cases, the holder of a *potential ordinary share* has the option to convert, call or subscribe for *ordinary share* capital. Except as identified in paragraphs 12.2 and 12.3, *potential ordinary shares* are not dilutive when their conversion to *ordinary shares* would increase the net profit from continuing ordinary operations per share or decrease the net loss from continuing ordinary operations per share. The effects of *potential ordinary shares* which are not dilutive are ignored in calculating diluted EPS.
- 12.1.2 An *entity* uses *net profit or loss* from continuing ordinary operations per share as the “trigger test” to establish whether *potential ordinary shares* are dilutive or are not dilutive. The earnings used as the numerator in the diluted EPS calculation is calculated in accordance with paragraph 14.1.
- 12.2 *Potential ordinary shares* for which conversion to, calling of, or subscription for, *ordinary share* capital is mandatory must be included in the calculation of diluted EPS.
- 12.3 *Potential ordinary shares* for which conversion to, calling of, or subscription for, *ordinary share* capital is at the option of the *entity* must be included in the calculation of diluted EPS where, based on conditions at the *reporting date*, it is probable that the *entity* will successfully exercise its option at any time in the future.

- 12.3.1 The conversion to, calling of, or subscription for, *ordinary shares* under the circumstances dealt with in paragraphs 12.2 and 12.3 may result in the need to disclose diluted EPS that does not show an inferior view of the earnings performance of the *entity* when compared with basic EPS. Example 3 of the Appendix illustrates the treatment of *potential ordinary shares* included in diluted EPS in accordance with paragraph 12.2.

### **Net Profit or Loss from Continuing Ordinary Operations per Share - the “Trigger Test”**

- 12.4 **The *net profit or loss* from continuing ordinary operations must be determined as earnings calculated in accordance with paragraph 5.1 after excluding any amounts relating to:**
- (a) *discontinuing operations*;
  - (b) *extraordinary items*;
  - (c) **adjustments for changes in *accounting policies* that affect the current reporting period but relate to prior reporting periods; and**
  - (d) *corrections of fundamental errors*.

### **Dilutive Effect of Potential Ordinary Shares**

- 12.5 **Where, in accordance with paragraph 12.1, *potential ordinary shares* are dilutive, and the basis of conversion to, calling of, or subscription for, *ordinary shares* will change from time to time, the calculation of diluted EPS must be based on the terms of conversion, calling or subscription that result in the most dilutive effect.**

### **Separate Issue or Series of Potential Ordinary Shares**

- 12.6 **Where there is more than one series or issue of *potential ordinary shares*, in applying paragraph 12.1 to consider whether *potential ordinary shares* are dilutive, each issue or series of *potential ordinary shares* must be considered separately rather than in aggregate. Subject to paragraph 12.7, in applying paragraph 12.1 each issue or series of *potential ordinary shares* must be considered in sequence from the most dilutive to the least dilutive.**

- 12.6.1 The sequence in which *potential ordinary shares* are considered may affect whether or not they are dilutive. Subject to the requirements of paragraphs 12.2 and 12.3 regarding *potential ordinary shares* for which conversion to, calling of, or subscription for shares is mandatory or at the option of the *entity*, this Standard adopts the view that the dilution of basic EPS should be maximised when calculating diluted EPS, by considering each issue or series of *potential ordinary shares* in sequence from the most dilutive to the least dilutive. Example 3 of the Appendix illustrates the method used to determine the sequence in which to include dilutive securities in the calculation of diluted EPS.

### **Converting Potential Ordinary Shares**

- 12.7 **Where, in accordance with paragraphs 12.2 and 12.3, *potential ordinary shares* are considered dilutive, they must be included in the calculation of diluted EPS after having included other *potential ordinary shares* in accordance with paragraph 12.6.**

## **13 Calculation of Diluted EPS**

- 13.1 **Diluted EPS must be calculated by dividing the earnings of the *entity* for the reporting period, calculated in accordance with paragraph 14.1, by the weighted average number of *ordinary shares* and dilutive *potential ordinary shares*, calculated in accordance with paragraph 15.1 and adjusted for the bonus element, if any, in accordance with paragraph 6.6.**

- 13.1.1 The calculation of diluted EPS is consistent with the calculation of basic EPS while giving effect to all dilutive *potential ordinary shares* that were outstanding during the reporting period.

## **14 Earnings Used in Calculating Diluted EPS**

- 14.1 **For the purpose of calculating diluted EPS, earnings must be calculated in accordance with paragraph 5.1 and adjusted by the after income tax effect of:**
- (a) **dividends, interest or other financing costs associated with dilutive *potential ordinary shares* that have been recognised as *expenses* during the reporting period or otherwise deducted in arriving at earnings calculated in accordance with paragraph 5.1; and**

- (b) **any other non-discretionary changes in revenues or expenses for the reporting period that would result from the conversion of the dilutive potential ordinary shares.**

- 14.1.1 The amount of earnings used in calculating diluted EPS includes any amounts relating to *discontinuing operations*, *extraordinary items*, adjustments for changes in *accounting policies* that affect the current reporting period but relate to prior reporting periods, and corrections of *fundamental errors*. The amount used as the trigger test under paragraph 12.4 excludes these amounts.
- 14.1.2 The amount of earnings used in calculating diluted EPS is adjusted for *expenses*, distributions and *revenues* that would have been avoided or would have been different had dilutive *potential ordinary shares* been converted into *ordinary shares* or resulted in the calling of, or subscription for, *ordinary share* capital. In relation to subparagraph 14.1(a), an example is interest expense on an interest-bearing convertible note that would have been avoided if the note had been converted to *ordinary shares*. In relation to subparagraph 14.1(b), an example is royalty payments determined as a percentage of the *entity's* earnings that would have been higher had the earnings not been reduced by the interest on a dilutive convertible note where the *entity* has no discretion to change that percentage. In a case where the *entity* has a discretion to change the percentage to take into account the impact of reduced interest expense, no adjustment would be made in relation to the royalty payments.

## 15 Weighted Average Number of Shares Used in Calculating Diluted EPS

### Number of Shares

- 15.1 **For the purpose of calculating diluted EPS, the number of shares must be the total of the following:**
  - (a) **the weighted average number of *ordinary shares* calculated in accordance with paragraph 6.1;**
  - (b) **the weighted average number of *ordinary shares* assumed to have been issued for no consideration in accordance with paragraph 15.4 in relation to dilutive *potential ordinary shares*;**

- (c) **the weighted average number of *ordinary shares* assumed to have been issued for no consideration in accordance with paragraph 15.4 in relation to:**
  - (i) *potential ordinary shares* in accordance with paragraphs 15.2 and 15.3; and
  - (ii) *potential ordinary shares* in accordance with paragraphs 12.2 and 12.3

**where (b) and (c) are weighted by reference to the number of days the *potential ordinary shares* were outstanding as a proportion of the total number of days in the reporting period.**

- 15.1.1 The weighting requirement in paragraph 15.1 means that *ordinary shares* assumed to have been issued in relation to:
  - (a) dilutive *potential ordinary shares* that have been issued since the beginning of the reporting period and remain outstanding at *reporting date*, are weighted by reference to the number of days from their date of issue to the *reporting date*; and
  - (b) dilutive *potential ordinary shares* that have converted, lapsed or been cancelled during the reporting period, are weighted by reference to the number of days from the beginning of the reporting period (or their date of issue, if later) to their date of conversion, lapse or cancellation

as a proportion of the total number of days in the reporting period.

