PROPOSED STATUTORY BOARD FINANCIAL REPORTING STANDARD	ED/SB-FRS

Exposure Draft

Proposed amendments to SB-FRS 33 *Simplifying Earnings per Share*

Comments to be received by 17 October 2008

This exposure draft *Simplifying Earnings per Share* is issued by the Accountant-General's Department Financial Reporting Branch for comment only and does not necessarily represent the views of Accountant-General's Department Financial Reporting Branch.

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by **17 October 2008**, preferably by email to: AGD_ASSB_Feedback@agd.gov.sg or addressed to:

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Introduction

IN1 This exposure draft of proposed amendments to SB-FRS 33 *Earnings per Share* has been published by the Accountant-General's Department Financial Reporting Branch. This is based on the exposure draft by the International Accounting Standards Board as part of its convergence project with the US Financial Accounting Standards Board (FASB). The objective of the project is to reduce differences between International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP) that are capable of resolution in a relatively short time and can be addressed outside current and planned major projects. The proposals aim to achieve convergence of the denominator of the earnings per share (EPS) calculation according to SB-FRS 33 and Statutory Board Statement of Financial Accounting Standards No. 128 *Earnings per Share* (SFAS 128).

IN2 The proposals in this exposure draft would achieve convergence by:

- establishing a principle to determine which instruments are included in the calculation of basic EPS. According to this principle, the weighted average number of ordinary shares includes only those instruments that give (or are deemed to give) their holder the right to share currently in profit or loss of the period. As a consequence, if ordinary shares issuable for little or no cash or other consideration or mandatorily convertible instruments do not meet this condition, they will no longer affect basic EPS.

- clarifying the treatment of contracts that involve the entity receiving its own ordinary shares for cash or other financial assets. Such contracts include gross physically settled written put options and forward purchase contracts. This exposure draft treats those contracts as if the entity had already repurchased the shares. Therefore, the entity excludes those shares from the denominator of the EPS calculation. To calculate EPS, an entity allocates dividends on those shares to the financial liability relating to the present value of the redemption amount of the contract. The liability is therefore a participating instrument and the guidance in paragraphs A23−A28 applies to this instrument. However, such contracts sometimes require the holder to remit back to the entity any dividends paid on the shares to be repurchased. If that is the case, the liability is not a participating instrument.

- clarifying that the principles for contracts to repurchase an entity's own shares for cash or other financial assets should also apply to mandatorily redeemable ordinary shares.

- amending the calculation of diluted EPS for participating instruments and two-class ordinary shares. The proposed amendment introduces a test to determine whether a convertible financial instrument would have a more dilutive effect if conversion is assumed. The reporting entity would assume the more dilutive treatment for diluted EPS.

IN3 The FASB has recently published proposals for amending the EPS calculation under US GAAP to achieve convergence with SB-FRSs. The FASB exposure draft would introduce the same principles as described in paragraph IN2.

IN4 In addition, the IASB & FASB propose to clarify and simplify the calculation of EPS in SB-FRS 33 and SFAS 128. Paragraphs IN5−IN7 summarise those proposals.

IN5 If an instrument is measured at fair value through profit or loss, changes in its fair value reflect the economic effect of the instrument on current equity holders for the period. In other words, the changes in fair value reflect the benefits received, or detriments incurred, by the current equity holders during the period. The numerator of the EPS calculation includes those changes. Therefore, for an instrument (or the derivative component of a compound financial instrument) that is measured at fair value through profit or loss, the IASB & FASB propose that an entity should not adjust the numerator or denominator of the diluted EPS calculation.

IN6 To calculate diluted EPS for options, warrants and their equivalents that are not measured at fair value through profit or loss, an entity assumes the exercise of those instruments, if dilutive. In the existing versions of SB-FRS 33 and SFAS 128, the calculation of diluted EPS assumes that the entity uses the proceeds to buy back its own ordinary shares at the average market price during the period. To simplify the calculation of diluted EPS, it proposes that the ordinary shares should be regarded as issued at the end-of-period market price, rather than at their average market price during the period.

IN7 Neither SB-FRSs nor US GAAP contain explicit requirements for the diluted EPS calculation of forward contracts to sell an entity's own shares. It proposes to clarify that for the calculation of diluted EPS an entity assumes that ordinary shares relating to such a contract are sold and the effect is dilutive, unless they are measured at fair value through profit or loss.

IN8 Under the proposed amendments, contracts to repurchase an entity's own shares and contracts that may be settled in ordinary shares or cash would either be measured at fair value through profit or loss or the liability for the present value of the redemption amount would meet the definition of a participating instrument. For those instruments, no adjustments would be required in calculating diluted EPS or the application guidance on participating instruments and two-class ordinary shares would apply. Therefore, it proposes to delete the calculation requirements for contracts that may be settled in ordinary shares or cash in paragraphs 58−61 and for contracts to repurchase an entity's own shares in paragraph 63 of SB-FRS 33.

EPS calculation according to the exposure draft

IN9 The following paragraphs provide a high level summary of the EPS calculation after the amendments proposed in this exposure draft.

IN10 SB-FRS 33 applies to entities whose ordinary shares or potential ordinary shares are publicly traded. A potential ordinary share is a financial instrument or other contract that may entitle its holder to ordinary shares. Examples of potential ordinary shares are options, warrants, forward contracts and convertible instruments.

IN11 An entity presents both basic EPS and diluted EPS with equal prominence in the statement of comprehensive income. When the entity presents profit or loss from continuing operations, it must also present basic EPS and diluted EPS for profit or loss from continuing operations. Furthermore, an entity that reports a discontinued operation must resent basic and diluted amounts per share for the discontinued operation either in the statement of comprehensive income or in the notes.

IN12 SB-FRS 33 sets out principles for determining the denominator (the weighted average number of shares of the parent entity outstanding for the period) and the numerator (profit or loss attributable to ordinary equity holders) in EPS calculations. These principles enhance the comparability of an entity's EPS measures through time.

IN13 An entity calculates basic EPS 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. In addition to ordinary shares, the denominator should also include other instruments that give (or are deemed to give) their holder the right to share in profit or loss of the period with ordinary equity holders, such as ordinary shares issuable for little or no cash or other consideration.

IN14 To calculate diluted EPS an entity adjusts basic EPS for the effects of all dilutive potential ordinary shares that are not measured at fair value through profit or loss. Potential ordinary shares are dilutive if the assumed exercise or conversion of those instruments results in a reduction in earnings per share or an increase in loss per share.

IN15 When an entity measures an instrument at fair value through profit or loss, the change in the fair value of the instrument affects the interests of the ordinary shares in the entity's performance during the period. Because the numerator of the EPS calculation reflects the effect of those instruments on ordinary equity holders, it is not necessary to adjust the denominator to reflect the dilutive effect of the assumed exercise or conversion of those instruments.

IN16 An entity might have issued more than one class of ordinary shares or issued other instruments that give their holder the right to participate in dividends on ordinary shares according to a predetermined formula (participating instruments). To calculate EPS, an entity allocates profit or loss of the period to the different classes of ordinary shares and to those participating instruments that are not measured at fair value through profit or loss.

IN17 The numerators used in the calculation of basic and diluted EPS must be reconciled to profit or loss attributable to the ordinary equity holders of the parent. The denominators in the calculations of basic EPS and diluted EPS must be reconciled to each other.

Invitation to comment

Accountant-General's Department Financial Reporting Branch invites comments on the proposed amendments to SB-FRS 33, particularly on the questions set out below. Comments are most helpful if they:

(a) comment on the questions as stated;

(b) indicate the specific paragraph or group of paragraphs to which they relate;

(c) contain a clear rationale; and

(d) if applicable, include an alternative it should consider.

For this project, it is not seeking comments on matters in SB-FRS 33 other than those set out in this exposure draft.

Respondents should submit comments in writing so as to be received no later than 17 October 2008.

In considering the comments, the Accountant-General's Department Financial Reporting Branch will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each alternative.

Question 1—Mandatorily convertible instruments and instruments issuable for little or no cash or other consideration

Paragraphs 18 and 19 of the exposure draft propose that the weighted average number of ordinary shares should include only instruments that give (or are deemed to give) their holder the right to share currently in profit or loss of the period. If ordinary shares issuable for little or no cash or other consideration or mandatorily convertible instruments do not meet this condition, they will no longer affect basic EPS.

(a) Do you agree that the weighted average number of ordinary shares for basic EPS should include only instruments that give (or are deemed to give) their holder the right to share currently in profit or loss of the period? Why or why not?

(b) Does the exposure draft apply this principle correctly to mandatorily convertible instruments and ordinary shares issuable for little or no cash or other consideration? Why or why not?

Question 2—Gross physically settled contracts to repurchase an entity's own shares and mandatorily redeemable ordinary shares

Paragraphs A31 and A32 of this exposure draft propose clarifying that an entity treats ordinary shares that are subject to a gross physically settled contract to repurchase its own shares as if the entity had already repurchased the shares. Therefore, the entity excludes those shares from the denominator of the EPS calculation. To calculate EPS, an entity allocates dividends to the financial liability relating to the present value of the redemption amount of the contract. Therefore, the liability is a participating instrument and the guidance in paragraphs A23–A28 applies to this instrument. However, such contracts sometimes require the holder to remit back to the entity any dividends paid on the shares to be repurchased. If that is the case, the liability is not a participating instrument.

