# Disclosure Standards - IGAAP

- Segment reporting
- Related party disclosures
- Earnings per share

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WIRC

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# Contents

# Abbreviations

| Abbreviations | |
|---|---|
| QRB | Quality Review Board |
| AS | Accounting Standard |
| IGAAP | Indian Generally Accepted Accounting Principles |
| EPS | Earning Per Share |
| BEPS | Basic Earning Per Share |
| DEPS | Diluted Earning Per Share |
| Ind AS | Indian Accounting Standard |
| CODM | Chief Operating Decision Maker |
| KMP | Key Managerial Person |
| CCD | Compulsory Convertible Debentures |
| CFS | Consolidated Financial Statements |
| SFS | Separate Financial Statements |
| CARO, 2016 | Companies (Auditor’s Report) Order, 2016 |
| EOM | Emphasis Of Matter |

# Applicability and Relaxations

# Overview

| | AS 17 | AS 18 | AS 20 |
|---|---|---|---|
| Non-SMC | ✓ | ✓ | ✓ |
| Level I | ✓ | ✓ | ✓ |
| SMC | Not mandatory | ✓ | ✓ + Relaxation |
| Level II | Not mandatory | ✓ | ✓ + Relaxation |
| Level III | Not mandatory | Not mandatory | N. A. |

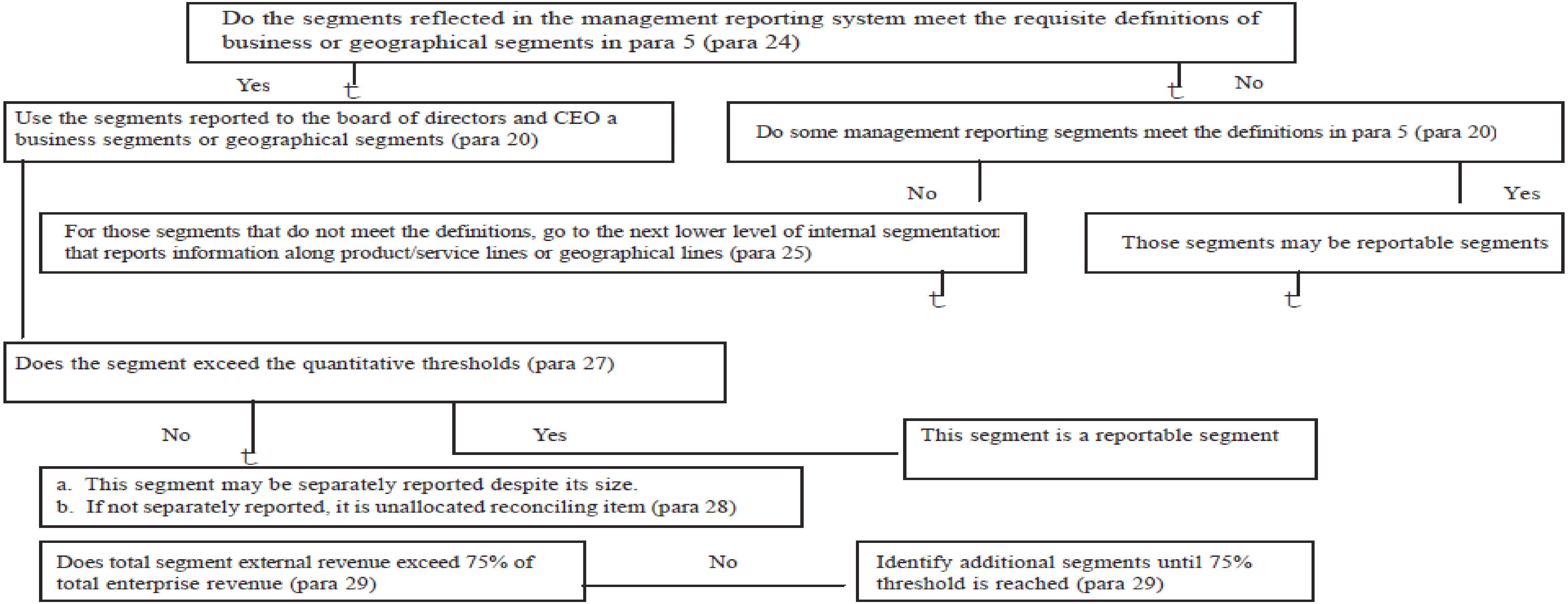
# AS 17 – Segment Reporting

"When the FASB periodically surveys investors about what areas within U.S. GAAP should be improved, Segment Reporting is frequently near the top of the list."