- 15.1.2 The number of *ordinary shares* assumed to be issued on the conversion of dilutive *potential ordinary shares* is determined from the terms of the *potential ordinary shares*. The computation assumes the most advantageous conversion rate or exercise price from the standpoint of the holder of the *potential ordinary shares*.

### **Contingently Issuable Shares**

- 15.2 **Subject to paragraph 15.3, the extent to which *potential ordinary shares* that are to be issued contingent on some future event are included in the denominator in the calculation of diluted EPS must be based on the assumption that conditions existing at *reporting date* will continue until the end of the contingency period.**

- 15.2.1 A contingent issue is included in the calculation of diluted EPS as follows:
- (a) when all necessary conditions have been met by the end of the period, the shares are included as of the later of the beginning of the period in which the conditions were satisfied or the date of the contingent share agreement; or
  - (b) when all necessary conditions have not been met by the end of the reporting period, the shares are included as if the end of the reporting period were the end of the contingency period, if the result is dilutive.
- 15.2.2 Except as identified in paragraph 15.3, where the conditions on which the shares are contingently issuable are:
- (a) attainment or maintenance of a specified earnings figure; or
  - (b) the market price of the shares at a future date; or
  - (c) both earnings and share price

and the earnings or share price necessary for those shares to become issuable has been attained, it is assumed that the conditions existing at *reporting date* will continue until the end of the contingency period. Therefore, those shares are considered outstanding for the purposes of calculating diluted EPS.

**15.3 Where an event occurring after reporting date invalidates the assumption that conditions at reporting date will continue until the end of the contingency period, the extent to which contingently issuable shares are included in the calculation of diluted EPS must be based on the assumption that the conditions existing after the event occurring after reporting date will continue until the end of the contingency period.**

- 15.3.1 Contingently issuable shares are included in diluted EPS if they are considered dilutive in accordance with paragraph 12.1 of this standard. The method for determining whether potential shares are dilutive is illustrated in Example 3 of the Appendix.

***Exercise Price***

- 15.3.2 The exercise price for *potential ordinary shares* is normally set as a dollar amount in a contract. However, in some circumstances the price to be paid for *ordinary shares* is contingent on some future event. Where such contingencies exist, contingent share prices used



in the calculation of diluted EPS are determined on the basis that conditions existing at *reporting date* will continue until the end of the contingency period, unless an *event occurring after reporting date* invalidates that assumption.

- 15.3.3 The guidance in paragraph 15.3.2 relates to situations where shares will definitely be issued at some time in the future, and only the price is contingent on a future event, as well as situations covered by paragraphs 15.2 and 15.3 whereby the shares may or may not be issued, contingent on some future event and the price of those shares is contingent on some future event.

### **The Assumed Issue of Potential Ordinary Shares**

- 15.4 For the purpose of calculating diluted EPS, an *entity* must assume the exercise of dilutive *potential ordinary shares* of the *entity* and must treat the difference between the number of shares that would be issued at the exercise price and the number of shares that would have been issued at average market price as an issue of *ordinary shares* for no consideration.**

- 15.4.1 *Potential ordinary shares* can be viewed as being of essentially two types. One type involves the holder paying all the consideration on issue of the *potential ordinary shares*, such as with debt that is convertible into *ordinary shares*. In applying paragraph 15.4, this type of *potential ordinary shares* will involve assuming that all the *ordinary shares* are issued for no consideration (because no further consideration is needed for the conversion to occur). The other type is share purchase arrangements that involve the holder acquiring a right and having to subsequently pay consideration to exercise that right, such as with *partly-paid ordinary shares* to the extent that they do not carry rights to participate in dividends, and options and forward contracts to acquire *ordinary shares*. Paragraphs 15.4.2 to 15.4.4 are relevant in applying paragraph 15.4 to this second type of *potential ordinary shares*.

- 15.4.2 For *potential ordinary shares* such as options, the number of shares deemed to have been issued for no consideration is calculated as follows:

Number of shares that were issued at exercise price  
Less Number of shares that would have been issued at market price  
for actual proceeds

The number of shares that would have been issued at market price for the actual proceeds can be calculated as follows:

$$\frac{\text{Proceeds received}}{\text{Average market price}}$$

- 15.4.3 In relation to dilutive options to acquire *ordinary shares* the calculation of diluted EPS is performed by adding to the denominator only those *potential ordinary shares* that are deemed, in accordance with paragraph 15.4, to have been issued for no consideration. Assumed earnings from proceeds are not added to the numerator. Example 3 of the Appendix illustrates this treatment.
- 15.4.4 Options to acquire *ordinary shares* and other share purchase arrangements are dilutive when they would result in the issue of *ordinary shares* for less than their average market price. In order to calculate diluted EPS, each such arrangement is treated as consisting of:
- (a) a contract to issue a certain number of *ordinary shares* at their average market price during the reporting period, where the shares are ignored in the computation of diluted EPS; and
  - (b) a contract to issue the remaining *ordinary shares* for no consideration, where such shares generate no proceeds and have no effect on the earnings attributable to *ordinary shares* outstanding.

The shares identified in subparagraph 15.4.4(b) are dilutive and they are added to the number of *ordinary shares* in the computation of diluted EPS.

### **Average Market Price**

- 15.5 The average market price of *ordinary shares* must represent a meaningful average. The method used to calculate the average market price must be used consistently unless it is no longer representative of the average market price of *ordinary shares* because of changed conditions.**
- 15.5.1 The average market price of *ordinary shares* could be calculated on the basis of every market transaction for an *entity's ordinary shares*. However, as a practical matter, a simple average of weekly or monthly closing market prices is adequate when prices do not fluctuate widely. When prices fluctuate widely, an average of the

high and low prices for the reporting period that the price represents would produce a more representative price.

### **Partly-Paid Ordinary Shares**

- 15.6 To the extent to which *partly-paid ordinary shares* do not carry rights to participate in dividends of the *entity* during the reporting period they must be treated as the equivalent of options to acquire *ordinary shares* and are included as *potential ordinary shares* in the weighted average number of *potential ordinary shares* used in the calculation of diluted EPS in accordance with paragraph 15.4.**
- 15.6.1 Example 2 of the Appendix illustrates the treatment of *partly-paid ordinary shares* which carry no right to participate in the dividends of the *entity*.