It proposes that the principles for contracts to repurchase an entity's own shares for cash or other financial assets should also apply to mandatorily redeemable ordinary shares.

Do you agree with the proposed treatment of gross physically settled contracts to repurchase an entity's own shares and mandatorily redeemable shares? Why or why not?

Question 3—Instruments that are measured at fair value through profit or loss

For an instrument (or the derivative component of a compound instrument) that is measured at fair value through profit or loss, paragraphs 26 and A28 propose that an entity should not:

(a) adjust the diluted EPS calculation for the assumed exercise or conversion of that instrument; or

(b) apply the guidance for participating instruments and two-class ordinary shares in paragraphs A23–A28.

Do you agree that the fair value changes sufficiently reflect the effect on ordinary equity holders of instruments measured at fair value through profit or loss and that recognising those changes in profit or loss eliminates the need for further adjustments to the calculation of EPS? Why or why not?

Question 4—Options, warrants and their equivalents

For the calculation of diluted EPS, an entity assumes the exercise of dilutive options, warrants and their equivalents that are not measured at fair value through profit or loss. Similarly, paragraph 6 of this exposure draft proposes clarifying that to calculate diluted EPS an entity assumes the settlement of forward contracts to sell its own shares, unless the contract is measured at fair value through profit or loss. In addition, it proposes that the ordinary shares arising from the assumed exercise or settlement of those potential ordinary shares should be regarded as issued at the end-of-period market price, rather than at their average market price during the period.

(a) Do you agree that to calculate diluted EPS an entity should assume the settlement of forward sale contracts on its own shares in the same way as options, warrants and their equivalents? Why or why not?

(b) Do you agree that ordinary shares arising from the assumed exercise or settlement of options, warrants and their equivalents should be regarded as issued at the end-of-period market price? Why or why not?

Question 5—Participating instruments and two-class ordinary shares

Paragraph A23 proposes to extend the scope of the application guidance for participating instruments to include participating instruments that are classified as liabilities. In addition, it proposes to amend the application guidance for participating instruments and two-class ordinary shares. The proposed application guidance would introduce a test to determine whether a convertible financial instrument would have a more dilutive effect if the application guidance in paragraph A26 and A27 for participating instruments and two-class ordinary shares is applied or if conversion is assumed. The entity would assume the more dilutive treatment for diluted EPS. Also, the amended application guidance would require that, if the test causes an entity to assume conversion of dilutive convertible instruments, diluted EPS should reflect actual dividends for the period. In contrast, diluted EPS would not include dividends that might have been payable had conversion occurred at the beginning of the period.

Do you agree with the proposed amendments to the application guidance for participating instruments and two-class ordinary shares? Why or why not?

Question 6—Disclosure requirements

Accountant-General's Department Financial Reporting Branch does not propose additional disclosures beyond those disclosures already required in SB-FRS 33.

Are additional disclosures needed? If so, what additional disclosures should be provided and why?

[Draft] Statutory Board Financial Reporting Standard 33
Earnings per Share

[Paragraphs proposed to be amended are shown with new text underlined and deleted text struck through. Proposed new paragraphs are underlined.]

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.

Scope

2 This Standard shall apply to

(a) the separate or individual financial statements of an entity:

(i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or

(ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market; and

(b) the consolidated financial statements of a group with a parent:

(i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or

(ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market.

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 SB-FRS 27 *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 in its <u>separate</u> statement of comprehensive income. An entity shall not present such earnings per share information in the consolidated financial statements.

~~4A~~ <u>5</u> If an entity presents the components of profit or loss in a separate income statement as

described in paragraph 81 of SB-FRS 1 *Presentation of Financial Statements* (as revised in 2008), it presents earnings per share only in that separate statement.

Definitions

~~5~~ 6 **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, and forward contracts are settled or ordinary shares are issued upon the satisfaction of specified conditions.**

A *contingent share agreement* is an agreement to issue shares that is dependent on 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.**

***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, and forward contracts are settled or 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. Equivalents to options and warrants include forward contracts to sell an entity's own shares.**

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

A *participating instrument* is an instrument that gives its holder the right to participate in dividends with ordinary shares according to a predetermined formula.

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~~ 7 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~~ 8 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 and their equivalents;

(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~~ 9 Terms defined in SB-FRS 32 *Financial Instruments: Presentation* are used in this Standard with the meanings specified in paragraph 11 of SB-FRS 32, unless otherwise noted. SB-FRS 32 defines financial instrument, financial asset, financial liability, equity instrument and fair value, and provides guidance on applying those definitions.

Measurement

Basic earnings per share

~~11~~ 10 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.*

~~10~~ 11 To achieve this objective an entity shall calculate b~~B~~asic 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 (see paragraphs A23–A32).

~~9~~ 12 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.

Earnings

12 ~~13~~ 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 effects of equity instruments other than ordinary shares. Examples of those effects include ~~amounts of~~ preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity (see paragraphs A3–A7).

~~13~~ 14 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 SB-FRS 1).

[Paragraphs 14–18 moved to Appendix A.]

Shares

~~19~~ 15 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.

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* If an entity is not a parent each reference in this Standard to 'parent entity' shall be read as 'entity'.

~~20~~ <u>16</u> ~~Using the weighted average number of ordinary shares outstanding during the period reflects variations in 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~~ <u>17</u> <u>Ordinary shares shall be treated as outstanding from the date the holder of the shares has the right (or deemed right in the case of ordinary shares issuable for little or no cash or other consideration) to share currently in profit or loss of the period (see paragraphs A8 and A9).</u> ~~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 the consideration transferred in a business combination are included in the weighted average number of~~ shares from the acquisition date. This is because the acquirer ~~incorporates into its statement of comprehensive income 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.~~

<u>18</u> <u>In calculating the weighted average number of ordinary shares outstanding an entity shall consider all instruments that give their holder the right to share in profit or loss of the period. Examples of those instruments are:</u>

<u>(a)</u> <u>ordinary shares;</u>

<u>(b)</u> <u>a class of ordinary shares with a dividend rate different from that of another class of ordinary shares but without prior or senior rights; and</u>

(c) participating instruments.

19 Ordinary shares that are currently issuable for little or no cash or other consideration are deemed to have the right to share with ordinary equity holders in profit or loss for the period. Therefore, those shares are included in the weighted average number of ordinary shares outstanding during the period. Ordinary shares are currently issuable if the holder of an instrument has the current ability to become an ordinary equity holder.

~~24~~ 20 ~~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 (ie 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.~~ If an entity has the present right to recall ~~O~~outstanding ordinary shares ~~that~~ for little or no consideration, the entity treats them ~~are contingently returnable (ie subject to recall) are not treated~~ as not outstanding ~~and are excluded from the calculation of basic earnings per share~~ until the date the shares are no longer subject to recall. However, those shares may meet the definition of a participating instrument. If so, those instruments are treated as outstanding and the guidance in paragraphs A23–A28 applies.

~~26~~ 21 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~~ 22 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 equity holders (see paragraph A10);

(c) a share split; and

(d) a reverse share split (consolidation of shares).

~~28~~ 23 In a capitalisation or bonus issue or a share split, ordinary shares are issued to existing equity holders 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~~ 24 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

~~32~~ 25 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~~ the dilutive potential ordinary shares outstanding during the period.

26 An entity shall not increase the denominator for the number of additional ordinary shares that would arise from the exercise or conversion of instruments (or the derivative components of compound instruments) that are measured at fair value through profit or loss.

27 When an entity measures an instrument at fair value through profit or loss, the change in the fair value of the instrument affects the interests of the ordinary shares in the entity's performance during the period. Because the numerator reflects the effect of those instruments on ordinary equity holders, it is not necessary to increase the denominator for the number of additional shares that would arise from the exercise or conversion of those instruments.

28 For the purpose of calculating diluted earnings per share, share-based payments that are recognised (or will be recognised) as a liability and measured in accordance with SB-FRS 102 *Share-based Payment* shall be treated in the same way as instruments that are not within the scope of SB-FRS 102 and are measured at fair value through profit or loss.

~~31~~ 29 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 ordinary shares outstanding, for the effects of all dilutive potential ordinary shares that are not measured at fair value through profit or loss.

~~32~~ 30 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 (see paragraphs 32–34); 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 that are not measured at fair value through profit or loss (see paragraphs 35–55).

~~30~~ 31 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.

Earnings

~~33~~ 32 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 13 ~~12~~, by the following after-tax effects of instruments that are not measured at fair value through profit or loss:

(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 13 ~~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~~ 33 After the potential ordinary shares are converted into ordinary shares, the items identified in paragraph 32 ~~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 13 ~~12~~ is adjusted for the items identified in paragraph 32 ~~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 SB-FRS 39 *Financial Instruments: Recognition and Measurement*~~, as revised in 2003~~).

~~35~~ 34 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~~ 35 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 15 ~~19~~ and 21 ~~26~~, plus the weighted average number of ordinary shares that would be issued on the conversion into ordinary shares of all ~~the~~ dilutive potential ordinary shares that are not measured at fair value through profit or loss ~~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~~ 36 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~~ 37 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 or, if later, the date of the issue of the potential ordinary shares to the date of conversion~~;~~. ~~f~~From the date of conversion, the resulting ordinary shares are included in both basic and diluted earnings per share.