# Relevance of AS 17

- Overview of products, services and geographical areas in which entity operates
- Better understanding of performance of the enterprise
- Assessment of risks and returns of the diversified or multi-locational enterprise since the same may not be determinable from aggregated data
- To make informed judgments about the enterprise as a whole

# Segment Definition Decision Tree [para 24-32]




The dominant source and nature of risks and returns will determine whether business segment or geographical segment is a primary segment reporting format

# Case A – Matrix structured enterprises

Risks and returns of entity are strongly influenced both by (a) products and services and (b) geographical areas in which it operates. What would be the primary and secondary segment reporting format?

As per para 20(a) of AS 17 – Segment Reporting, entity **should use business segments as its primary segment reporting format** and geographical segments as secondary. Para 22 of AS 17 **permits** entity may use **matrix presentation** when risk and rewards are strongly affected by both differences in (a) products / services and (b) geographical areas in which it operates

**Ind AS regime:**
In case of matrix form of organization, the entity should **refer the core principle** in determining which set of component constitute operating segment as per Ind AS 108 – Operating Segments. In my view, if the entity's priority is to increase market share, total sales & geographical coverage, the most relevant information for investors would be geographical segment. An entity whose priority is to improve the sales of individual products by improving the quality of product, product related information would be most relevant

# Case B – Identifying reportable segment

The internal organizational and management structure of entity and its internal financial reporting system are neither based on individual products or services or groups of related products/ services nor on geographical areas. What would be the primary and secondary segment reporting format?

As per para 20(b) of AS 17- Segment reporting, the directors / management should **determine whether the risks and returns are related more to the products and services or to the geographical areas in which it operates** and should, accordingly, choose business segments or geographical segments as the primary / secondary segment reporting format

**Ind AS regime:**
This issue will not arise in case of Ind AS 108 – Operating Segment since there is **no concept of primary and secondary reporting format**

# Case C – Quantitative thresholds

An enterprise operates through eight segments: A, B, C, D, E, F, G and H. The relevant information about these segments is given in the following table. Management designate Segment C as reportable segment

Rs. in thousands

| **Particulars** | **A** | **B** | **C** | **D** | **E** | **F** | **G** | **H** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| External sales **[I]** | - | 255 | 15 | 10 | 15 | 50 | 20 | 35 | **400** |
| Inter-segment sales **[II]** | 100 | 60 | 30 | 5 | - | - | 5 | - | **200** |
| Total revenue **[III=I+II]** | 100 | 315 | 45 | 15 | 15 | 50 | 25 | 35 | **600** |
| Segment result [Profit / (Loss)] | 5 | **(90)** | **15** | (5) | 8 | (5) | 5 | 7 | **(60)** |
| Segment asset | 15 | 47 | 5 | 11 | 3 | 5 | 5 | 9 | **100** |
| % of segment revenue **[III/600]** | **16.7** | **52.5** | 7.5 | 2.5 | 2.5 | 8.3 | 4.2 | 5.8 | |
| % of segment asset | **15** | **47** | 5 | **11** | 3 | 5 | 5 | 9 | |
| Combined result of all segments in profits | 5 | - | 15 | - | 8 | - | 5 | 7 | **40** |
| Combined result of all segments in loss | - | (90) | - | (5) | - | (5) | - | - | **(100)** |

# Case C – Quantitative thresholds (Continued)

- As per para 27(b), higher of combined result of (a) all segments in profits [Rs. 40,000] and (b) all segments in loss [Rs. 1,00,000] should be considered for determining the threshold limit. Accordingly, 10% of Rs. 1,00,000 should be considered for determining reportable segments. As per this, Segment B and C are reportable segments

- Segments A & B and Segments A, B & D are reportable segments based on segment revenue and segment assets criteria respectively.  Thus, Segment A, B, C and D are reportable segments based on the threshold criteria

- Para 28 gives an option to management to designate any segment as reportable segment and hence management can designate segment E as reportable segment

- The total external revenue of Segments A, B, C, D and E is Rs. 2,95,000 which is less then 75% of Rs. 4,00,000 and hence management is required to designate more segments as reportable segment so that the external revenue of reportable segment is 75% of total enterprise revenue as required by para 29. Lets assume management designate Segment H for this purpose. Now, the external revenue of reportable segment is more than 75% of enterprise revenue

- Segments A, B, C, D, E and H are reportable segments. Segments F and G will be shown as reconciling items

# Case D – Thresholds not met in current year

Entity had a reportable segment in FY 2018-19 but for FY 2019-20, that segment does not meet the quantitative threshold limits prescribed under AS 17. Should entity continue to disclose the segment as reportable segment?