## **16 Restatement of Diluted EPS for Prior Periods**

- 16.1 Diluted EPS for each prior reporting period presented in the financial report must be restated for the effects of:**
- (a) **any change in *accounting policy* applied in preparing and presenting the financial report which has been adjusted directly against retained profits or accumulated losses in accordance with the transitional provisions of the Accounting Standard or Urgent Issues Group Consensus View giving rise to the change in *accounting policy*;**
  - (b) ***fundamental errors*; and**
  - (c) **any event, other than the conversion of *potential ordinary shares*, that changes the number of *ordinary shares* outstanding without a corresponding change in the recognised resources of the *entity* which occurs during the reporting period or after the *reporting date* but before the *time of completion* of the financial report.**
- 16.1.1 Diluted EPS information is restated in the same way as basic EPS is restated in accordance with paragraph 7.1.
- 16.2 Where diluted EPS in respect of the previous reporting period or other preceding reporting periods are disclosed in the financial report, they must not be restated for the effect of a**

**change in the assessment of whether a *potential ordinary share* is dilutive.**

- 16.2.1 Diluted EPS amounts for all reporting periods presented are not restated for the effect of a change in the assessment of whether a *potential ordinary share* is dilutive. Recalculation on this basis would involve the inappropriate use of information from different reporting periods.

## **17 Presentation of Diluted EPS**

**17.1 Diluted EPS must be presented on the face of the *statement of financial performance*. Diluted EPS must be presented with the same prominence as basic EPS for all reporting periods presented.**

**17.2 Diluted EPS must be presented even if the amounts are negative (a loss per share).**

- 17.2.1 Diluted EPS is disclosed even where it is not materially different from basic EPS.

## **18 Disclosure of Information about Diluted EPS**

**18.1 The following must be disclosed in the financial report:**

- (a) **the amount used as the numerator in calculating diluted EPS, and a reconciliation of this amount to *net profit or loss* for the reporting period;**
- (b) **the weighted average number of *ordinary shares* and *potential ordinary shares* of the *entity* used as the denominator in calculating diluted EPS with a reconciliation to the basic EPS denominator;**
- (c) **the weighted average number of converted, lapsed or cancelled *potential ordinary shares* included in the calculation of diluted EPS;**
- (d) **the number and nature of any *potential ordinary shares* that are not dilutive and are therefore not used in the calculation of diluted EPS;**

- (e) **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**
- (f) **any issue of *potential ordinary shares* that occurs between the *reporting date* and the *time of completion* of the financial report.**

### **Description of Transactions After the Reporting Date**

- 18.1.1 An *entity* reporting under this Standard discloses a description of *ordinary share* or *potential ordinary share* transactions, other than bonus issues, share splits and reverse share splits, which occur after the *reporting date*. Such transactions would meet the criteria for disclosure under Accounting Standard AASB 1002 “Events Occurring After Reporting Date”. Examples include:
- (a) the issue of shares for cash;
  - (b) the issue of shares when the proceeds are used to repay debt or *preference shares* outstanding at the *reporting date*; and
  - (c) the issue of *options* or convertible securities.

## **19 Calculation and Disclosure of Diluted EPS Where There is More than One Category of Ordinary Shares**

- 19.1 **Where an *entity* has on issue more than one category of *ordinary shares*, diluted EPS must be calculated and disclosed for each category of *ordinary shares* for which *potential ordinary shares* of that category are on issue which are dilutive in accordance with paragraph 12.1.**
- 19.1.1 Where an *entity* has more than one category of *ordinary shares*, diluted EPS is only required to be calculated and disclosed for those categories of *ordinary shares* which have on issue *potential ordinary shares* that are dilutive.
- 19.1.2 In considering whether *potential ordinary shares* are dilutive, each issue or series of *potential ordinary shares* for each category of *ordinary shares* is considered in accordance with the requirements of paragraphs 12.2 to 12.7.

- 19.2 Earnings used to calculate diluted EPS for each category of *ordinary shares* must be the amounts calculated in accordance with paragraph 14.1 that would be distributed to each category if all the earnings for the reporting period were distributed as dividends.
- 19.3 Where diluted EPS is calculated for more than one category of *ordinary shares* in accordance with paragraph 19.1, EPS information must be calculated and disclosed in accordance with the requirements of Sections 13, 14, 15, 16, 17 and 18 for each category of *ordinary shares*.
- 19.4 Where diluted EPS is calculated for more than one category of *ordinary shares* in accordance with paragraph 19.1, diluted EPS for each category of *ordinary shares* for which it is calculated must be presented with equal prominence on the face of the *statement of financial performance*.

## 20 Information Based on an Alternative Amount of Earnings

- 20.1 If, in addition to the basic and diluted EPS required by this Standard, per share amounts using an earnings numerator other than the numerator specified in this Standard are disclosed, such per share amounts must be calculated using as the denominator:
- (a) in respect of basic per share amounts, the weighted average number of *ordinary shares* of the *entity* outstanding during the reporting period, calculated in accordance with Section 6; and
  - (b) in respect of diluted per share amounts, the total of the weighted average number of *ordinary shares* and *potential ordinary shares* of the *entity* outstanding during the reporting period, calculated in accordance with Section 15.
- 20.1.1 An *entity* may wish to disclose per share amounts using an earnings numerator other than that specified by this Standard. Such information may help users to evaluate the performance of the *entity*. Where an *entity* elects to make such disclosures, the denominators are calculated in accordance with this Standard in order to ensure the *comparability* of the per share amounts disclosed.

- 20.2 Where an *entity* chooses to disclose per share amounts using a numerator other than that specified by this Standard, the information must be disclosed less prominently than those disclosures required by this Standard.
- 20.3 If the numerator used in calculating per share amounts is not reported as a line item in the *statement of financial performance*, a reconciliation must be provided between the numerator used and a line item which is reported in the *statement of financial performance*.
- 20.4 If an *entity* chooses to disclose per share amounts using a numerator other than that specified in this Standard, both basic and diluted per share amounts must be disclosed with the same prominence using that numerator.
- 20.5 Where an *entity* which has more than one category of *ordinary shares* discloses per share amounts using a numerator other than that required by this Standard, the *entity* must disclose per share amounts for each category of *ordinary shares* using that numerator. Those per share amounts must be calculated in accordance with paragraphs 20.1 to 20.4.

## 21 Information Based on an Alternative Number of Shares

- 21.1 When, and only when, an *entity* has undergone a major capital restructuring during the reporting period the *entity* must disclose an additional basic EPS and, where applicable, diluted EPS, using an alternative denominator where this is considered by the *entity* to be more meaningful than the EPS information calculated in accordance with Section 6, and Section 15, where applicable.
- 21.1.1 When an *entity* undergoes a major capital restructuring, a number of shares other than the weighted average calculated in accordance with Sections 6 and 15 may give the most *relevant* EPS 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 a *company* is newly incorporated before the business began operations, the weighted average number of shares for the period the business was operating.