~~39~~ 38 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~~ 39 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 the reporting entity does not measure these potential ordinary shares ~~of the subsidiary, joint venture or associate~~ at fair value through profit or loss and they have a dilutive effect on the basic earnings per share of the reporting entity, the reporting entity includes them ~~they are included~~ in the calculation of diluted earnings per share (see paragraphs A33 and A34).

Dilutive potential ordinary shares

~~41~~ 40 Potential ordinary shares that are not measured at fair value through profit or loss 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~~ 41 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 13 ~~12~~ and excludes items relating to discontinued operations (see paragraph A12). If an entity does not have discontinued operations then profit or loss from continuing operations is the same as profit or loss.

~~43~~ 42 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~~ 43 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, ie 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~~ 44 For the purpose of calculating diluted earnings per share, an entity shall assume the exercise of dilutive options~~, and~~ warrants and their equivalents of the entity, unless they are measured at fair value through profit or loss.

45 An entity shall include ordinary shares arising from options, warrants and their equivalents in diluted earnings per share from the beginning of the period or, if later, the date of issue of the potential ordinary shares until the end of the period (or time of actual exercise or settlement, if earlier).

~~45~~ 46 An entity shall regard ~~The assumed~~ proceeds from the assumed exercise of dilutive options, warrants and their equivalents ~~these instruments shall be regarded~~ as having been received from the issue of ordinary shares at the ~~average~~ end-of-period 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

to raise the assumed proceeds at the ~~average~~ end-of-period market price of ordinary shares ~~during the period~~ shall be treated as an issue of ordinary shares for no consideration as of the beginning of the period or, if later, the date of issue of the option, warrant or its equivalent.

~~46~~ 47 Options ~~and~~, warrants and their equivalents are dilutive when they would result in the issue of ordinary shares for less than the end-of-period ~~average~~ market price of ordinary shares ~~during the period~~. The amount of the dilution is the end-of-period ~~average~~ market price of ordinary shares ~~during the period~~ minus the issue price. Therefore, to calculate diluted earnings per share, the entity treats potential ordinary shares ~~are treated~~ as consisting of both the following:

(a) a contract to issue a specific ~~certain~~ number of the ordinary shares at their ~~average~~ end-of-period market price ~~during the period~~. Such ordinary shares are assumed to be fairly priced and to be neither dilutive nor antidilutive. The entity ignores such shares when calculating ~~They are ignored in the calculation of~~ diluted earnings per share.

(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 when calculating ~~in the calculation of~~ diluted earnings per share.

(See paragraphs A13–A15.)

~~47~~ 48 Options ~~and~~, warrants and their equivalents have a dilutive effect only when the ~~average~~ end-of-period market price of ordinary shares ~~during the period~~ exceeds the exercise price of the options, ~~or~~ warrants or their equivalents (ie they are 'in the money'). Previously reported earnings per share are not retroactively adjusted to reflect changes in prices of ordinary shares.

~~47A~~ 49 For share options and other share-based payment arrangements that are classified as equity and are within the scope of ~~to which~~ SB-FRS 102 ~~*Share-based Payment* applies~~, the proceeds ~~issue price~~ referred to in paragraph 47 ~~46 and the exercise price referred to in paragraph 47~~ shall include

(a) the fair value at the grant date of any goods or services to be supplied to the entity ~~in the future~~ under the share option or other share-based payment arrangement; and

(b) the tax benefit, if any, that would be credited to equity upon exercise of the share option or other share-based payment arrangement.

~~48~~ 50 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~~ 51 If convertible instruments (or conversion options that are accounted for separately) are not measured at fair value through profit or loss the entity shall reflect their ~~The~~ dilutive effect ~~of convertible instruments shall be reflected~~ in diluted earnings per share in accordance with paragraphs 32 ~~33~~ and 35 ~~36~~.

~~50~~ 52 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~~ 53 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 A7 ~~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~~ 54 ~~As in the calculation of basic earnings per share,~~ An entity treats contingently issuable ordinary shares ~~are treated~~ as outstanding and includes~~d~~ them when calculating ~~in the calculation~~ of diluted earnings per share if the conditions in the contingent share agreement are satisfied at the end of the period (ie the events have occurred). The entity includes c~~C~~ontingently issuable shares ~~are included~~ from the beginning of the period (or from the date of the contingent share agreement, if later). If the conditions in the contingent share agreement are not satisfied at the end of the period, the entity bases the number of contingently issuable shares when calculating ~~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 (see paragraphs A16–A21).

[Paragraphs 53–57 moved to Appendix A.]

~~*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 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 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 cash.~~

Purchased options

~~62~~ 55 Contracts such as purchased put options and purchased call options (ie 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 (ie 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 (ie 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.~~

Retrospective adjustments

~~64~~ 56 If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively. If these changes occur after the reporting period but before the financial statements are authorised for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares. The fact that per share calculations reflect such changes in the number of shares shall be disclosed. In addition, basic and diluted earnings per share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively.

~~65~~ 57 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~~ 58 An entity shall present in the statement of comprehensive income basic and diluted earnings per share for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity, if presented, 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~~ 59 Earnings per share is presented for every period for which a statement of comprehensive income 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 in the statement of comprehensive income.

~~67A~~ 60 If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of SB-FRS 1 (as revised in 2008), it presents basic and diluted earnings per share, as required in paragraphs 58 ~~66~~ and 59 ~~67~~, in that separate statement.

~~68~~ 61 An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of comprehensive income or in the notes.

~~68A~~ 62 If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of SB-FRS 1 (as revised in 2008), it presents basic and diluted earnings per share for the discontinued operation, as required in paragraph 61 ~~68~~, in that separate statement or in the notes.

~~69~~ 63 An entity shall present basic and diluted earnings per share, even if the amounts are negative (ie a loss per share).

Disclosure

~~70~~ 64 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.

(d) a description of ordinary share transactions or potential ordinary share transactions, other than those accounted for in accordance with paragraph 56 ~~64~~, that occur after the reporting period and that would have changed significantly the number of ordinary shares or potential ordinary shares outstanding at the end of the period if those transactions had occurred before the end of the reporting period.

~~71~~ 65 Examples of transactions in paragraph 64 ~~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 end of the reporting period;

(c) the redemption of ordinary shares outstanding;

(d) the conversion or exercise of potential ordinary shares outstanding at the end of the reporting period 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 period because such transactions do not affect the amount of equity ~~capital~~ used to produce profit or loss for the period.

~~72~~ 66 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 SB-FRS 107 *Financial Instruments: Disclosures*)

~~73~~ 67 If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the statement of comprehensive income 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 only and shall not be presented in the statement of comprehensive income. 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 statement of comprehensive income is used that is not reported as a line item in the statement of comprehensive income, a reconciliation shall be provided between the component used and a line item that is reported in the statement of comprehensive income.

~~73A~~ 68 Paragraph 67 ~~73~~ applies also to an entity that discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the separate income statement (as described in paragraph 81 of SB-FRS 1 (as revised in 2008)), other than one required by this Standard.

Effective date

~~74~~ 69 An entity shall apply this Standard for annual periods beginning on or after [date to be inserted after exposure] ~~1 January 2005~~. Earlier application is not permitted ~~encouraged. If an entity applies the Standard for a period beginning before 1 January 2005, it shall disclose that fact.~~

~~74A SB-FRS 1 (as revised in 2008) amended the terminology used throughout SB-FRSs. In addition it added paragraphs 4A, 67A, 68A and 73A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies SB-FRS 1 (revised 2008) for an earlier period, the amendments shall be applied for that earlier period.~~

Withdrawal of other pronouncements SB-FRS 33 (as amended in 2007)

~~75~~ 70 This Standard supersedes SB-FRS 33 *Earnings per Share* (issued in 2003 and amended in 2008 by SB-FRS 1) ~~*Earnings per Share* (issued in 1997)~~.

~~76 This Standard supersedes SIC-24 *Earnings Per Share—Financial Instruments and Other Contracts that May Be Settled in Shares*.~~

Appendix A
Application guidance

This appendix is an integral part of the [draft] Standard.

A1 This appendix provides guidance on the calculation of basic and diluted earnings per share. It is organised in three sections:

(a) basic earnings per share (paragraphs A2–A10)

(b) diluted earnings per share (paragraphs A11–A21)

(c) basic and diluted earnings per share for particular instruments (paragraphs A22–A34)

Basic earnings per share

A2 The guidance on basic earnings per share addresses:

(a) preference shares (paragraphs A3–A7)

(b) date when ordinary shares are outstanding for basic earnings per share (paragraphs A8 and A9)

(c) rights issues (paragraph A10)

~~**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 non-controlling interests.~~

Preference shares that are classified as equity instruments (application of paragraph 13)

~~6,14~~A3 Ordinary shares of the parent entity participate in profit or loss for the period only after other types of ~~shares~~ equity instruments, such as preference shares, have participated. The after-tax amount of preference dividends ~~that is~~ deducted from profit or loss attributable to the parent entity 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 required for the period do~~es~~ 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~~ A4 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~~ A5 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~~ A6 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~~ A7 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.