As per para 31 of AS 17- Segment reporting, segment which was identified as **a reportable segment in the immediately preceding period should continue to be a reportable segment for the current period** notwithstanding that its revenue, result, and assets all no longer meet the 10 per cent thresholds

**Ind AS regime**:
As per Ind AS 108 – Operating Segments, if management judges that an operating segment identified as a reportable segment in the immediately preceding period is of **continuing significance**, information about that segment shall continue to be reported separately in the current period even if it no longer meets the 10% thresholds

# Primary reporting format

- Segment revenue (internal as well as external) – EAO on self-generated electricity
- Segment results
- Segment assets – EAO on income tax expenses / assets
- Segment liabilities
- Capital expenditure
- Depreciation and amortization expenditure
- Non-cash expenditure other than depreciation and amortization expenditure such as impairment, share based payments, etc. [exempted if AS 3 disclosure is given]
- Reconciliation of revenue, results, assets and liabilities with information in financial statement

# Secondary segment information

| **Disclosures required in case of secondary segment** | **Business Segment [Primary reporting format]** | **Geographical segment (location of assets) [Primary reporting format]** | **Geographical segment (location of customers) [Primary reporting format]** |
|---|---|---|---|
| Revenue from external customers | By location of customers | By business segment and by location of customer | By business segment |
| Segment assets | By location of assets | By business segment | By business segment and by location of assets |
| Capital expenditure | By location of assets | By business segment | By business segment and by location of assets |

# Other disclosures

- Basis of pricing inter-segment transfers and any change therein [para 53]
- Changes in segment accounting policies [para 54 of AS 17 give cross reference of AS 5]
- Types of products and services in each business segment [para 58]
- Significant accounting policy for segment reporting [para 18]
- Composition of geographical segment [para 58]
- Reference of AS 17 in other standards like:
  - para 20(b) of AS 24 discontinued operations
  - para 120, 121 of AS 28 impairment of assets

# Example of disclosures under AS 17 – HUL

**52) SEGMENT INFORMATION FOR THE YEAR ENDED 31ST MARCH, 2016**

| | For the year ended 31st March, 2016 | | |
|---|---|---|---|
| | External | Intersegment | Total |
| **REVENUE** | | | |
| Soaps and Detergents | 15,053.30 | - | 15,053.30 |
| Personal Products | 9,771.95 | - | 9,771.95 |
| Beverages | 3,880.85 | - | 3,880.85 |
| Packaged Foods | 2,117.07 | - | 2,117.07 |
| Others | 2,332.44 | - | 2,332.44 |
| **Total Revenue (Refer note 3 to segment information)** | **33,155.61** | **-** | **33,155.61** |
| **RESULT** | | | |
| Soaps and Detergents | | | 2,142.07 |
| Personal Products | | | 2,758.31 |
| Beverages | | | 652.93 |
| Packaged Foods | | | 126.63 |
| Others | | | 174.71 |
| **Total Segment** | | | **5,854.65** |
| Un-allocated corporate expenses net of un-allocated income | | | (262.34) |
| **Operating Profit** | | | **5,592.31** |
| Finance Costs | | | (4.54) |
| Other income | | | 397.32 |
| **Profit before exceptional items and tax** | | | **5,985.09** |
| Exceptional items - income / (expenditure) - Segment | | | |
| Soaps and Detergents | | (10.79) | |
| Personal Products | | (28.71) | |
| Beverages | | (1.70) | |
| Packaged foods | | (0.47) | |
| Others | | (2.69) | |
| | | | (44.36) |
| Exceptional items - income/ (expenditure) - Unallocated/ Corporate | | | 5.83 |
| **Profit before tax** | | | **5,946.56** |
| Taxation for the year | | | |
| Current tax | | | (1,886.38) |
| Deferred tax - credit | | | 33.90 |
| **Profit after tax and before minority interest** | | | **4,094.08** |
| Less: Minority Interest | | | (11.66) |
| **Profit for the year** | | | **4,082.42** |

**52) SEGMENT INFORMATION FOR THE YEAR ENDED 31ST MARCH, 2016 (CONTD.)**

**Information about Primary Business Segments**

**Other Information**

| | Segment Assets | | Segment Liabilities | |
|---|---|---|---|---|
| | As at 31st March, 2016 | As at 31st March, 2015 | As at 31st March, 2016 | As at 31st March, 2015 |
| Soaps and Detergents | 3,525.08 | 3,409.52 | (3,459.38) | (3,357.15) |
| Personal Products | 1,725.45 | 1,491.88 | (2,042.99) | (1,877.23) |
| Beverages | 1,234.93 | 1,077.01 | (576.73) | (699.81) |
| Packaged foods | 758.26 | 683.89 | (479.12) | (467.97) |
| Others | 826.66 | 870.73 | (508.05) | (557.02) |
| **Total** | **8,070.38** | **7,533.03** | **(7,066.27)** | **(6,959.18)** |
| Unallocated Corporate Assets / (Liabilities) | 7,094.47 | 6,896.87 | (4,101.82) | (3,418.44) |
| **Total Assets / (Liabilities)** | **15,164.85** | **14,429.90** | **(11,168.09)** | **(10,377.62)** |

