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Indian Accounting Standard- IAS -33 Earnings per share – A critical review

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Abstract:

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. Basic earnings per share shall be calculated by dividing profit or loss attributable to equity shareholders of the parent entity, the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated when there are potential ordinary shares in the capital structure. IAS 33 applies to entities whose shares are publicly traded or that are in the process of issuing securities to the public. It is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised or that ordinary shares are issued upon satisfaction of specified conditions. Other entities that choose to present EPS information must also comply with IAS 33. Objectives of the study: i) To review IND AS- 33 Earnings per share. ii) To understand effect of new issue of equity shares on Earnings per share of the company. Hypotheses of the study: HO: The new issue of equity shares doesn't have significant effect on Earnings per share of the company. H1: The new issue of equity shares does have significant effect on Earnings per share of the company. Research Methodology: Secondary data was used to test the hypotheses. Books, research papers and websites were read by the research scholars to write research paper. Scope of the study: The research paper has covered IAS-33. It will be beneficial to teachers, students and research scholars who want to do further research in the area of IAS-33. Limitation of the study: Money and time were main constraints to write research paper. Few examples were taken to analysis data. Observations: It was observed by the research scholar that if new equity shares are issued (by

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conversion of debentures into shares or by issue of bonus shares or right shares) then Diluted Earnings per share will reduce significantly.

Key words: Basic Earnings per share, Diluted Earnings per share, Weighted Average Number of shares, Dilution and Antidilution.

1. Introduction:

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. When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with Ind AS 27 Consolidated and Separate Financial Statements, the disclosures required by this Standard shall be presented both in the consolidated financial statements and separate financial statements. 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.

Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. An entity shall present in the statement of profit and loss basic and diluted earnings per share for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity and for profit or loss attributable to the ordinary equity holders of the parent entity for the period for each class of ordinary shares that has a different right to share in profit for the period. An entity shall present basic and diluted earnings per share with equal prominence for all periods presented.

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

Scope

IAS 33 applies to entities whose shares are publicly traded or that are in the process of issuing securities to the public. Other entities that choose to present EPS information must also comply with IAS 33.

IAS 33 sets out how to calculate both basic earnings per share (EPS) and diluted EPS. The calculation of Basic EPS is based on the weighted average number of ordinary shares outstanding during the period, whereas diluted EPS also includes dilutive potential ordinary shares (such as options and convertible instruments) if they meet certain criteria. IAS 33 was reissued in December 2003 and applies to annual periods beginning on or after 1 January 2005.

2. Review of Literature:

Ajit et al. (2013, p. 8) defined earnings management as "the discretionary use of judgement by managers in financial reporting and in structuring transactions to misinform stakeholders about the underlying economic position and performance of the entity".

In recent times, managers have frequently resorted to manage earnings to meet or beat market estimates and analyst expectations. Companies that meet or beat market expectations generally get rewarded through valuation premiums reflected in their stock prices, which eventually translates into a lower cost of capital (Brown & Caylor, 2005; Goncharov, 2005; Rajpal, 2012).

Goel (2012, p. 1) mentioned that an issue for financial analysts, investors, and corporate executives is how to distinguish between earnings manipulation that ultimately proves to be fraudulent and the day-to-day struggles of managers to meet pre-determined targets by using various accounting flexibilities.

3. Objectives of the study:

i) To review IND AS- 33 Earnings per share.

ii) To understand effect of new issue of equity shares on Earnings per share of the company.

4. Hypotheses of the study:

HO: The new issue of equity shares doesn't have significant effect on Earnings per share of the company.

H1: The new issue of equity shares does have significant effect on Earnings per share of the company.

5. Research Methodology:

Secondary data was used to test the hypotheses. Books, research papers and websites were read by the research scholars to write research paper.