Date when ordinary shares are outstanding for basic earnings per share (application of paragraph 17)

~~21~~ A8 Paragraph 17 requires ordinary shares to be included in the weighted average number of shares from the date the holder of the instrument has the right to share in profit or loss of the period. This is usually ~~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 non-participating 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 non-participating 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~~ A9 Ordinary shares issued as part of the consideration transferred in a business combination are included ~~in the weighted average number of shares from~~ as of the acquisition date. This is because the acquirer incorporates into its statement of comprehensive income the acquiree's profits and losses from that date.

Rights issues (application of paragraph 22)

~~A2~~ A10 The issue of ordinary shares at the time of exercise, settlement 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 22 ~~27~~(b), such a rights issue includes a bonus element. If a rights issue is offered to all existing equity holders, 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.

~~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.~~

Diluted earnings per share

A11 This section provides guidance on the calculation of diluted earnings per share for:

(a) the control number (paragraph A12)

(b) options, warrants and their equivalents (paragraphs A13–A15); and

(c) contingently issuable shares (paragraphs A16–A21).

Control number (application of paragraph 41)

~~A3~~ A12 To illustrate the application of the control number notion described in paragraph~~s~~ 41 ~~42 and 43~~, assume that an entity has profit from continuing operations attributable to the parent entity of CU4,800,* a loss from 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 potential ordinary shares are not measured at fair value through profit or loss. 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, ie the loss per share is less [(CU3.00) per share for the loss from discontinued operations and (CU1.00) per share for the loss].

Options, warrants and their equivalents (application of paragraph 47)

~~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~~ A13 Options, ~~or~~ warrants and their equivalents 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 or their equivalents have a dilutive effect if (a) the end-of-period ~~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 or equivalent 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 or their equivalents are assumed to be exercised and the debt or other instruments are assumed to be tendered, unless the option, warrant or their equivalent is measured at fair value through profit or loss. If tendering cash is more advantageous to the ~~option or warrant~~ holder of the instrument 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~~ A14 A s~~S~~imilar treatment ~~is given~~ applies to preference shares that have similar provisions or to other instruments that have conversion options that permit the ~~investor~~ holder to pay cash for a more favourable conversion rate.

~~A9~~ A15 The underlying terms of some ~~certain~~ options, ~~or~~ warrants and their equivalents 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~~ T~~t~~he calculation of diluted earnings per share assumes that~~,~~ those options, ~~or~~ warrants or their equivalents are ~~assumed to be~~ exercised

* In this guidance, monetary amounts are denominated in 'currency units' (CU).

and the proceeds applied to purchase the debt at its end-of-period ~~average~~ market price rather than to purchase ordinary shares, unless the options, warrants or their equivalents are measured at fair value through profit or loss. However, the excess proceeds received from the assumed exercise over the amount used for the assumed purchase of debt are considered (ie 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.

Contingently issuable shares (application of paragraph 54)

A16 Contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted earnings per share from the date when the conditions in the contingent share agreement are satisfied.

~~53~~ A17 If attainment or maintenance of a specified amount of earnings for a period is the condition for ~~contingent~~ the issue of ordinary shares 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~~ A18 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 elapsed 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~~ A19 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 (ie 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~~ A20 In other cases, the number of ordinary shares contingently issuable depends on a condition other than earnings or market price (for example, 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~~ A21 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 paragraph~~s~~ 54 ~~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 and their equivalents in paragraphs 44–50 ~~45–48~~, the provisions for convertible instruments in paragraphs 51–53 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 is assumed for ~~of~~ similar outstanding potential ordinary shares that are not contingently issuable ~~is assumed~~.

~~**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.~~

Basic and diluted earnings per share for particular instruments

A22 This section addresses the calculation of basic and diluted earnings per share for the following instruments:

(a) participating instruments and two-class ordinary shares (paragraphs A23–A28);

(b) partly paid shares (paragraphs A29 and A30);

(c) gross physically settled forward contracts to repurchase an entity's own shares (paragraphs A31 and A32); and

(d) instruments of subsidiaries, joint ventures or associates (paragraphs A33 and A34).

Participating ~~equity~~ instruments and two-class ordinary shares (application of paragraph 11)

~~A13~~A23 The capital structure ~~equity~~ of some entities includes:

(a) instruments that participate in dividends with ordinary shares according to a predetermined formula (instruments participating, ~~instruments~~ 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).

(b) a class of ordinary shares with ~~a different~~ dividend rate different from that of another class of ordinary shares but without prior or senior rights.

~~A14~~A24 ~~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 for those instruments described in paragraph A23 that are not measured at fair value through profit or loss:

(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 attributed ~~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.~~

(c) the total amount of profit or loss allocated to each class of ~~equity~~ instrument is the amount attributed for dividends in (a) plus the amount attributed to a participation feature in (b).

(d) the total amount of profit or loss for each class is divided by the number of outstanding instruments of that class ~~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.~~

A25 To calculate diluted earnings per share for the instruments described in paragraph A23, an entity attributes undistributed profit or loss of the period to all potential ordinary shares and participating instruments assumed to be outstanding. That attribution:

(a) reflects the respective rights of each class of instrument.

(b) does not reflect additional dividends that might have been paid if the instruments had been outstanding

A26 If a participating instrument or a second class of ordinary shares is a potential ordinary share, diluted earnings per share shall reflect the more dilutive effect of the following methods:

(a) applying paragraphs 25−55 assuming exercise or conversion of the participating instrument or second class of ordinary shares; and

(b) applying paragraph A24 assuming that the participating instrument or second class of ordinary shares is not exercised or converted.

A27 The calculation of diluted earnings per shares in accordance with paragraphs A25 and A26 shall be performed for each potential ordinary share in sequence from the most dilutive to the least dilutive.

A28 When an entity measures an instrument described in paragraph A23 at fair value through profit or loss, the change in the fair value of the instrument affects the interest of the ordinary shares in the entity's performance. Therefore, the requirements in paragraphs A24−A26 do not apply to this instrument. Similarly, the requirements in paragraphs A24−A26 do not apply to share-based payments that are recognised (or will be recognised) as a liability and measured in accordance with SB-FRS 102.

Partly paid shares (application of paragraph 11)

~~A15~~A29 ~~Where~~When ordinary shares are issued but not fully paid, they are ~~treated~~ included 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. Those partly paid shares are a second class of ordinary shares. Therefore, the guidance in paragraphs A23–A28 applies to them.

~~A16~~A30 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, warrants and their equivalents 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.

Contracts to repurchase an entity's own shares in exchange for cash or other financial assets (application of paragraph 11)

A31 An entity treats ordinary shares that are subject to a contract to repurchase them in exchange for cash or other financial assets (for example, gross physically written put options or forward purchase contracts) as if it had already repurchased or redeemed those shares. Therefore, the entity excludes those shares from the denominator of the earnings per share calculation.

A32 SB-FRS 32 requires an entity to recognise a liability for the present value of the redemption amount of the contract to repurchase the entity's own shares. To calculate earnings per share, an entity allocates dividends to that financial liability. As a consequence, the liability participates in profit or loss of the entity and meets the definition of a participating instrument. Therefore, the guidance in paragraphs A23–A28 applies. However, such contracts sometimes require the holder to remit back to the entity dividends paid on the shares to be repurchased. If that is the case, the liability is not a participating instrument.

Instruments of subsidiaries, joint ventures or associates (application of paragraph 39)

~~A11~~A33 If p~~P~~otential ordinary shares of a subsidiary, joint venture or associate 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) and are not measured at fair value through profit or loss in the financial statements of the reporting entity, they 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.

(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~~A34 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 32 ~~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.

Appendix B
Amendment to SB-FRS 32

The amendment in this appendix shall be applied for annual periods beginning on or after [date to be inserted after exposure]. In the amended paragraph, new text is underlined.

SB-FRS 32 *Financial Instruments: Presentation*

B1 Paragraph 96C of SB-FRS 32 is amended to include a reference to SB-FRS 33 *Earnings per Share* as follows:

96C The classification of instruments under this exception shall be restricted to the accounting for such an instrument under SB-FRS 1, SB-FRS 32, <u>SB-FRS 33,</u> SB-FRS 39 and SB-FRS 107…

Paragraph 97C is added as follows:

97C SB-FRS 33 (as amended in [date to be inserted after exposure]) amended paragraph 96C. An entity shall apply the amendment for annual periods beginning on or after [date to be inserted after exposure].

Illustrative examples

CONTENTS

SB-FRS 33 *EARNINGS PER SHARE*
ILLUSTRATIVE EXAMPLES

SB-FRS 33 *Earnings per Share*
Illustrative examples

A. Basic earnings per share

Reference: SB-FRS 33, paragraph 11

An entity calculates basic earnings per share by dividing profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. To illustrate, assume the following facts:

20X1 profit attributable to ordinary equity holders (earnings):	CU10,000
Ordinary shares outstanding during 20X1 (shares):	1,000
Basic earnings per share:	CU10,000 ÷ 1,000 = CU10

In some cases, the Standard requires adjustments to the numerator, denominator or both of the calculation. Examples A.1 and A.2 illustrate how an entity adjusts the numerator for preference dividends. Examples A.3−A.5 illustrate the calculation of the weighted average number of ordinary shares outstanding (the denominator).