- 21.2 Where an *entity* discloses basic EPS and, where applicable, diluted EPS, in accordance with paragraph 21.1, the information must be disclosed less prominently than the EPS information calculated in accordance with Section 6, and Section 15, where applicable.
- 21.3 Where an *entity* discloses basic and diluted EPS in accordance with paragraph 21.1, it must disclose them with equal prominence.
- 21.4 Where an *entity* discloses EPS information in accordance with paragraph 21.1, the following disclosures must be made in respect of basic EPS and, where applicable, diluted EPS:
  - (a) the alternative denominator; and
  - (b) the reasons why the alternative denominator is considered by the *entity* to provide more meaningful EPS information than that required by Section 6, and Section 15, where applicable.

## 22 Comparative Information

- 22.1 The financial report must disclose information for the preceding corresponding reporting period, which corresponds to the disclosure specified for the reporting period, except in respect of the following:
  - (a) the first financial report after the establishment of the *entity*;
  - (b) the first consolidated financial report after the *entity* becomes a *parent entity*; and
  - (c) the financial report for an *entity* for which there is no *relevant* basis of comparison, including, but not limited to, the first financial report for *entities* after a change in the status of the *entity* from:
    - (i) a *company* limited by guarantee;



(ii) a mutual organisation;

(iii) a private company;

to a listed corporation.

- 22.1.1 Basic EPS and diluted EPS information is restated for all prior reporting periods presented in specified circumstances dealt with in Sections 7 and 16 of this Standard respectively.
- 22.1.2 This Standard adopts the view that, in certain circumstances, comparative EPS information would not be *relevant* and *reliable* because it would involve arbitrary assumptions and allocations. In these circumstances, comparative information is not required.
- 22.1.3 Where EPS information using an additional earnings figure or an additional number of shares is disclosed, comparative information is not required to be presented for those additional disclosures.

## 23 Definitions

### 23.1 In this Standard:

***accounting policies*** means the specific accounting principles, bases or rules adopted in preparing and presenting the financial report

***annual reporting period*** means the *financial year* or similar period to which an annual financial report relates

***assets*** means future economic benefits controlled by the *entity* as a result of past transactions or other past events

***comparability*** means that quality of financial information which exists when users of that information are able to discern and evaluate similarities in, and differences between, the nature and effects of transactions or other events, at one time and over time, either when assessing aspects of a single *reporting entity* or of a number of *reporting entities*

***discontinuing operation*** means a major component of an *entity*:

- (a) that the *entity's* management or governing body has developed a single plan to:

- (i) dispose of in its entirety through one or more transactions; or
  - (ii) abandon; or
  - (iii) terminate through a combination of one or more transactions and abandonment;
- (b) that represents a separate major activity or geographical area of operations; and
  - (c) that can be separately identified for operational and financial reporting purposes

*economic entity* means a group of *entities* comprising the *parent entity* and each of its *subsidiaries*

*entity* means any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives

*event occurring after reporting date* means:

- (a) a circumstance that has arisen; or
- (b) information that has become available,

after *reporting date*, but prior to the *time of completion*

*expenses* means consumptions or losses of future economic benefits in the form of reductions in *assets* or increases in *liabilities* of the *entity*, other than those relating to distributions to owners, that result in a decrease in *equity* during the reporting period

*extraordinary items* means items of *revenue* and *expense* that are attributable to transactions or other events of a type that are outside the *ordinary activities* of the *entity* and are not of a recurring nature

*fundamental errors* means material errors discovered in the current reporting period such that the financial report of one or more prior reporting periods can not now be considered to have been *reliable* at the dates of their issue

***general purpose financial report*** means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs

***liabilities*** means the future sacrifices of economic benefits that the *entity* is presently obliged to make to other *entities* as a result of past transactions or other past events

***net profit or loss*** means:

- (a) in the case of an *entity* that is not an *economic entity*, profit or loss after income tax expense (income tax revenue) from *ordinary activities* and *extraordinary items*; and
- (b) in the case of an *entity* that is an *economic entity*, profit or loss after income tax expense (income tax revenue) from *ordinary activities* and *extraordinary items*, before adjustment for that portion that can be attributed to *outside equity interest*

***ordinary activities*** means activities that are undertaken by an *entity* as part of its business or to meet its objectives and related activities in which the *entity* engages in furtherance of, incidental to, or arising from activities undertaken to meet its objectives

***ordinary share*** means an ownership interest in an *entity* which for the whole or part of the reporting period:

- (a) is fully paid;
- (b) carries an entitlement to participate in distributions of future economic benefits by the *entity*, such distributions being made at the discretion of the ownership group or its representatives; and
- (c) is not redeemable, other than on a winding-up of the *entity* or as a result of a return of capital

***outside equity interest*** means the equity in the *economic entity* other than that which can be attributed to the ownership group of the *parent entity*

***parent entity*** means an *entity* which controls another *entity*

***partly-paid ordinary share*** means an ownership interest in an *entity* which for the whole or part of the reporting period:

- (a) is partly-paid;
- (b) any entitlement to participate in the earnings of the *entity* is at the discretion of the *entity's* ownership group or its representatives; and
- (c) is not redeemable, other than on a winding-up of the *entity* or as a result of a return of capital

***potential ordinary share*** means an issued security which, potentially:

- (a) converts into an *ordinary share*; or
- (b) results in the calling of, or subscription for, *ordinary share* capital

***preference share*** means an ownership interest in an *entity*, other than an *ordinary share* or *partly-paid ordinary share*

***relevance*** means that quality of financial information which exists when that information influences decisions by users about the allocation of scarce resources by:

- (a) helping them form predictions about the outcomes of past, present or future events; or
- (b) confirming or correcting their past evaluations

and which enables users to assess the discharge of accountability by the management or governing body of the *entity*

***reliability*** means that quality of financial information which exists when that information can be depended upon to represent faithfully, and without bias or undue error, the transactions or other events that either it purports to represent or could reasonably be expected to represent

***reporting date*** means the end of the reporting period to which the financial report relates

***reporting entity*** means an *entity* (including an *economic entity*) in respect of which it is reasonable to expect the existence of

users dependent on *general purpose financial reports* for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources, and includes but is not limited to the following:

- (a) a *disclosing entity*; and
- (b) a *company* which is not a *subsidiary of a holding company* incorporated in Australia and which is a *subsidiary* of a *foreign company* where that *foreign company* has its securities listed for quotation on a *stock market* or those securities are traded on a *stock market*

*revenues* means inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in *assets* or reductions in *liabilities* of the *entity*, other than those relating to contributions by owners, that result in an increase in equity during the reporting period

*subsidiary* means an *entity* which is controlled by a *parent entity*

*time of completion* means:

- (a) in the case of *entities* required to produce a financial report in accordance with the Corporations Law – the date of the Directors’ Declaration; and
- (b) in the case of other *entities* – the date of final approval of the financial report by the management or governing body of the *entity*, whichever is applicable.

