IAS 33
Earnings per share

1. Objective

The objective of IAS 33 is to prescribe principles for determining and presenting earnings per share, so as to improve **performance comparisons** between different entities in the same reporting period, or between different reporting periods for the same entity.

2. Scope

The Standard prescribes principles for the determination and presentation of **earnings per share**, as well as the method for calculating the number of shares used as a denominator in determining earnings per share.
The Standard applies to entities whose ordinary shares or potential ordinary shares are traded or about to be traded on a public stock market.

- **Ordinary share**: an equity instrument that is subordinate to all other classes of equity instruments. Partially paid-up ordinary shares are recognized pro rata to the amounts paid.

- **Potential ordinary share**: a financial instrument that may entitle its holder to ordinary shares. Contingently issuable ordinary shares are recognized only as of the date when specific conditions have been fulfilled. However, those shares whose only issue condition is the passing of time are considered as outstanding from their date of issue.

3. Accounting impact

3.1 Basic earnings per share

Basic earnings per share are calculated by dividing:

- **net profit or loss** for the period (after deducting preference dividends) attributable to holders of ordinary shares, by
- the **weighted average number** of ordinary shares outstanding during the period.

The weighted average number of shares is equal to the number of outstanding shares at the beginning of the period, adjusted for the number of ordinary shares bought back or issued during the period, multiplied by a **time-weighting factor.** For weighting purposes, free-of-charge bonus shares allocated by way of capitalization of reserves are deemed to have been outstanding since the beginning of the period.

Example 1: Company X reports a net income of 20,000.
On 1 January N, company X has equity of 100,000, divided into one thousand ordinary shares with a par value of 100 each.
Basic earnings per share is computed as follows: 20,000/1,000 = 20.
If company X had increased its capital by issuing 200 new ordinary shares fully paid up in cash on 1 July N, it would be necessary to first determine the weighted average number of shares outstanding during the period, i.e.:
[(1,000 × 6) + (1,200 × 6)]/12 = 1,100.
The basic earnings per share would then be: 20,000/1,100 = 18.18.

Example 2: Company Y boasts a share capital of 500,000, divided into 5,000 shares with a par value of 100 each, 1,000 of these shares carrying a preference dividend equal to 5% of the net income of each accounting period.
The net income of company Y for year N is 40,000. The amount of dividends allocated to preference shares is: 40,000 × 5 % = 2,000 (i.e. 2 per share).
The remuneration of preference shares must be deducted from basic earnings for 2,000, resulting in residual basic earnings of 38,000. Basic earnings per share would therefore equal: 38,000/5,000 = 7.60.
The total dividend paid on preference shares is then 9.60 (7.6 + 2) per share.

3.2 Diluted earnings per share

Diluted earnings per share are determined by dividing:

- the **net profit** attributable to ordinary shares adjusted for the after-tax amount of dividends on **dilutive potential shares** recognized as an expense (example: interest paid to the holders of convertible bonds)
- by the weighted average number of ordinary shares adjusted for the effects of all dilutive potential shares, which is equal to the weighted average number of shares is thus equal to the average number of ordinary shares, increased by the number of shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares (convertible bonds, treasury shares, stock options).

Example 3: Company Z has a share capital of 900,000, divided into 4,500 shares with a par value of 200. It also issued 2,500 convertible bonds with a unit value of 100, with a right to issue 500 new shares on conversion. Income for the period was 40,000.
Basic earnings are adjusted for the after-tax effect of interest on convertible bonds. Assuming an interest rate of 5% and a tax rate of 40%, diluted earnings per share would be calculated as follows:
a) adjustment of net income for the effect of interest paid on convertible bonds: 40,000 + ((250,000 × 5 %) × 0.60) = 47,500
b) increase in the number of ordinary shares as a result of dilutive potential shares: 4,500 + 500 = 5,000
c) diluted earnings per share: 47,500/5,000 = 9.50

3.3 Adjustment of earnings per share

For comparison purposes, earnings per share (basic or diluted earnings) must be adjusted for all periods presented for the effects of fundamental errors, changes in accounting policies and business combinations.

4. Disclosure

An entity must disclose in the Notes to the financial statements:

- **basic earnings per share and diluted earnings per share** recognized in the profit and loss statement (even when the amounts are negative) for each class of ordinary shares with different rights to the distribution of net profit for the period;
- the amounts used as the numerator in calculating basic and diluted earnings per share, and a reconciliation of those amounts with **net profit or loss** for the period;
- the weighted average number of ordinary shares (including those related to financial instruments) used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators with each other. When a substantial change in the number of ordinary shares occurs after the closing date and is not included in the calculation, it is necessary to disclose a description with the consequences of the transactions.