A.1 Preference shares

Reference: SB-FRS 33, paragraph 13

An entity adjusts profit or loss for the after-tax effects of equity instruments other than ordinary shares. As a consequence, in calculating basic earnings per share, an entity deducts preference dividends from profit or loss. The example illustrates the calculation of basic earnings per share for an entity that has ordinary and non-cumulative preference shares outstanding.

Profit for 20X1	CU12,000
Ordinary shares outstanding throughout 20X1	1,000
Non-cumulative preference shares outstanding throughout 20X1	2,000
Preference dividend per share in 20X1	CU1

The preference shares are neither redeemable nor convertible into ordinary shares. They are classified as equity.

Preference dividend	CU1 × 2,000 = CU2,000
Profit attributable to ordinary shareholders of the entity	CU12,000 − CU2,000 = CU10,000
Basic earnings per share	CU10,000 ÷ 1,000 = CU10

A.2 Increasing rate preference shares

Reference: SB-FRS 33, paragraphs 13 and A4

Entities sometimes issue preference shares at a discount. Those preference shares might provide for low initial, but subsequently increasing, dividends. The Standard refers to preference shares with those characteristics as increasing rate preference shares. For the calculation of basic earnings per share, the amount attributed to the preference shares is based on the effective interest method. This example illustrates the earnings adjustment for increasing rate preference shares.

Assume that an entity issued non-convertible, non-redeemable cumulative preference shares of CU100 par value on 1 January 20X1. The 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 preference shares was 7 per cent a year. Thus, the entity could have expected to receive proceeds of approximately CU100 per 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 preference shares were issued at CU81.63 per share, ie 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 preference share is deducted to determine the profit or loss attributable to ordinary equity holders:

Year	*Carrying amount of preference shares 1 January*	*Imputed[(a)] dividend*	*Carrying[(b)] amount of preference shares 31 December*	*Dividend paid*
	CU	CU	CU	CU
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)

(a) at 7%

(b) This is before dividend payment.

A.3 Weighted average number of ordinary shares outstanding

Reference: SB-FRS 33, paragraphs 15–17 and A8

This example illustrates the calculation of the weighted average number of ordinary shares.

		Shares issued	*Treasury shares*[a]	*Shares outstanding*
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	2,800	550	2,250

Calculation of weighted average:

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

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

(a) Treasury shares are equity instruments reacquired and held by the issuing entity or by its subsidiaries.

A.4 Bonus issue

Reference: SB-FRS 33, paragraphs 21, 22(a) and 23

A bonus issue changes the number of ordinary shares outstanding without a corresponding change in the entity's resources. An entity adjusts the weighted average number of ordinary shares outstanding as if the bonus issue had occurred at the beginning of the earliest period presented. This example illustrates how an entity adjusts the weighted average number of ordinary shares outstanding for a bonus issue.

Profit attributable to ordinary equity holders 20X0	CU180
Profit attributable to ordinary equity holders 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 × 2 = 400
Basic earnings per share 20X1	$\frac{\text{CU600}}{(200 + 400)}$ = CU1.00
Basic earnings per share 20X0	$\frac{\text{CU180}}{(200 + 400)}$ = CU0.30

A.5 Rights issue

Reference: SB-FRS 33, paragraphs 21, 22(b) and A10

In a rights issue, an entity might issue ordinary shares at an exercise price that is less than their fair value. Therefore, the rights issue includes a bonus element. If the rights issue is offered to all existing ordinary shareholders, the number of ordinary shares to be used in the calculation of basic 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:

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

An entity calculates the theoretical ex-rights fair value per share by (1) 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 (2) dividing that total by the number of shares outstanding after the exercise of the rights. This example illustrates the calculation of the weighted average number of ordinary shares outstanding.

	20X0	20X1	20X2
Profit attributable to ordinary equity holders	CU1,100	CU1,500	CU1,800

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
End of the reporting period	31 December

Calculation of theoretical ex-rights value per share

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

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

Theoretical ex-rights value per share = CU10.00

Calculation of adjustment factor

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

Calculation of basic earnings per share

		20X0	20X1	20X2
20X0 basic EPS as originally reported:	CU1,100 ÷ 500 shares	CU2.20		
20X0 basic EPS restated for rights issue:	$\frac{\text{CU}1{,}100}{(500 \text{ shares} \times 1.1)}$	CU2.00		
20X1 basic EPS including effects of rights issue:	$\frac{\text{CU}1{,}500}{(500 \times 1.1 \times {}^{2}/_{12}) + (600 \times {}^{10}/_{12})}$		CU2.54	
20X2 basic EPS:	CU1,800 ÷ 600 shares			CU3.00

B. Diluted earnings per share

For the purpose of calculating diluted earnings per share, an entity adjusts profit or loss attributable to ordinary equity holders of the parent entity and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares that are not measured at fair value through profit or loss. A potential ordinary share is a financial instrument or other contract that may entitle its holder to ordinary shares.

The following examples illustrate the calculation of diluted earnings per share for:

- options, warrants and their equivalents (B.1)
- employee share options (B.2)
- convertible instruments (B.3).

When calculating diluted earnings per share, the sequence in which potential ordinary shares are considered might affect whether they are dilutive. Example B.4 illustrates how dilutive instruments are included in the weighted average number of ordinary shares outstanding to maximise the overall dilution of earnings per share.

B.1 Options, warrants and their equivalents

Reference: SB-FRS 33, paragraphs 44–48

When calculating diluted earnings per share, an entity assumes the exercise of dilutive options and warrants that are not measured at fair value through profit or loss. The assumed proceeds are regarded as having been received from the issue of ordinary shares at the end-of-period price of ordinary shares. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the end-of-period market price of ordinary shares is treated as an issue of ordinary shares for no consideration. To illustrate, assume the following:

Profit attributable to ordinary equity holders for year 20X1	CU1,200,000
Weighted average number of ordinary shares outstanding during year 20X1	500,000
Market price of one ordinary share at 31 December 20X1	CU20.00

In 20X1 the entity has outstanding a weighted average of 100,000 written call options on its own shares. Each option can be exercised for one ordinary share of the entity. The exercise price is CU15.00. The terms of the options require gross physical settlement (ie the settlement will be made by delivering a fixed number of shares and receiving a fixed amount of cash). Therefore, the options are classified as equity.

Calculation of earnings per share

	Earnings	*Shares*	*Per share*
Profit attributable to ordinary equity holders for year 20X1	CU1,200,000		
Weighted average number of shares outstanding during year 20X1		500,000	
Basic earnings per share			CU2.40
Weighted average number of shares under option		100,000	
Weighted average number of shares that would have been issued at the end-of-period market price: (100,000 x CU15.00) ÷ CU20.00	(a)	(75,000)	
Diluted earnings per share	CU1,200,000	525,000	CU2.29

(a) 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 47(b) of the Standard).

B.2 Employee share options

Reference: SB-FRS 33, paragraph 49

When calculating diluted earnings per share, an entity assumes the exercise of dilutive options and warrants that are not measured at fair value through profit or loss. For share options and other share-based payment arrangements to which SB-FRS 102 *Share-based Payment* applies, the assumed proceeds from the exercise include the fair value of any goods or services to be supplied to the entity in the future under the arrangement. This example illustrates that requirement:

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 SB-FRS 102	CU1,200
Cash exercise price of unvested share options	CU15.00

Calculation of proceeds

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 proceeds from exercise of one share option: (CU15.00 + CU1.20)	CU16.20

B.3 Convertible instruments

Reference: SB-FRS 33, paragraphs 32, 33, 35 and 51

When calculating diluted earnings per share for dilutive convertible instruments that are not measured at fair value through profit or loss, an entity assumes conversion at the beginning of the period (or, if later, the date on which the entity issued the convertible instruments). As a consequence, the entity adjusts profit or loss to exclude income or expenses related to those instruments, and treats the ordinary shares resulting from conversion as outstanding from the beginning of the period (or, if later, the date on which it issued the convertible instrument). To illustrate, assume the following:

Profit attributable to ordinary equity holders	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. A bond convertible by the holder into a fixed number of ordinary shares is a compound financial instrument. SB-FRS 32 *Financial Instruments: Presentation* requires the components of such an instrument to be classified separately as a financial liability, financial asset or equity instrument. From the perspective of the entity, the convertible bond comprises two components: a financial liability (the contractual arrangement to deliver cash or another financial asset) and an equity instrument (a call option granting the holder the right to convert it into a fixed number of ordinary shares of the entity). Because the call option is classified as equity, it is not measured at fair value through profit or loss.

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 SB-FRS 32).

* 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 SB-FRS 32.

Adjusted profit attributable to ordinary equity holders	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

B.4 Determining the order in which to include dilutive instruments*

Reference: SB-FRS 33, paragraph 43

When calculating diluted earnings per share, an entity assumes the exercise or conversion of dilutive potential ordinary shares that are not measured at fair value through profit or loss. The sequence in which potential ordinary shares are considered might affect whether they are dilutive. 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, ie potential ordinary shares with the lowest 'earnings per incremental share' are included in diluted earnings per share before those with a higher 'earnings per incremental share'.