| | Capital Expenditure | | Depreciation/Amortisation | | Non - Cash expenses other than depreciation | |
|---|---|---|---|---|---|---|
| | For the year ended 31st March, 2016 | For the year ended 31st March, 2015 | For the year ended 31st March, 2016 | For the year ended 31st March, 2015 | For the year ended 31st March, 2016 | For the year ended 31st March, 2015 |
| Soaps and Detergents | 332.42 | 287.45 | 129.24 | 110.64 | 14.40 | 29.23 |
| Personal Products | 203.36 | 111.25 | 108.76 | 87.78 | 10.27 | 18.00 |
| Beverages | 71.85 | 57.06 | 18.30 | 15.88 | 3.74 | 6.72 |
| Packaged Foods | 39.62 | 58.27 | 38.44 | 33.19 | 1.84 | 3.41 |
| Others | 44.73 | 39.21 | 25.43 | 24.80 | 4.60 | 7.10 |
| Unallocated Corporate Assets / (Liabilities) | 126.05 | 44.15 | 37.10 | 50.10 | 21.15 | 0.96 |

**Information about Secondary Business Segments**

| | For the Year ended 31st March, 2016 | For the Year ended 31st March, 2015 |
|---|---|---|
| **Revenue by Geographical Markets** | | |
| India | 31,232.74 | 29,981.59 |
| Outside India | 1,922.87 | 1,910.01 |
| **Total** | **33,155.61** | **31,891.60** |
| **Additions to Tangible and Intangible Fixed Assets** | | |
| India | 684.40 | 548.36 |
| Outside India | 7.58 | 4.87 |
| **Total** | **691.98** | **553.23** |
| **Carrying Amount of Segment Assets** | | |
| India | 7,753.12 | 7,254.45 |
| Outside India | 317.27 | 278.58 |
| **Total** | **8,070.38** | **7,533.03** |

# AS vis-a-vis Ind AS

| Particulars | AS 17 – Segment Reporting | Ind AS 108 – Operating Segments |
|---|---|---|
| Identification of segments | Risk and reward approach based on products and services and on geographical areas | Management approach i.e. based on how the financial information is reviewed by CODM |
| Measurement of amounts | Consistent with the accounting policies adopted for preparing and presenting the financial statements | Same measurement basis as is used by the CODM however reconciliation with financial statement needs to be provided |
| Aggregation criteria | No specific guidance provided | Specifies aggregation criteria for aggregation of two or more segments |
| Entity wide disclosures | Disclosures required based on classification of segments as primary or secondary | Entity wide disclosures regarding information about product and services, geographical areas and major customers are required in case if the entity has only one reportable segment |

# Key takeaway

Audit planning and materiality to consider the aspect of segments involved

IFC for collating such disclosure requirements

In case of loss making segment – additional inquiry / audit steps to be carried out for its impact on financial statement

Checkpoints and checking notes for each client

# Non-compliances observed by ICAI

- Non-disclosure of the fact that segment reporting has been disclosed only in case of consolidated financial statement
- Non-disclosure of segment assets and additions thereon even when the is entity having secondary segment (geographical segment)
- Earnings is foreign currency but geographical disclosure not given
- Non-disclosure of the fact that the entity has only one business segment and geographical segment

# AS 18 – Related party disclosures

# Relevance of AS 18

- Transactions between related parties may not be at the same terms & conditions as between unrelated parties (credit period, pricing, right of return, delivery terms, etc.)
- Related parties may enter into transactions which unrelated parties would not enter into (e.g. cost sharing, corporate guarantee)
- Existence of the relationship may be sufficient to affect the transactions of the reporting enterprise with other parties
- Emphasis on control and significant influence (through holding, agreement, veto power, etc.)

SA 550 on Related Parties r.w. SA 240 (fraud), 315 (risks)and 330 (auditor responses to assessed risk)

