Accounting standards

AS 20: Earnings per Share

- Earnings per Share
  - Basic Earnings Per Share
  - Diluted Earnings Per Share

Basic Earnings Per Share

Basic earnings per share is calculated as

$$\frac{\text{Net profit (loss) attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the period}}$$

Illustration 1

Date	Particulars	Purchased	Sold	Balance
1st January	Balance at beginning of year	1,800	-	1,800
31st May	Issue of shares for cash	600	-	2,400
1st November	Buy Back of shares	-	300	2,100

Calculate Weighted Number of Shares.

Bonus and Right Issue

Illustration 3

Net profit for the year 2019	*` 18,00,000*
Net profit for the year 2020	*` 60,00,000*
No. of equity shares outstanding until 30th September 2020	*20,00,000*

Bonus issue 1st October 2020 was 2 equity shares for each equity share outstanding at 30th September, 2020

Calculate Basic Earnings Per Share.

Bonus and Right Issue

Illustration 4

Net profit for the year 2019	*` 11,00,000*
Net profit for the year 2020`	*15,00,000*
No. of shares outstanding prior to rights issue	*5,00,000 shares*

Rights issue price` 15.00

Last date to exercise rights1st March 2020

Rights issue is one new share for each five outstanding (i.e. 1,00,000 new shares)

Fair value of one equity share immediately prior to exercise of rights on 1st March 2020 was ` 21.00.
Compute Basic Earnings Per Share.

Diluted Earnings Per Share

Illustration 5

Net profit for the current year	*` 1,00,00,000*
No. of equity shares outstanding	*50,00,000*
Basic earnings per share	*` 2.00*
No. of 12% convertible debentures of ` 100 each	*1,00,000*
Each debenture is convertible into 10 equity shares	
Interest expense for the current year	*` 12,00,000*
Tax relating to interest expense (30%)	*` 3,60,000*

Diluted Earnings Per Share

Diluted EPS in case of share options

Net profit for the year 2020	*` 12,00,000*
Weighted average number of equity shares outstanding during the year 2020	*5,00,000 shares*
Average fair value of one equity share during the year 2020	*` 20.00*
Weighted average number of shares under option during the year 2020	*1,00,000 shares*
Exercise price for shares under option during the year 2020	*` 15.00*

Compute Basic and Diluted Earnings Per Share.

AS 22: Accounting for Taxes on Income

Income Tax

Current tax + Deferred tax

is the amount of income tax determined to be payable (recoverable) in respect of the taxable income (tax loss) for a period.

is the tax effect of timing differences.

AS 22: Accounting for Taxes on Income

Recognition

Tax expense for the period, comprising current tax and deferred tax, should be included in the determination of the net profit or loss for the period.

Taxes on income are considered to be an expense incurred by the enterprise in earning income and are accrued in the same period as the revenue and expenses to which they relate. Such matching may result into timing differences. The tax effects of timing differences are included in the tax expense in the statement of profit and loss and as deferred tax assets or as deferred tax liabilities, in the balance sheet.

AS 22: Accounting for Taxes on Income

Measurement

Current tax should be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the applicable tax rates and tax laws.

Deferred tax assets and liabilities are usually measured using the tax rates and tax laws that have been enacted by the balance sheet date.

However, certain announcements of tax rates and tax laws by the government may have the substantive effect of actual enactment. In these circumstances, deferred tax assets and liabilities are measured using such announced tax rate and tax laws.

Deferred tax assets and liabilities should not be discounted to their present value.

AS 22: Accounting for Taxes on Income

Disclosure

Statement of profit and loss

Under AS 22, there is no specific requirement to disclose current tax and deferred tax in the statement of profit and loss. However, considering the requirements under the Companies Act, 2013, the amount of income tax and other taxes on profits should be disclosed.

AS 22 does not require any reconciliation between accounting profit and the tax expense.

Balance sheet

The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balance should be disclosed in the notes to accounts.

Deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities.

AS 22: Accounting for Taxes on Income

Illustration 1

Rama Ltd., has provided the following information:

	`
Depreciation as per accounting records	= 2,00,000
Depreciation as per income tax records	= 5,00,000
Unamortised preliminary expenses as per tax record	= 30,000

There is adequate evidence of future profit sufficiency. How much deferred tax asset/liability should be recognised as transition adjustment? Tax rate 50%.

AS 22: Accounting for Taxes on Income

Illustration 2

From the following details of A Ltd. for the year ended 31-03-2020, calculate the deferred tax asset/ liability as per AS 22 and amount of tax to be debited to the Profit and Loss Account for the year.

Particulars	`
Accounting Profit	*6,00,000*
Book Profit as per MAT	*3,50,000*
Profit as per Income Tax Act	*60,000*
Tax rate	*20%*
MAT rate	*7.50%*

AS 22: Accounting for Taxes on Income

Illustration 5

PQR Ltd.'s accounting year ends on 31st March. The company made a loss of ` 2,00,000 for the year ending 31.3.2015. For the years ending 31.3.2019 and 31.3.2020, it made profits of `1,00,000 and `1,20,000 respectively. It is assumed that the loss of a year can be carried forward for eight years and tax rate is 40%. By the end of 31.3.2015, the company feels that there will be sufficient taxable income in the future years against which carry forward loss can be set off. There is no difference between taxable income and accounting income except that the carry forward loss is allowed in the years ending 2019 and 2020 for tax purposes. Prepare a statement of Profit and Loss for the years ending 2018, 2019 and 2020.

Thank You