The example illustrates this principle.

Earnings	CU
Profit from continuing operations	16,400,000
Less dividends on preference shares	(6,400,000)
Profit from continuing operations attributable to ordinary equity holders	10,000,000
Loss from discontinued operations	(4,000,000)
Profit attributable to ordinary equity holders	6,000,000
Ordinary shares outstanding	2,000,000
End-of-period market price of one ordinary share	CU75.00

* 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 SB-FRS 32.

Potential ordinary shares

The entity has the following instruments outstanding:

Options	The entity has outstanding 100,000 written call options on its own shares. Each option can be exercised for one ordinary share of the entity. The exercise price is CU60. The terms of the options require gross physical settlement, ie the settlement will be made by delivering a fixed number of shares and receiving a fixed amount of cash. Therefore, the options are classified as equity.
Convertible preference shares	The entity has outstanding 800,000 convertible preference shares with a par value of CU100. Each preference share is entitled to a cumulative dividend of CU8 and is convertible to two ordinary shares. The instruments contain two equity components: a preference right and a call option granting the holder the right, for a specified period of time, to convert the instrument into a fixed number of ordinary shares of the entity. Therefore, when the entity applies SB-FRS 32, the instrument is classified in its entirety as equity. Because the convertible preference shares are classified as equity, they are not measured at fair value through profit or loss.
5% convertible bonds	The entity has outstanding 100,000 convertible bonds with a nominal amount of CU1,000. Each bond is convertible to 20 ordinary shares. There is no amortisation of premium or discount affecting the determination of interest expense. The instrument contains two components: a financial liability (the contractual arrangement to deliver cash or another financial asset) and an equity instrument (a call option granting the holder the right, for a specified period, to convert the instrument into a fixed number of ordinary shares). Because the call option is classified as equity, it is not measured at fair value through profit or loss.
Tax rate	40 per cent

Increase in earnings attributable to ordinary equity holders on conversion of potential ordinary shares

		Increase in earnings	*Increase in number of ordinary shares*	*Earnings per incremental share*
		CU		CU
Options				
Increase in earnings		Nil		
Incremental shares issued for no consideration	100,000 × (CU75 − CU60) ÷ CU75		20,000	Nil
Convertible preference shares				
Increase in profit	CU800,000 × 100 × 0.08	6,400,000		
Incremental shares	2 × 800,000		1,600,000	4.00
5% convertible bonds				
Increase in profit	CU100,000,000 × 0.05 × (1 − 0.40)	3,000,000		
Incremental shares	100,000 × 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

	Profit from continuing operations attributable to ordinary equity holders (control number)	*Ordinary shares*	*Per share*	
	CU		CU	
As reported	10,000,000	2,000,000	5.00	
Options	–	20,000		
	10,000,000	2,020,000	4.95	Dilutive
5% convertible bonds	3,000,000	2,000,000		
	13,000,000	4,020,000	3.23	Dilutive
Convertible preference shares	6,400,000	1,600,000		
	19,400,000	5,620,000	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:

	Basic EPS	*Diluted EPS*
	CU	CU
Profit from continuing operations attributable to ordinary equity holders	5.00	3.23
Loss from discontinued operations attributable to ordinary equity holders	2.00)[(a)]	((0.99)[(b)]
Profit attributable to ordinary equity holders	3.00[(c)]	2.24[(d)]

(a) (CU4,000,000) ÷ 2,000,000 = (CU2.00)

(b) (CU4,000,000) ÷ 4,020,000 = (CU0.99)

(c) CU6,000,000 ÷ 2,000,000 = CU3.00

(d) (CU6,000,000 + CU3,000,000) ÷ 4,020,000 = CU2.24

C. Calculation and presentation of basic and diluted earnings per share (comprehensive example)*

This example illustrates the quarterly and annual calculations of basic and diluted earnings per share in the year 20X1 for an entity, 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:

End-of-period market price of ordinary shares: The end-of-period 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 end-of-period market price of ordinary shares at 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. The convertible bonds contain two components: a financial liability (the contractual arrangement to deliver cash or another financial asset) and an equity instrument (a call option granting the holder the right, for a specified period, to convert the bonds into a fixed number of ordinary shares). Because the call option is classified as equity, it is not measured at fair value through profit or loss. The conversion options of the convertible bonds require gross physical settlement by delivery of 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. The convertible preference shares require gross physical settlement. They contain two equity components: a preference right and a call option granting the holder the right, for a specified period of time, to convert its preference shares into a fixed number of ordinary shares of the entity. Therefore, applying SB-FRS 32, the instrument is classified in its entirety as equity. Because the convertible preference shares are classified as equity, they are not measured at fair value through profit or loss. Holders of 600,000 convertible preference shares converted their preference shares into ordinary shares on 1 June 20X1.

Warrants: Warrants to buy 600,000 ordinary shares at CU55 per share for a period of five years were issued on 1 January 20X1. The warrants require gross physical settlement (ie the settlement will be made by delivering a fixed number of shares and receiving a fixed amount of cash). Therefore, the warrants are classified as equity; they are not measured at fair value through profit or loss. All outstanding warrants were exercised on 1 September 20X1.

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* 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 SB-FRS 32.

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. The options require gross physical settlement (ie the settlement will be made by delivering a fixed number of shares and receiving a fixed amount of cash). Therefore, the options are classified as equity; they are not measured at fair value through profit or loss. No options were exercised during 20X1 because the exercise price of the options exceeded the market price of the ordinary shares.

The entity has also issued options to buy 500,000 ordinary shares at CU70 per share for a period of five years. The entity issued those options on 1 January 20X0. The options require net share settlement (ie the entity will settle them by paying shares with a value equal to the difference between the share price at exercise date and the exercise price). Thus, the options are measured at fair value through profit or loss. Therefore, the denominator of diluted earnings per share does not include additional ordinary shares that would arise from the exercise of those options.

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

20X1	*Profit (loss) from continuing operations attributable to the parent entity* [(a)]	*Profit (loss) attributable to the parent entity*
	CU	CU
First quarter	5,000,000	5,000,000
Second quarter	6,500,000	6,500,000
Third quarter	1,000,000	(1,000,000)[(b)]
Fourth quarter	(700,000)	(700,000)
Full year	11,800,000	9,800,000

(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.

First quarter 20X1

Basic EPS calculation	CU
Profit from continuing operations attributable to the parent entity	5,000,000
Less: preference share dividends	(40,000)[(a)]
Profit attributable to ordinary equity holders of the parent entity	4,960,000

Dates	*Shares outstanding*	*Fraction of period*	*Weighted-average shares*
1 January–28 February	5,000,000	$^{2}/_{3}$	3,333,333
Issue of ordinary shares on 1 March	200,000		
1 March–31 March	5,200,000	$^{1}/_{3}$	1,733,333
Weighted-average shares			5,066,666
Basic EPS			***CU0.98***

Diluted EPS calculation

Profit attributable to ordinary equity holders of the parent entity	CU4,960,000

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

(a) 800,000 shares × CU0.05

(b) 800,000 shares × CU0.05

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

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

Second quarter 20X1

Basic EPS calculation	CU
Profit from continuing operations attributable to the parent entity	6,500,000
Less: preference shares dividends	(10,000)[(a)]
Profit attributable to ordinary equity holders of the parent entity	6,490,000

Dates	*Shares outstanding*	*Fraction of period*	*Weighted average shares*
1 April	5,200,000		
Conversion of 5% bonds on 1 April	480,000		
1 April–31 May	5,680,000	$^{2}/_{3}$	3,786,666
Conversion of preference shares on 1 June	600,000		
1 June–30 June	6,280,000	$^{1}/_{3}$	2,093,333
Weighted-average shares			5,880,000
Basic EPS			***CU1.10***

Diluted EPS calculation

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

(a) 200,000 shares × CU0.05

(b) 200,000 shares × CU0.05

(c) CU55 × 600,000 = CU33,000,000; CU33,000,000 ÷ CU60 = 550,000; 600,000 − 550,000 = 50,000 shares or [(CU60 − CU55) ÷ CU60] × 600,000 shares = 50,000 shares

(d) (800,000 shares × $^{2}/_{3}$) + (200,000 shares × $^{1}/_{3}$)

Third quarter 20X1

Basic EPS calculation	CU
Profit from continuing operations attributable to the parent entity	1,000,000
Less: preference share dividends	(10,000)
Profit from continuing operations attributable to ordinary equity holders of the parent entity	990,000
Loss from discontinued operations attributable to the parent entity	(2,000,000)
Loss attributable to ordinary equity holders of the parent entity	(1,010,000)

Dates	*Shares outstanding*	*Fraction of period*	*Weighted-average shares*
1 July–31 August	6,280,000	$^{2}/_{3}$	4,186,666
Exercise of warrants on 1 September	600,000		
1 September–30 September	6,880,000	$^{1}/_{3}$	2,293,333
Weighted-average shares			6,480,000

Basic EPS	
Profit from continuing operations	***CU0.15***
Loss from discontinued operations	***(CU0.31)***
Loss	***(CU0.16)***

Diluted EPS calculation		
Profit from continuing operations attributable to ordinary equity holders of the parent entity		CU990,000
Plus: profit impact of assumed conversions		
Preference share dividends	CU10,000	
Effect of assumed conversions		CU10,000
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		(CU2,000,000)

Loss attributable to ordinary equity holders of the parent entity including assumed conversions		(CU1,000,000)
Weighted-average shares		6,480,000
Plus: incremental shares from assumed conversions		
Warrants	61,538[(a)]	
Convertible preference shares	200,000	
Dilutive potential ordinary shares		261,538
Adjusted weighted-average shares		6,741,538

Diluted EPS

Profit from continuing operations	***CU0.15***
Loss from discontinued operations	***(CU0.30)***
Loss	***(CU0.15)***

(a) [(CU65 −CU55) ÷ CU65] × 600,000 = 92,308 shares; 92,308 × $^{2}/_{3}$ = 61,538 shares

Note: The incremental shares from assumed conversions are included in calculating the diluted per-share amounts for the loss from discontinued operations and loss 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) was positive (ie profit, rather than loss).