Companies Act 2013 -185, 186, 188, CARO, Schedule III

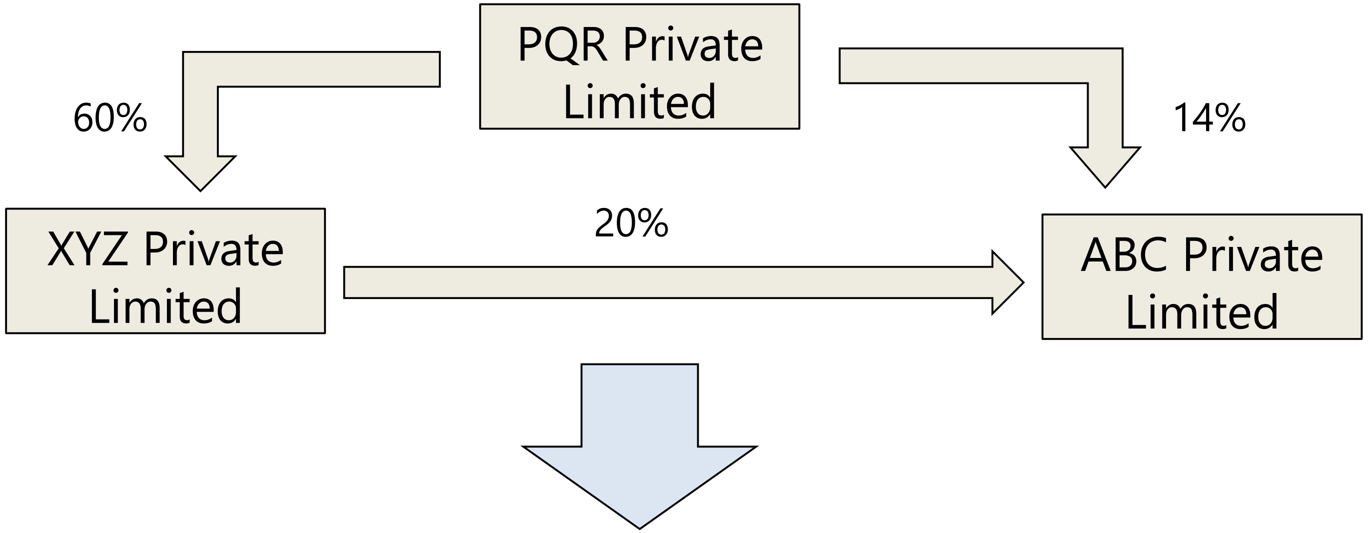
SEBI (LODR) also focus on regulating RP and RPT (now half yearly disclosures are required to be published)

Income tax – Transaction on arm’s length basis – reporting in tax audit and transfer pricing audit

# Key principles

| | |
|---|---|
| Related party disclosures are not required | • When prohibited by statute<br>• In case of intra-group transactions in CFS<br>• In case of state-controlled enterprises |
| Disclosures as per AS 18 | • Name of related party<br>• Nature of relationship<br>• Description of transaction (including transaction price is Nil)<br>• Volume of the transactions & outstanding balances (amount or proportion)<br>• Provisions for doubtful debts, amounts written off or written back<br>• Any other element of RPT necessary for understanding FS |

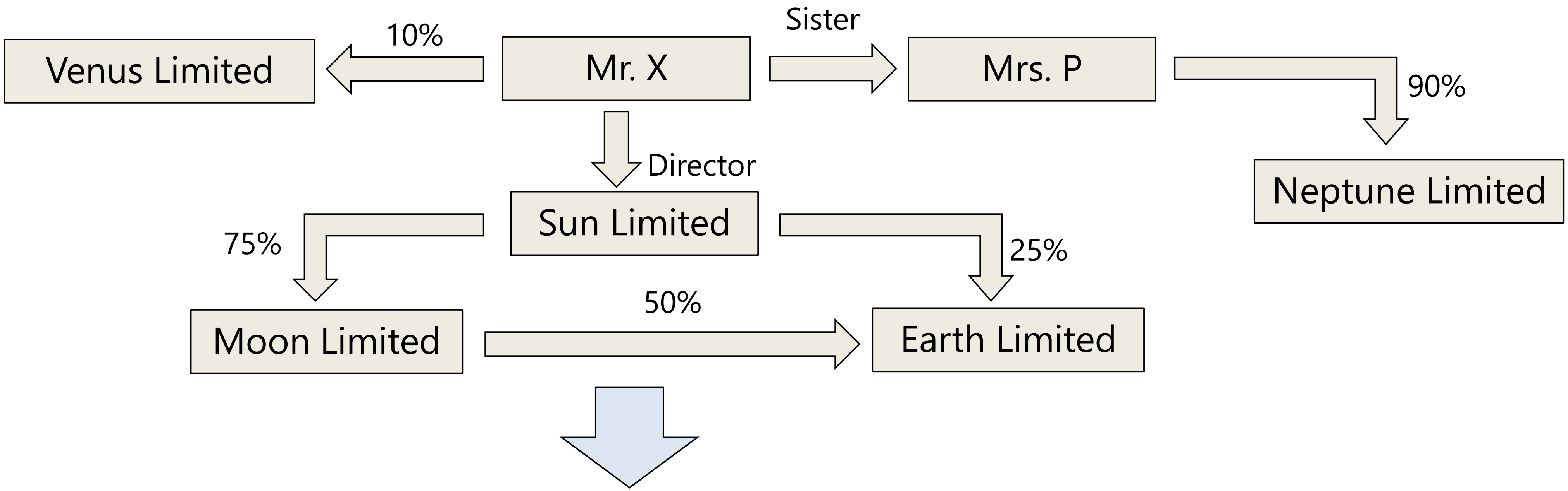
# Case A (i) – Identifying related party relationship




- PQR Private Limited has 60% voting rights in XYZ Private Limited and hence it **controls** XYZ Private Limited [para 3(a) and para 10.3]