## Ordinary Shares

23.1.1 The definition of *ordinary share* includes shares that presently do not participate in the dividends of the *entity*, provided that they are expected to participate in dividends at some time in the future. For example, *entities* in the early stage of developing their business often have *ordinary shares* which do not receive dividends in the short term, but those shares are entitled to participate in any dividends and shareholders expect to receive dividends once the business matures.

23.1.2 It is conceivable that not all of the securities commonly referred to as *ordinary shares* are *ordinary shares* for the purposes of

determining EPS under this Standard and not all of the securities commonly referred to as *preference shares* are necessarily precluded from meeting the definition of *ordinary share*. For example, some classes of so-called ordinary shares may have special rights attaching to them, such as a cumulative fixed rate of dividend, which indicate that they are more in the nature of *preference shares* because the rights attaching to those shares to participate in the earnings of the *entity* are not at the discretion of the ownership group or its representatives. Furthermore, some classes of so-called preference shares may meet the definition of *ordinary share*, where, for example, they are entitled to a low fixed rate of dividend and an additional dividend when the rate of dividend to other classes of shares exceeds that fixed rate.

### **Potential Ordinary Shares**

- 23.1.3 *Entities* may have securities outstanding that are not *ordinary shares*, but which have the potential to be converted into *ordinary shares* or the potential to result in the calling of, or subscription for, *ordinary share* capital. These include convertible securities such as debentures, bonds, notes or *preference shares* that are convertible into *ordinary shares*; issued but uncalled capital; *options* to acquire *ordinary shares*; and contingent issues. Such securities are *potential ordinary shares* and may affect the determination of the weighted average number of shares of the *entity* outstanding during the reporting period used in the calculation of diluted EPS.
- 23.1.4 Convertible debentures, bonds, notes or *preference shares* are *liabilities* or equity securities with attached rights giving the holders entitlements to convert them into *ordinary shares* at a future date or dates, usually on terms specified when the securities were issued.
- 23.1.5 Issued but uncalled capital relates to the unpaid portion of *partly-paid ordinary shares*. In respect of limited liability *companies*, holders of *partly-paid ordinary shares* are obliged to meet calls, whereas for no liability *companies*, holders of *partly-paid ordinary shares* may meet calls or forfeit those shares.
- 23.1.6 An option is effectively a contract which entitles the holder (without obligation) to require the seller of the option to perform according to the terms of the contract. Options that affect the calculation of diluted EPS are call options that entitle the holder to acquire currently unissued *ordinary shares* in an *entity* at a specified price or prices at or between a specified time or specified times.
- 23.1.7 A contingent issue that affects the calculation of diluted EPS is one which entitles the holder to acquire *ordinary shares* in an *entity* at a

specified price or prices at or between a specified time or times, contingent on the occurrence of a specified event or events.

- 23.1.8 To the extent that *partly-paid ordinary shares* are not entitled to participate in dividends, they are *potential ordinary shares*.

### **Corporations Law Definitions**

- 23.2 **In this Standard, the following definitions apply to each *entity* that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Law:**

*company* is defined in the Corporations Law

*disclosing entity* is defined in the Corporations Law

*financial year* is defined in the Corporations Law

*holding company* is defined in the Corporations Law

*listed corporation* is defined in the Corporations Law

*statement of financial performance* means profit and loss statement as required by the Corporations Law

*stock market* is defined in the Corporations Law.

## APPENDIX

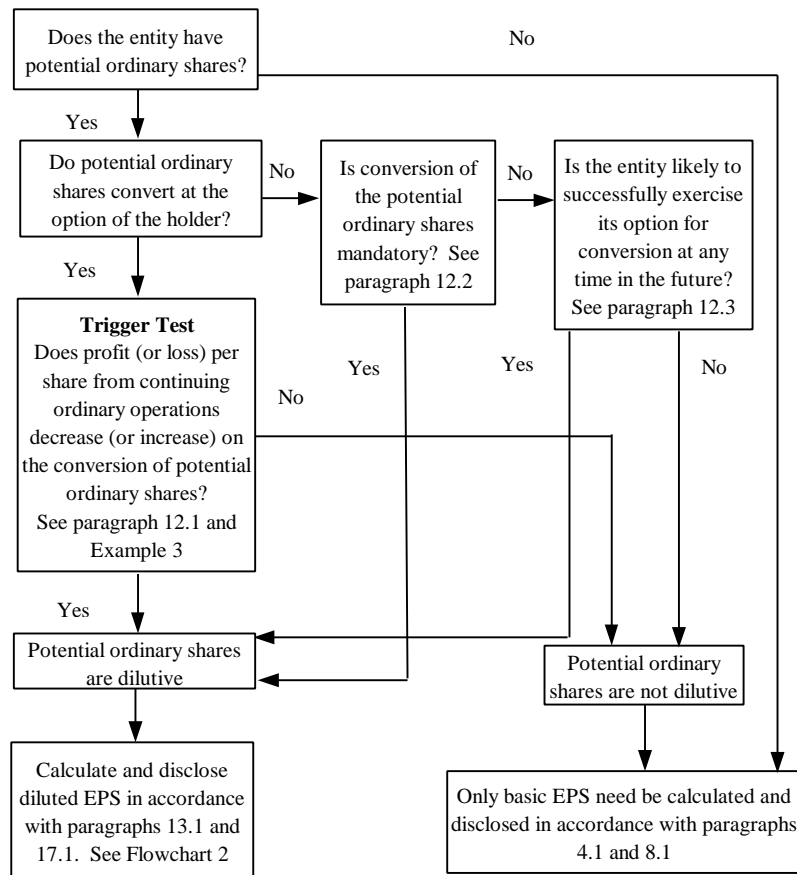
### Flowcharts and Examples

This Appendix forms part of the commentary and is provided for illustrative purposes only.