Fourth quarter 20X1

Basic EPS calculation	CU
Loss from continuing operations attributable to the parent entity	(700,000)
Add: preference share dividends	(10,000)
Loss attributable to ordinary equity holders of the parent entity	(710,000)

Dates	*Shares outstanding*	*Fraction of period*	*Weighted-Average shares*
1 October–31 December	6,880,000	$^{3}/_{3}$	6,880,000
Weighted-average shares			6,880,000

Basic and diluted EPS

Loss attributable to ordinary equity holders of the parent entity	***(CU0.10)***

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) was negative (ie a loss, rather than profit).

Full year 20X1

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

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

Basic EPS	
Profit from continuing operations	***CU1.93***
Loss from discontinued operations	***(CU0.33)***
Profit	***CU1.60***

Diluted EPS calculation		
Profit from continuing operations attributable to ordinary equity holders of the parent entity		CU11,730,000
Plus: profit impact of assumed conversions		
Preference share dividends	CU70,000	
Interest on 5% convertible bonds	CU90,000	
Effect of assumed conversions		CU160,000
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		(CU2,000,000)
Profit attributable to ordinary equity holders of the parent entity including assumed conversions		CU9,890,000

Weighted-average shares		6,076,667
Plus: incremental shares from assumed conversions		
Warrants	14,880[(a)]	
Convertible preference shares	450,000[(b)]	
5% convertible bonds	120,000[(c)]	
Dilutive potential ordinary shares		584,880
Adjusted weighted-average shares		6,661,547

Diluted EPS

Profit from continuing operations	***CU1.78***
Loss from discontinued operations	***(CU0.30)***
Profit	***CU1.48***

(a) [(CU57.125* − CU55) ÷ CU57.125] × 600,000 = 22,320 shares; 22,320 × $^{8}/_{12}$ = 14,880 shares
*The end-of-period market price at 1 September 20X1

(b) (800,000 shares × $^{5}/_{12}$) + (200,000 shares × $^{7}/_{12}$)

(c) 480,000 shares × $^{3}/_{12}$

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

For the year ended 20X1

	CU
Earnings per ordinary share	
Profit from continuing operations	1.93
Loss from discontinued operations	(0.33)
Profit	1.60
Diluted earnings per ordinary share	
Profit from continuing operations	1.78
Loss from discontinued operations	(0.30)
Profit	1.48

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.

	First quarter CU	*Second quarter* CU	*Third quarter* CU	*Fourth quarter* CU	*Full year* CU
Basic EPS					
Profit (loss) from continuing operations	0.98	1.10	0.15	(0.10)	1.93
Loss from discontinued operations	–	–	(0.31)	–	(0.33)
Profit (loss)	0.98	1.10	(0.16)	(0.10)	1.60
Diluted EPS					
Profit (loss) from continuing operations	0.80	1.00	0.15	(0.10)	1.78
Loss from discontinued operations	–	–	(0.30)	–	(0.30)
Profit (loss)	0.80	1.00	(0.15)	(0.10)	1.48

D. Instruments that affect the calculation of both basic and diluted earnings per share

Some financial instruments require adjustments in calculating both basic and diluted earnings per share. Those instruments include:

- ordinary shares issuable for little or no cash or other consideration (D.1)
- participating instruments and two-class ordinary shares (basic earnings per share) (D.2)
- participating instruments and two-class ordinary shares (basic and diluted earnings per share) (D.3)
- instruments of a subsidiary: calculation of basic and diluted earnings per share (D.4).

D.1 Ordinary shares issuable for little or no cash or other consideration

Reference: SB-FRS 33, paragraphs 15, 20, 35, 36, 40–42 and 54

Ordinary shares issuable for little or no cash or other consideration are assumed to be outstanding for both basic and diluted earnings per share, but from different times. For basic earnings per share, an entity includes those instruments in the calculation from the date that the shares are currently exercisable. In contrast, for diluted earnings per share an entity includes them from the beginning of the period in which the conditions for the issue of the ordinary shares are satisfied. The example illustrates the calculation of basic and diluted earnings per share for ordinary shares issuable for little or no cash or other consideration.

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:	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 discontinued operation)
	CU2,900,000 as of 31 December 20X1

Basic earnings per share

	First quarter	*Second quarter*	*Third quarter*	*Fourth quarter*	*Full year*
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[(a)]	6,667 [(b)]	10,000	5,000[(c)]
Earnings contingency[(d)]	–	–	–	–	–
Total shares	1,000,000	1,003,333	1,006,667	1,010,000	1,005,000
Basic earnings per share(CU)	1.10	1.20	(0.40)	0.99	2.89

(a) 5,000 shares × $^{2}/_{3}$

(b) 5,000 shares + 5,000 shares × $^{1}/_{3}$

(c) 5,000 shares × 8/12 + 5,000 shares × 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

	First quarter	*Second quarter*	*Third quarter*	*Fourth quarter*	*Full year*
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	–[a]	300,000[b]	–[c]	900,000[d]	900,000[d]
Total shares	1,000,000	1,305,000	1,010,000	1,910,000	1,910,000
Diluted earnings per share (CU)	1.10	0.92	(0.40)[e]	0.52	1.52

(a) The entity does not have year-to-date profit exceeding CU2,000,000 at 31 March 20X1. SB-FRS 33 does not permit projecting future earnings levels and including the related contingent shares.

(b) [(CU2,300,000 – CU2,000,000) ÷ 1,000] × 1,000 shares = 300,000 shares.

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

(d) [(CU2,900,000 – CU2,000,000) ÷ 1,000] × 1,000 shares = 900,000 shares.

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

D.2 Participating instruments and two-class ordinary shares (basic earnings per share)[◊]

Reference: SB-FRS 33, paragraphs A23 and A24

This example illustrates the calculation of **basic earnings per share** for participating instruments and two-class ordinary shares. Example D.3 provides a fuller illustration of the calculation of **basic and diluted earnings per share** for those instruments.

A participating instrument is an instrument that participates in dividends with ordinary shares according to a predetermined formula. To calculate basic earnings per share, the entity allocates profit or loss to the different classes of ordinary shares and participating instruments, as follows:

(a) Profit or loss is adjusted 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.

(b) The remaining profit or loss is allocated as if all of the profit or loss for the period had been distributed.

(c) The total profit or loss allocated to each class of instrument is determined by adding the amount allocated for dividends in (a) and the amount allocated to a participation feature in (b).

(d) The total amount of profit or loss for each class is divided by the number of outstanding instruments to determine the earnings per share for the instrument.

To illustrate, assume the following:

Profit attributable to equity holders	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

[◊] 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 SB-FRS 32.

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 (ie 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 on 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)

	CU	CU
Profit attributable to equity holders		100,000
Less dividends paid:		
Preference	33,000	
Ordinary	21,000	
		(54,000)
Undistributed earnings		46,000

Allocation of undistributed earnings:

Allocation per ordinary share = A

Allocation per preference share = B; B = ¼ A

$$(A \times 10{,}000) + (\tfrac{1}{4} \times A \times 6{,}000) = CU46{,}000$$

$$A = CU46{,}000 \div (10{,}000 + 1{,}500)$$

$$A = CU4.00$$

$$B = \tfrac{1}{4} A$$

$$B = CU1.00$$

Basic per share amounts:

	Preference shares	*Ordinary shares*
Distributed earnings	CU5.50	CU2.10
Undistributed earnings	CU1.00	CU4.00
Totals	CU6.50	CU6.10

D.3 Participating instruments and two-class ordinary shares (basic and diluted earnings per share)[ϕ]

Reference: SB-FRS 33, paragraphs A23–A27

Example D.2 illustrates the calculation of **basic earnings per share** for participating instruments and two-class ordinary shares. This example provides a fuller illustration of the calculation of **basic and diluted earnings per share** for those instruments.

Assumptions:

Profit attributable to equity holders:	CU65,000
Class A ordinary shares outstanding:	10,000
Class B ordinary shares outstanding:	10,000

Each share of Class B ordinary shares is convertible into one share of Class A ordinary shares. Class A shareholders receive 105 per cent of any dividends on Class B ordinary shares.