- PQR Private Limited directly and through XYZ Private Limited holds 26% [14% + 12% (60% of 20%)] in ABC Private Limited and hence PQR Private Limited has **significant influence** in ABC Private Limited [para 3(b) and para 10.4]

# Case A (ii) – Identifying related party relationship




Sun Limited holds 75% shares in Moon Limited and hence, it controls Moon Limited

Sun Limited holds 62.5% shares in Earth Limited [25% directly and 37.5% through Moon Limited (75% of 50%)] and hence, it also controls Earth Limited

Mr. X is KMP of Sun Limited as per para 3(d) and para 10.8

Mrs. P is related to Sun Limited (relative of KMP) as per para 3(d) and para 10.9

Neptune Limited is related to Sun Limited as per para 3(e)

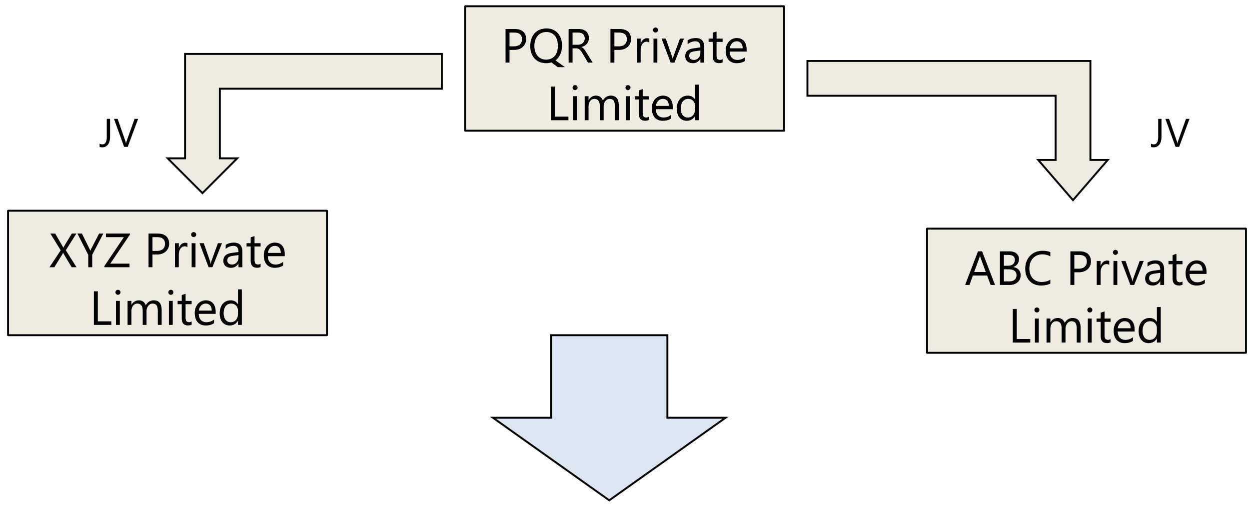
# Case B – Termination of relationship before balance sheet date

X Private Limited sells goods to its associate company on regular basis. After Q1, the relationship ceased to exist. However, goods were supplied to it like any other customer. Whether transactions for entire year is required to be disclosed under AS 18?

As per para 23 of AS 18 - Related party disclosures, **transactions for Q1 are required to be disclosed** as related party transactions. Transactions for the period in which related party relationship did not exist is not required to be disclosed