#### Flowchart 1

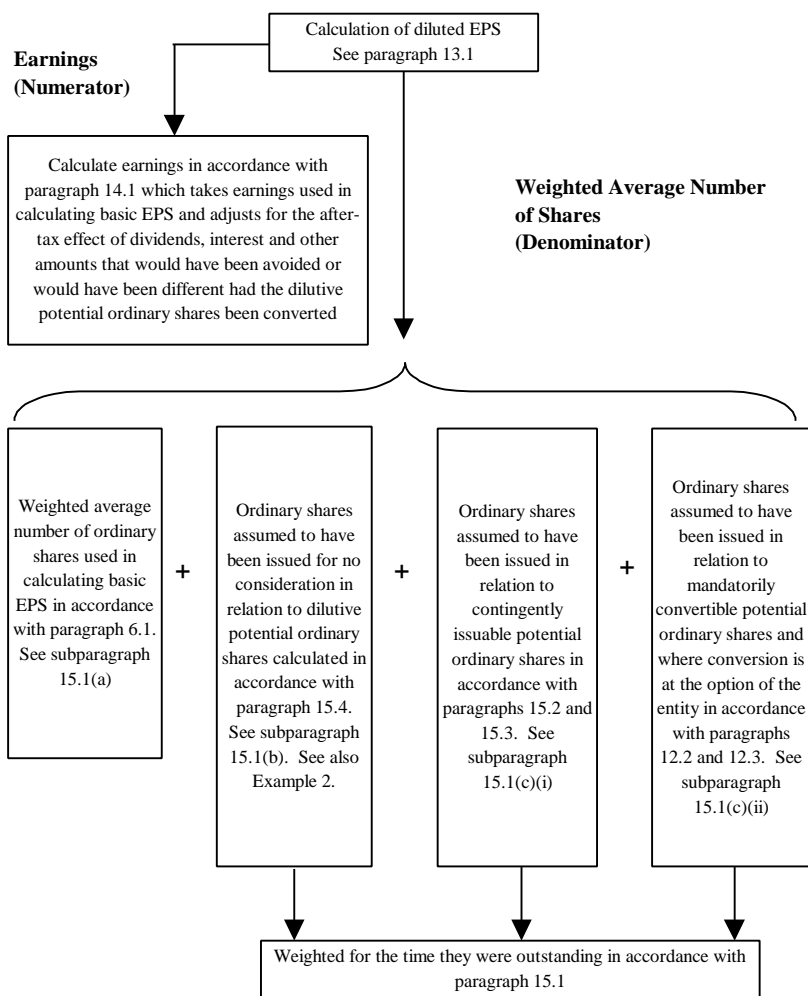
##### Determining whether diluted EPS needs to be disclosed

An entity uses net profit or loss from continuing ordinary operations as the “trigger test” to establish whether potential ordinary shares are dilutive.





**Flowchart 2  
Calculation of diluted EPS**



### Example 1 Rights issue

This example illustrates the requirement in paragraph 6.6 for the adjustment for a bonus element that would result in the case of a rights issue.

#### Data

Earnings for the year ended 30 June 20X5 \$40,000,000

Rights issue during the year ended 30 June 20X5

terms	1 for 2
issue price	\$2.00
applications close date	6 March 20X5
date shares go ex rights	15 February 20X5
last cum rights price	\$3.00

New shares arising from the rights issue do not participate in the interim dividend of \$0.08 per share.

Outstanding ordinary shares as at 30 June 20X4 100,000,000

New shares created through the rights issue 50,000,000

Outstanding ordinary shares as at 30 June 20X5 150,000,000

Reported EPS for the year ended 30 June 20X3 \$0.372

Reported EPS for the year ended 30 June 20X4 \$0.332

Reported interim dividend per share (DPS) for the year ended 30 June 20X5 \$0.080

Reported final DPS for the year ended 30 June 20X5 \$0.100

#### Calculation of adjustment factor for the bonus element in the rights issue

Theoretical ex rights value per share  $\frac{(\$2.92^* \times 2) + \$2.00}{2 + 1} = \$2.6133$

Factor  $\frac{\$2.6133}{\$2.92^*} = 0.895$

\* \$3.00 cum rights price less the \$0.08 interim dividend

**Calculation of basic EPS for the year ended 30 June 20X5**

$$\frac{248 \text{ days}}{365 \text{ days}} \times \frac{100,000,000 \text{ shares}}{0.895\#} = 75,918,367$$

$$\frac{117 \text{ days}}{365 \text{ days}} \times 150,000,000 \text{ shares} = 48,082,192$$

Weighted average adjusted shares 124,000,559

# The adjustment factor used in the calculations is not rounded.

$$\text{Weighted average adjusted shares} \frac{\text{Earnings } \$40,000,000}{124,000,559} = \$0.3226$$

		<b>As reported</b>	<b>Factor</b>	<b>Adjusted</b>
<b>20X3</b>	EPS	\$0.3720	0.895	\$0.3329
<b>20X4</b>	EPS	\$0.3320	0.895	\$0.2971
<b>20X5</b>	interim DPS	\$0.0800	0.895	\$0.0716
<b>20X5</b>	final DPS	\$0.1000	1.000	\$0.1000

**Example 2 Partly-paid ordinary shares**

**This example illustrates the treatment of partly-paid ordinary shares which carry no rights to participate in dividends and are therefore treated as options in accordance with paragraphs 15.4 and 15.6.**

*Data*

Earnings for the year ended 30 June 20X1	\$20,000,000
Outstanding ordinary shares as at 30 June 20X0	100,000,000
Outstanding ordinary shares as at 30 June 20X1	100,000,000

10,000,000 ordinary shares issued on 1 July 20X0 at \$2.70 with \$0.20 paid and \$2.50 payable over the following 2 years.

The partly-paid ordinary shares carry no rights to dividends. Therefore, in accordance with the requirements of paragraph 15.6 an amount of ordinary share equivalents is not incorporated in the basic EPS calculation.

Average market price for one ordinary share during the year ended 30 June 20X1 is \$2.75.

*Calculation of basic EPS for the year ended 30 June 20X1*

$$\frac{\$20,000,000}{100,000,000 \text{ shares}} = \$0.20$$

*Calculation of diluted EPS for the year ended 30 June 20X1*

	Earnings	Shares
Outstanding ordinary shares during the year ended 30 June 20X1		100,000,000
Earnings for year ended 30 June 20X1	20,000,000	
Partly-paid shares		10,000,000
Number of shares that would have been issued at average market price: (10,000,000 x \$2.50)/2.75		(9,090,909)
	<u>20,000,000</u>	<u>100,909,091</u>

Diluted EPS is \$0.198 (\$20,000,000/100,909,091 shares). Note, the earnings have not been increased. The total number of shares has been increased by the number of shares (909,091) deemed for the purpose of the calculation to have been issued for no consideration.

### Example 3

This example illustrates a number of requirements of this Standard, including: the treatment of potential ordinary shares included in diluted EPS in accordance with paragraph 12.2, the assumed issue of potential ordinary shares in accordance with paragraph 15.4, and the sequence in which to include a series of dilutive potential ordinary shares in the calculation of diluted EPS in accordance with paragraphs 12.6 and 12.7.