Dividends paid to Class A shareholders:	CU10,500
Dividends paid to Class B shareholders:	CU10,000
Options on Class A shares	2,000
Exercise price	CU50
End-of-year market price for Class A shares	CU60

Each option can be exercised for one ordinary share of the entity. The terms of the options require gross physical settlement (ie the settlement will be made by delivering a fixed number of shares and receiving a fixed amount of cash). Therefore, the options are classified as equity.

[ϕ] 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 SB-FRS 32.

Calculation of basic earnings per share

To calculate basic earnings per share, the entity allocates profit or loss to the classes of ordinary shares and participating instruments, as follows:

Profit:	CU65,000
Less dividends paid to Class A shareholders:	CU(10,500)
Less dividends paid to Class B shareholders:	CU(10,000)
Undistributed profit:	CU44,500

Allocation to Class A shareholders:

$$\text{CU}44{,}500 \times \frac{1.05 \times 10{,}000}{1.05 \times 10{,}000 + 1.0 \times 10{,}000} = \text{CU}22{,}793$$

$$\text{CU}22{,}793 \div 10{,}000 = \text{CU}2.28 \text{ per share}$$

Allocation to Class B shareholders:

$$\text{CU}44{,}500 \times \frac{1.0 \times 10{,}000}{1.05 \times 10{,}000 + 1.0 \times 10{,}000} = \text{CU}21{,}707$$

$$\text{CU}21{,}707 \div 10{,}000 = \text{CU}2.17 \text{ per share}$$

Basic EPS	Class A	Class B
	CU	CU
Distributed	1.05	1.00
Undistributed	2.28	2.17
Total	3.33	3.17

Calculation of diluted earnings per share

To calculate diluted earnings per share, an entity reallocates the undistributed earnings to give effect to the potential ordinary shares and participating instruments assumed to be outstanding.

For a participating instrument that is also a potential ordinary share, diluted earnings per share reflect the more dilutive of (a) the assumed conversion of the participating instruments and (b) the treatment as a participating instrument.

Alternative 1: Calculation of diluted earnings per Class A shares assuming conversion of Class B shares

Calculation of the dilutive effect of options

Assumed proceeds	2,000 × CU50 = CU100,000
Repurchase shares at end-of-period market price	100,000 ÷ CU60 = CU1,667
Incremental shares	CU2,000 − CU1,667 = CU333

Reallocated profit from Class B conversion

Dividends paid to Class B shareholders	CU10,000
Allocated undistributed profit in the calculation of basic earnings per share	CU21,707
Total	CU31,707

	Allocated profits to Class A shares CU	*Number of Class A shares*	*EPS* CU
Distributed	10,500		
Undistributed	22,793		
Basic	33,293	10,000	3.33
Options		333	
Class B conversion	31,707	10,000	
Diluted	**65,000**	**20,333**	**3.20**

Alternative 2: Calculation of diluted earnings per Class A shares using the two-class method

	Allocated profits to Class A shares	*Number of Class A shares*	*EPS*
	CU		CU
Distributed	10,500		
Undistributed	22,793		
Basic	33,293	10,000	3.33
Add-back undistributed profits allocated to Class B shares	21,707		
Options		333	
Subtotal	55,000	10,333	
Less undistributed profits reallocated to Class B shares	(21,343)		
Diluted	**33,657**	**10,333**	**3.26**

Calculation of undistributed profits reallocated to Class B shares:

$$\text{CU44,500 (total undistributed profits)} \times \frac{1.0 \times 10{,}000}{1.05 \times 10{,}333 + 1.0 \times 10{,}000} = \text{CU21,343}$$

In this scenario, the entity assumes conversion of the Class B shares into Class A shares because that outcome is more dilutive. The entity presents diluted earnings per share of CU3.20 for Class A shares.

Calculation of diluted earnings per Class B shares

An entity also calculates diluted earnings per share for a second class of ordinary shares assuming the exercise or conversion of all dilutive potential ordinary shares and potential participating instruments that are not measured at fair value through profit or loss:

	Allocated profits to Class B shares	*Number of Class B shares*	*EPS*
	CU		CU
Distributed	10,000		
Undistributed	21,707		
Basic	31,707	10,000	3.17
Less undistributed profits allocated to Class B shares	(21,707)		
Add-back undistributed profits reallocated to Class B Shares	21,343		
Diluted	**33,657**	**10,333**	**3.26**

The entity presents diluted earnings per share of CU3.13 for Class B shares.

D.4 Instruments of a subsidiary: calculation of basic and diluted earnings per share+

Reference: SB-FRS 33, paragraphs 39, A33 and A34

The example illustrates how potential ordinary shares of a subsidiary that are convertible into ordinary shares of the subsidiary are reflected in the earnings per share calculations of the parent and the subsidiary.

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

The subsidiary issued the following instruments that are not measured at fair value through profit or loss:

Warrants	150, exercisable to purchase ordinary shares of the subsidiary The terms of the warrants require gross physical settlement (ie the settlement will be made by delivering a fixed number of shares and receiving a fixed amount of cash). Therefore, the warrants are classified as equity.
Exercise price	CU10
End-of-period market price of one ordinary share	CU20

+ 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 SB-FRS 32.

Convertible preference shares	400, each convertible into one ordinary share The instruments contain two equity components: a preference right and a call option granting the holder the right, for a specified period of time, to convert the preference shares into a fixed number of ordinary shares of the subsidiary. Therefore, when the entity applies SB-FRS 32, the instrument is classified in its entirety as equity. Because the convertible preference shares are classified as equity, they are not measured at fair value through profit or loss.
Dividends on preference shares	CU1 per share

No intercompany eliminations or adjustments were necessary except for dividends.

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

Subsidiary's earnings per share

Basic EPS

$$\text{CU5.00} = \frac{\text{CU5,400}^{(a)} - \text{CU400}^{(b)}}{1{,}000^{(c)}}$$

Diluted EPS

$$\text{CU3.66} = \frac{\text{CU5,400}^{(d)}}{1{,}000 + 75^{(e)} + 400^{(f)}}$$

(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: [(CU20 − CU10) ÷ CU20] × 150.

(f) Subsidiary's ordinary shares assumed outstanding from conversion of convertible preference shares, 400 convertible preference shares × conversion factor of 1.

Consolidated earnings per share

Basic EPS

$$\text{CU1.63} = \frac{\text{CU12,000}^{(a)} + \text{CU4,300}^{(b)}}{\text{1,000}^{(c)}}$$

Diluted EPS

$$\text{CU1.61} = \frac{\text{CU12,000} + \text{CU2,928}^{(d)} + \text{CU55}^{(e)} + \text{CU1,098}^{(f)}}{\text{10,000}}$$

(a) Parent's profit attributable to ordinary equity holders of the parent entity.

(b) Portion of subsidiary's profit to be included in consolidated basic earnings per share: (800 × CU5.00) + (300 × CU1.00).

(c) Parent's ordinary shares outstanding.

(d) Parent's proportionate interest in subsidiary's earnings attributable to ordinary shares: (800 ÷ 1,000) × (1,000 shares × CU3.66 per share).

(e) Parent's proportionate interest in subsidiary's earnings attributable to warrants: (30 ÷ 150) × (75 incremental shares × CU3.66 per share).

(f) Parent's proportionate interest in subsidiary's earnings attributable to convertible preference shares: (300 ÷ 400) × (400 shares from conversion × CU3.66 per share).

Table of Concordance

This table shows how the contents of SB-FRS 33 and the exposure draft correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ

paragraph in SB-FRS 33	paragraph in exposure draft	paragraph in SB-FRS 33	paragraph in exposure draft
1	1	26	21
2	2	27	22
3	3	28	23
4	4	29	24
4A	5	30	31
5	6	32	25 + 30
6	7	33	32
7	8	31	33
8	9	35	34
9	10	36	35
10	11	37	36
11	12	38	37
12	13	39	38
13	14	40	39
14	A3	41	40
15	A4	42	41
16	A5	43	42
17	A6	44	43
18	A7	45	44 + 46
19	15	46	47
20	16	47	48
21	17 + A8	47A	49
22	A9	48	50
23	[deleted]	49	51
24	20	50	52
25	[deleted]	51	53

paragraph in SB-FRS 33	paragraph in exposure draft	paragraph in SB-FRS 33	paragraph in exposure draft
52	54	A3	A12
53	A17	A4	[deleted]
54	A18	A5	[deleted]
55	A19	A6	[deleted]
56	A20	A7	A13
57	A21	A8	A14
58	[deleted]	A9	A15
59	[deleted]	A10	[deleted]
60	[deleted]	A11	A33
61	[deleted]	A12	A34
62	55	A13	A23
63	[deleted]	A14	A24
64	56	A15	A29
65	57	A16	A30
66	58	[new]	18
67	59	[new]	19
67A	60	[new]	26
68	61	[new]	27
68A	62	[new]	28
69	63	[new]	45
70	64	[new]	A1
71	65	[new]	A2
72	66	[new]	A11
73	67	[new]	A16
73A	68	[new]	A22
74	69	[new]	A25
74A	[deleted]	[new]	A26
75	70	[new]	A27
76	[deleted]	[new]	A28
A1	[deleted]	[new]	A31
A2	A10	[new]	A32