**Ind AS regime**:
Same treatment under Ind AS 24 – Related party transactions

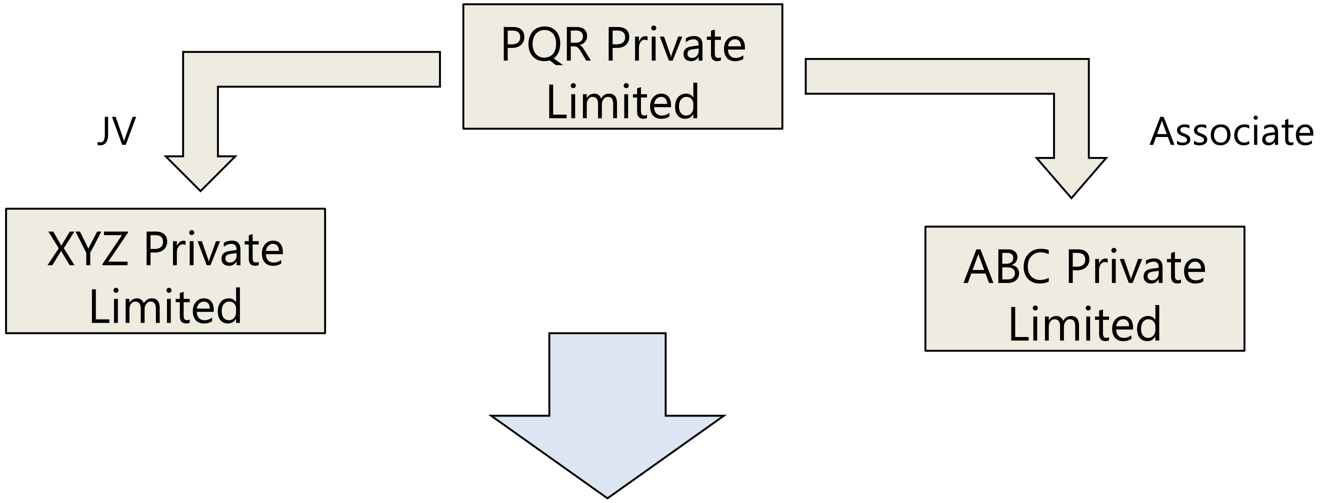
# Case C – Fellow joint venture




XYZ Private Limited and ABC Private Limited are not related to each other as per AS 18

**Ind AS regime**:
XYZ Private Limited and ABC Private Limited are related parties as per Ind AS 24 - Related party disclosure

# Case D – Associates & Joint Venture of same party




XYZ Private Limited and ABC Private Limited are not related to each other as per AS 18

**Ind AS regime**:
XYZ Private Limited and ABC Private Limited are related parties as per Ind AS 24 - Related party disclosure

# Case E – Post employment benefit plan

PQR Private Limited

PQR Gratuity Trust (post-employment benefit plan for employees of PQR Private Limited)

PQR Private Limited and PQR Gratuity trust are not related to each other as per AS 18

**Ind AS regime**:
PQR Private Limited and PQR Gratuity trust are related parties as per Ind AS 24 - Related party disclosure

# Illustrative disclosure

The manner of disclosures required by paragraphs 23 and 26 of AS 18 is illustrated as below. It may be noted that the format given below is merely illustrative in nature and is not exhaustive.

| | Holding Company | Subsidiaries | Fellow Subsidiaries | Associates | Key Management Personnel | Relatives of Key Management Personnel | Total |
|---|---|---|---|---|---|---|---|
| Purchases of goods | | | | | | | |
| Sale of goods | | | | | | | |
| Purchase of fixed assets | | | | | | | |
| Sale of fixed assets | | | | | | | |
| Rendering of services | | | | | | | |
| Receiving of services | | | | | | | |
| Agency arrangements | | | | | | | |
| Leasing or hire purchase arrangements | | | | | | | |
| Transfer of research and development | | | | | | | |
| Guarantees and collaterals | | | | | | | |
| Management contracts including for deputation of employees | | | | | | | |

Note:

**Names of related parties and description of relationship:**

| | | |
|---|---|---|
| 1. | Holding Company | A Ltd. |
| 2. | Subsidiaries | B Ltd. and C (P) Ltd. |
| 3. | Fellow Subsidiaries | D Ltd. and Q Ltd. |
| 4. | Associates | X Ltd., Y Ltd. and Z (P) Ltd. |
| 5. | Key Management Personnel | Mr. Y and Mr. Z |
| 6. | Relatives of Key Management Personnel | Mrs. Y (wife of Mr. Y), Mr. F (father of Mr. Z) |

# AS vis-a-vis Ind AS

| **Particulars** | **AS 18 – Related party disclosures** | **Ind AS 24 – Related party disclosures** |
|---|---|---|
| Related party definition | Narrow | Broad |
| Relative | Uses the term relatives of individual | Uses the term close member of family of a person. Further the definition is much wider to include domestic partner and their children, etc. |
| Next most senior parent | No such requirement | Required to disclose the name of next most senior parent which produces CFS for public use |
| Compensation to KMP | Disclosure required for remuneration as per AS 15 | Compensation to KMP under various categories is required to be disclosed |
| Amount v/s volume of transaction | Option to disclose volume of transaction either as an amount or as an appropriate proportion | Amount of transaction needs to be disclosed |
| Government related entities | Exemption from disclosure | Certain information is required to be disclosed |

# Key takeaways

When in doubt -- disclose

Ensure completeness (refer MBP 1, last year tax audit report, register of contracts, shareholders agreement, minutes of meeting, etc.)

Discuss with Board and audit committee

Letter of representation

# Non-compliances observed by ICAI and QRB

Non-disclosure of previous year figures

Non-disclosure of related party name and transaction till the date of existence of relationship

Non-disclosure of volume of transaction (either as amount or as a proportion) in case of KMP

Non-executive directors have been disclosed as KMP in contravention of Para 14 of AS-18

# AS 20 – Earnings per share

# Relevance of AS 20

***EPS attract lot of attention hence relevant disclosure amongst all***

To ensure comparability between two or more companies

To ensure comparability between two or more accounting periods

# Key principles

- Basic and diluted EPS [even when negative] should be presented on face of statement of P&L for each class of equity shares that has a different right to share in the net profit for the period (i.e. in accordance with dividend rights)

- Basic EPS = Net profit / loss attributable to equity shareholders [NPAES] ÷ Weighted Average (time-weighted factor) Number of Equity Shares [WANES] outstanding [after adjusting for bonus issue, etc.]