#### Data

Profit (after tax): \$7,000,000

Discontinuing Operation: Profit (net of tax) \$500,000

Tax Rate: 30%

Ordinary shares: 10,000,000

Potential ordinary shares:

- \* 1m x \$5 notes that are convertible at 1:1 and carry interest of 10% per year
- \* 2m options exercisable at \$3 per ordinary share
- \* 500,000 preference shares that are convertible at 1:4 ordinary shares and have a \$2.48 per share “dividend” per year
- \* 100,000 converting notes with a face value of \$3.00 that will convert at 2:1 and carry interest of 15.5% per year

Average market price of ordinary shares: \$5

#### Increase in Earnings Attributable to Ordinary Shareholders on Conversion of Potential Ordinary Shares

	Increase in Earnings	Increase in Number of Ordinary Shares	Earnings per Incremental Share
<i>Convertible Notes</i>			
Increase in earnings	<sup>A</sup> \$350,000		
Incremental shares issued		<sup>B</sup> 1,000,000	\$0.35
<i>Options</i>			
Increase in earnings	Nil		
Incremental shares issued for no consideration		<sup>C</sup> 800,000	Nil

*Convertible Preference Shares*

Increase in earnings	<sup>D</sup> \$1,240,000		
Incremental shares issued		<sup>E</sup> 2,000,000	\$0.62

*Converting Notes*

Increase in Earnings	<sup>F</sup> \$32,550		
Incremental Shares issued		<sup>G</sup> 50,000	\$0.65

**A**  $1\text{m} \times \$5 \times 10\% \times 70\% = \$350,000$       **B**  $1\text{m}$  at 1:1 = 1m shares

**C**  $[(\$5 - \$3) / \$5] \times 2\text{m} = 800,000$  shares      **D**  $500,000 \times \$2.48 = \$1.24\text{m}$

**E**  $500,000$  at 1:4 = 2m shares

**F**  $100,000 \times \$3 \times 15.5\% \times 70\% = \$32,550$

**G**  $100,000$  at 2:1 = 50,000 shares

**Determining whether potential ordinary shares are dilutive**

The previous exercise determined the order in which to include potential ordinary shares in the calculation of diluted EPS.

Paragraph 12.4 of this Standard requires that in determining whether or not potential ordinary shares are dilutive, the earnings used must be net profit or loss after deducting certain items, one of which is discontinuing operations. This treatment is illustrated in this example.

	<b>Profit and adjustments</b>	<b>Ordinary shares</b>	<b>EPS</b>	<b>Dilutive?</b>
As reported	\$7,000,000	10,000,000	\$0.7000	
Less discontinuing operation	\$500,000			
Net profit from continuing ordinary operations	\$6,500,000		\$0.6500	
2m options	Nil	800,000		
	\$6,500,000	10,800,000	\$0.6019	Yes

	<b>Profit and adjustments</b>	<b>Ordinary shares</b>	<b>EPS</b>	<b>Dilutive?</b>
1m x \$5 notes	\$350,000	1,000,000		
	\$6,850,000	11,800,000	\$0.5805	Yes
500,000 convertible prefs	\$1,240,000	2,000,000		
	\$8,090,000	13,800,000	\$0.5862	<sup>H</sup> No
100,000 converting notes	\$32,550	50,000		
	\$8,122,550	13,850,000	\$0.5865	<sup>I</sup> No

**H** EPS from continuing ordinary operations increases from \$0.5805 to \$0.5862 when the convertible preference shares are included, so they are not dilutive, even though they would be dilutive if they were considered in isolation [ $(\$6.5\text{m} + \$1.24\text{m}) / (10\text{m} + 2\text{m shares}) = \$0.6450$ , which is less than \$0.6500].

**I** EPS from continuing ordinary operations increases from 0.5805 to 0.5865 when the converting notes are included, so they are not dilutive. However, in accordance with paragraph 12.2 these items are included in diluted EPS on the basis that their conversion is mandatory. It should be noted that in accordance with paragraph 12.7, these potential ordinary shares would be included last in the calculation of diluted EPS regardless of their dilutive effect in comparison to other dilutive potential ordinary shares.

### Calculation of Diluted EPS

Whilst net profit from continuing ordinary operations is used to assess whether or not potential ordinary shares are dilutive, net profit or loss is used in the calculation of diluted EPS.

	<b>Profit</b>	<b>Ordinary shares</b>	<b>EPS</b>
As reported	\$7,000,000	10,000,000	\$0.7000
2m options	Nil	800,000	
	7,000,000	10,800,000	\$0.6481
1m x \$5 notes	350,000	1,000,000	
	\$7,350,000	11,800,000	\$0.6229
100,000 x \$3 notes	\$32,550	50,000	
	\$7,382,550	11,850,000	\$0.6230

As the 500,000 preference shares are not dilutive, they are not included in the calculation of diluted EPS. However, the converting notes are included in accordance with paragraph 12.2, even though their effect is anti-dilutive. Therefore, diluted EPS is \$0.6230.



**Example 4 More than one category of ordinary shares**

**This example illustrates the calculation of basic EPS where an entity has more than one category of ordinary shares in accordance with Section 10.**

**Data**

Entity X has two categories of ordinary shares. There are 400,000 Category A ordinary shares on issue which are entitled to participate in dividends at a rate determined by the directors. There are 100,000 Category B ordinary shares on issue which are entitled to dividends equal to 110% of the dividends to which Category A shares are entitled.

Net Profit: \$150,000

Dividends declared: Category A – \$0.20 per share

Category B – \$0.22 per share

Basic EPS would be computed as follows:

	\$	\$
Net Profit		150,000
Less Category A dividends	80,000	
Category B dividends	22,000	(102,000)
Undistributed Earnings	48,000	48,000

Allocation of Undistributed Earnings:

Undistributed Earnings = [No. of Category A shares x Factor] + [No. of Category B Shares x 1.1(Factor)]

\$48,000 = [400,000 x Factor] + [100,000 x 1.1(Factor)]

\$48,000 = 510,000 x Factor

Factor = 0.0941

	<b>Total</b>	<b>Per Share</b>
Undistributed Earnings Attributable to Category A	#\$37,647	\$0.0941
Undistributed Earnings Attributable to Category B	\$10,353	\$0.1035

# This is the product of 400,000 x 0.0941, although the factor used in the calculations is not rounded.

Basic EPS amounts

	<b>Category A</b>	<b>Category B</b>
Distributed Earnings	\$0.2000	\$0.2200
Undistributed earnings	\$0.0941	\$0.1035
<b>Total Basic EPS</b>	\$0.2941	\$0.3235

## **CONFORMITY WITH INTERNATIONAL AND NEW ZEALAND ACCOUNTING STANDARDS**

### **Conformity with International Accounting Standards**

As at the date of issue of this Standard, compliance with this Standard will ensure conformity with International Accounting Standard IAS 33 “Earnings Per Share”, except that this Standard:

- (a) requires the following securities to be considered dilutive:
  - (i) potential ordinary shares for which conversion to, calling of, or subscription for, ordinary share capital is mandatory; and
  - (ii) potential ordinary shares for which conversion to, calling of, or subscription for, ordinary share capital is at the option of the entity and based on conditions at reporting date it is probable that the entity will successfully exercise its option at some time in the future;
- (b) specifically identifies an additive list of shares for the purpose of calculating diluted EPS; and
- (c) requires an entity that has undergone a major capital restructuring during the reporting period to disclose an additional basic EPS and, where applicable, diluted EPS, using an alternative denominator where this is more meaningful than the EPS information calculated in accordance with the other requirements of this Standard.