6. Data analysis and Interpretation:

History of IAS 33

January 1996	Exposure Draft E33 Earnings Per Share	
February 1997	IAS 33 Earnings Per Share	Effective for annual periods beginning on or after 1 January 1999
18 December 2003	Revised version of IAS 33 issued by the IASB	Effective for annual periods beginning on or after 1 January 2005
7 August 2008	IASB proposes to amend IAS 33.	
6 September 2007	Amended by IAS 1 Presentation of Financial Statements (2007)	Effective for annual periods beginning on or after 1 January 2009
12 May 2011	Amended by IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements	Effective for annual periods beginning on or after 1 January 2013
12 May 2011	Amended by IFRS 13 Fair Value Measurements	Effective for annual periods beginning on or after 1 January 2013
16 June 2011	Amended by IAS 1 Presentation of Items of Other Comprehensive Income	Effective for annual periods beginning on or after 1 July 2012
24 July 2014	Amended by IFRS 9 Financial Instruments	Effective for annual periods beginning on or after 1 January 2018

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9 April 2024	Amended by IFRS 18 Presentation and Disclosure in Financial Statements	The amendments to IAS 33 permit an entity to disclose additional earnings per share in the notes only if the numerator is either a total or subtotal identified in IFRS 18 or is a management performance measure. The amendments need to be applied when IFRS 18 is applied, which is effective for annual periods beginning on or after 1 January 2027

Example 1:

Particulars	Calculations
Net profit for the Financial Year 2024-25	Rs.1,00,00,000
Number of equity shares outstanding	50,00,000
Basic Earnings Per Share	**1,00,00,000/50,00,000 = Rs. 2 per share**
Number of 10% Convertible Debentures of Rs.100 each. (Each Debentures is convertible into 10 Equity shares)	1,00,000
Interest expenses for 2024-25	Rs.10,00,000
Tax relating to Interest expenses (30%)	Rs.3,00,000
Adjusted Net Profit	Rs. (1,00,00,000 + 10,00,000 -3,00,000) = 1,07,00,000
Number of Equity shares from resulting conversion	10,00,000
Total Number of Equity shares	50,00,000 + 10,00,000
Diluted Earnings per share	**1,07,00,000/60,00,000 = Rs.1.78**

Conclusion:

Conversion of Debentures into Equity shares has significant impact on Earnings per share. It has reduced from Rs.2 per share to Rs.1.78. Alternative hypothesis was accepted by researcher.

Example 2:

Particulars	Calculations
Net profit for the Financial Year 2024-25	Rs.10,00,000

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Number of equity shares outstanding	1,00,000
Basic Earnings Per Share	**10,00,000/1,00,000 = Rs. 10 per share**
Number of Bonus shares issued on 15-04-2025	10,000
Total Number of Equity shares	1,00,000 + 10,000
Diluted Earnings per share	**10,00,000/1,10,000 = Rs.9.09**

Conclusion:

Issue of Bonus shares has significant impact on Earnings per share. It has reduced from Rs.10 per share to Rs.9.09. Alternative hypothesis was accepted by researcher.

Example 3

Calculate Basic and Diluted Earnings per share given the following data:

a) Net Profit after tax @ 35% for the year 2024-25 is Rs.4,00,000.

b) On 1st April, 2024 share capital was 50,000 Equity Shares of Rs.10 each.

c) Issue of Rights shares at par for cash on 1st July, 2024 in the ratio of 1 new share for 5 shares held.

d) Convertible Debentures as on 1st April, 2024 were 12% Debentures of Rs.1,00,000.

Basic Earnings Per Share = Earnings/ Weighted Average Shares = 4,00,000/67,500 =**Rs.5.93 per share**

Diluted Earnings per share= Diluted Earnings/ Total Weighted Shares = 4,07,800/ 77,500 = **Rs.5.26 per share**

#Diluted Earnings = Rs.4,00,000 +12,000 -4,200 =Rs.4,07,800

Total Weighted Shares = 67,500 + 10,000 = 77,500

Conclusion:

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Issue of Bonus shares, Right shares and Convertible Debentures into Equity shares have significant impact on Earnings per share. It has reduced from Rs.5.93 per share to Rs.5.26. Alternative hypothesis was accepted by researcher.

7. Scope of the study:

The research paper has covered IAS-33. It will be beneficial to teachers, students and research scholars who want to do further research in the area of IAS-33.

8. Limitation of the study:

Money and time were main constraints to write research paper. Few examples were taken to analysis data.

9. Observations:

It was observed by the research scholar that if new equity shares are issued (by conversion of debentures into shares or by issue of bonus shares or right shares) then Diluted Earnings per share will reduce significantly.

10. Conclusion:

The objective of Indian AS 33 is to prescribe principles for the determination and presentation of earnings per share which will improve comparison of performance among different enterprises for the same period and among the different accounting periods for the same enterprises. A consistently determined earnings per share data enhances the quality of financial reporting.

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