IAS 33 does not deal with the cases noted in (a) and does not deal adequately with (b).

### **Conformity with New Zealand Accounting Standards**

As at the date of issue of this Standard, New Zealand does not have a Standard dealing with EPS.

## BACKGROUND TO REVISION

This section does not form part of the Standard. It is a summary of the reasons for two recent revisions to the Standard.

- 1 The Standard was most recently revised in June 2001 in relation to the calculation of diluted EPS to deal mainly with an anomaly regarding the adjustment of earnings on potential ordinary shares that are classified as equity and to clarify application of the notion of adjusting for shares issued for no consideration. The reissue of the Standard followed a limited due process, involving a call for public comment on a draft Standard published on the web site of the reconstituted Australian Accounting Standards Board (AASB). The changes are explained in paragraph 4.
- 2 The more significant reissue of the Standard by the AASB in October 2000 was part of a program commenced by the former Australian Accounting Standards Board (the former Board) to achieve greater harmony between Australian accounting standards and those of the International Accounting Standards Committee. The AASB is continuing this program.
- 3 The October 2000 reissue of the Standard followed consideration of the responses received on Exposure Draft ED 85 "Earnings per Share", which was prepared by the former Board and released in October 1997. ED 85 included proposals aimed at harmonising Accounting Standard AASB 1027 "Earnings per Share" with International Accounting Standard IAS 33 "Earnings Per Share". The changes relating to the harmonisation program are explained in paragraph 5.

### Principal Changes from the October 2000 version of the Standard

- 4 The following principal changes were made:
  - (a) AASB 1027 as issued in October 2000 referred in paragraph 14.1 to adjusting the earnings numerator by the after tax effect of dividends, interest or other financing costs associated with dilutive potential ordinary shares that have been recognised as expenses during the reporting period. This meant that no adjustment could be made for distributions on potential ordinary shares classified as equity, because those distributions would not have been recognised as expenses. Paragraph 14.1(a) has been

amended to cater for potential ordinary shares classified as equity; and

- (b) AASB 1027 as issued in October 2000 referred in paragraph 15.1(c) to adjusting the number of shares in the denominator for the weighted average number of ordinary shares assumed to have been issued in relation to dilutive potential ordinary shares in accordance with paragraphs 12.2, 12.3, 15.2 and 15.3. This may have led users of the Standard to fail to adjust for consideration that is received in exchange for the exercise of some potential ordinary shares. Paragraph 15.1(c) has been amended to refer to ordinary shares assumed to have been issued for no consideration in accordance with paragraph 15.4. Commentary to paragraph 15.4 has been added to clarify the manner in which the notion of adjusting for shares received for no consideration is applied to various potential ordinary shares.

## **Principal Changes from the November 1992 version of the Standard**

5 AASB 1027 was originally issued in November 1992. The principal changes noted in this paragraph were incorporated into the October 2000 version of the Standard, following ED 85, and have been retained, without amendment, in the most recent version of the Standard:

- (a) the application of the Standard has been extended from companies listed on the Australian Stock Exchange to entities required to prepare financial reports in accordance with the Corporations Law and which are reporting entities with listed ordinary shares or partly-paid ordinary shares, those in the process of listing (which have ordinary shares or partly-paid ordinary shares on issue) or any other entity which discloses EPS. However, certain entities are exempted from applying AASB 1027 by Accounting Standard AASB 1030 “Application of Accounting Standards to Financial Year Accounts and Consolidated Accounts of Disclosing Entities other than Companies”;
- (b) earnings including extraordinary items must be used in the calculation of basic and diluted EPS. Under the November 1992 Standard earnings before extraordinary items was used in the calculation of EPS;

- (c) the requirement to adjust the weighted average number of shares outstanding during a period for a bonus element has been extended from bonus elements relating only to issues of ordinary shares to bonus elements arising on the issue of ordinary shares, partly-paid ordinary shares and potential ordinary shares;
- (d) diluted EPS must be disclosed where dilutive potential ordinary shares exist regardless of materiality. Under the November 1992 Standard disclosure was required subject to diluted EPS being materially different from basic EPS;
- (e) the Standard uses net profit or loss from continuing ordinary operations as the trigger test to determine whether potential ordinary shares are dilutive, and then requires that the earnings figure used in the calculation of diluted EPS includes discontinuing operations, extraordinary items, adjustments for changes in accounting policies and corrections of fundamental errors. In the November 1992 Standard no distinction was drawn between continuing earnings and other earnings;
- (f) lapsed and cancelled potential ordinary shares which were outstanding during the reporting period must be included in the calculation of diluted EPS. The November 1992 Standard did not have any requirements in respect of such shares. The AASB considers the treatment under the Standard to be conceptually incorrect, and the requirement has been included only in the interests of harmonising with IAS 33 and Statement of Financial Accounting Standards SFAS 128 "Earnings per Share" (issued by the Financial Accounting Standards Board in the United States);
- (g) the adjustment for the assumed issue of potential ordinary shares must be calculated by adding to the denominator only those potential ordinary shares that are effectively deemed to have been issued for no consideration, based on the average market price of the shares. Under the November 1992 Standard notional earnings were factored into the numerator on the basis of the 180-day bank bill rate;
- (h) basic EPS and diluted EPS must be disclosed on the face of the statement of financial performance. Under the November 1992 Standard the location of the disclosures in the financial report was at the entity's discretion;

- (i) additional disclosures are required, including:
  - (i) the amounts used as numerators in calculating basic EPS and diluted EPS and a reconciliation of those amounts to net profit or loss for the reporting period; and
  - (ii) the weighted average number of ordinary shares used as the denominator in calculating basic EPS and diluted EPS and a reconciliation of these denominators to each other; and
- (j) the requirements in the November 1992 Standard to disclose the financial effect on basic EPS and, where applicable, diluted EPS, of any adjustment resulting from changes in accounting policies applied in preparing and presenting the financial report is not included in the Standard on the basis that the focus of the Standard is on EPS (for all periods presented) calculated using earnings determined in accordance with current accounting policies.

## **Noteworthy Differences from ED 85**

- 6 The October 2000 version of the Standard contained some requirements which were not proposed in ED 85. The current version of the Standard has retained these requirements. The following requirements have been included in response to comments on ED 85:
- (a) disclosure and calculation requirements for entities which have more than one category of ordinary shares;
  - (b) where an entity has undergone a significant capital restructuring during the reporting period, additional EPS information is disclosed based on a number of shares considered by the entity to be more meaningful than the weighted average for the period calculated in accordance with Sections 6 and 15 of the Standard; and
  - (c) consistent with the requirements of the November 1992 version of AASB 1027, converting instruments are included in the calculation of diluted EPS even if they are not considered dilutive in accordance with paragraph 12.1 of the Standard.

- 7 The Standard does not contain the disclosure requirements regarding the financial effect of changes in accounting policies noted in paragraph 5(j).