  - NPAES = Net profit or loss (-) preference dividends and DDT

- Diluted EPS = Net profit / loss attributable to equity shareholders ÷ WANES outstanding [after adjusting the effects of all dilutive potential equity shares]

  - NPAES [as computed for Basic EPS] after adjusting for any changes that would result from conversion of the dilutive potential equity shares

- Potential equity shares are dilutive when conversion decreases net profit (increase in loss) per share from continuing operations – Principle of anti-dilutive

# Case A – Compulsory convertible instrument

| Particulars | In lakhs |
|---|---|
| Net profit for the year (Rs.) | 200 |
| No of equity shares outstanding | 100 |
| 12%, 1 lakh CCD of Rs. 100 each. [Each debenture is convertible into 10 equity shares] | 100 |
| Tax rate @ 30% | - |
| Calculate BEPS and DEPS | |

| Particulars | Amount |
|---|---|
| BEPS [Rs. 200 lakhs / 100 lakh shares] | 2.00 |
| Interest expense [Rs. 100 lakhs*12%] | 12,00,000 |
| Tax expense on interest [Rs. 12 lakhs*30%] | 3,60,000 |
| Adjusted net profit | 2,08,40,000 |
| No of equity shares after conversion [100 lakhs + 10 lakhs (1 lakh CCD*10)] | 1,10,00,000 |
| DEPS [Rs. 208.40 lakhs / 110 lakh shares] | 1.89 |

**Ind AS regime:**
As per Ind AS 33 – Earnings per share, ordinary shares to be issued on conversion of compulsory convertible instruments are included in calculation of basic EPS. Accordingly, BEPS as under Ind AS regime would be Rs. 1.89 per share

# Case B – Right issue

| | |
|---|---|
| Net profit | Year 20X0 : Rs. 11,00,000<br>Year 20X1 : Rs. 15,00,000 |
| No. of shares outstanding prior to rights issue | 5,00,000 shares |
| Rights issue | One new share for each five outstanding (i.e. 1,00,000 new shares)<br>Rights issue price : Rs. 15.00<br>Last date to exercise rights: 1st March 20X1 |
| Fair value of one equity share immediately prior to exercise of rights on 1st March 20X1 | Rs. 21.00 |

**Computation of theoretical ex-rights fair value per share**

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

$$\frac{(\text{Rs. } 21.00 \times 5{,}00{,}000 \text{ shares}) + (\text{Rs. } 15.00 \times 1{,}00{,}000 \text{ shares})}{5{,}00{,}000 \text{ shares} + 1{,}00{,}000 \text{ shares}}$$

Theoretical ex-rights fair value per share = Rs. 20.00

**Computation of adjustment factor**

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}} \quad \frac{\text{Rs. } (21.00)}{\text{Rs. } (20.00)} = 1.05$$

**Computation of earnings per share**

| | Year 20X0 | Year 20X1 |
|---|---|---|
| EPS for the year 20X0 as originally reported: Rs.11,00,000/5,00,000 shares | Rs. 2.20 | |
| EPS for the year 20X0 restated for rights issue: Rs.11,00,000/ (5,00,000 shares x 1.05) | Rs. 2.10 | |
| EPS for the year 20X1 including effects of rights issue $\frac{\text{Rs. } 15{,}00{,}000}{(5{,}00{,}000 \times 1.05 \times 2/12) + (6{,}00{,}000 \times 10/12)}$ | | Rs. 2.55 |

**Ind AS regime:**
Same treatment is required under Ind AS 33 – Earnings per share

# Case C – Bonus issue

| Particulars | In lakhs |
|---|---|
| Net profit for the FY18-19 (Rs.) | 24 |
| Net profit for the FY19-20 (Rs.) | 80 |
| No of equity shares o/s till 30th Sep 2019 | 20 |
| Bonus issue 1st Oct 2019 – 3 shares for each share o/s as on 30th Sep 2019 | - |
| Calculate BEPS | |

| Particulars | |
|---|---|
| No. of bonus shares (20 lakh shares*3) | 60,00,000 |
| BEPS for FY19-20 [Rs.] [Rs. 80 lakhs / 80 lakhs shares (20 lakh + 60 lakh)] | 1.00 |
| Adjusted BEPS for FY18-19 [Rs. 24 lakhs / 80 lakh shares] [Rs.] | 0.30 |

**Ind AS regime:**
Same treatment is required under Ind AS 33 – Earnings per share

# Case D – Share options

| Particulars | |
|---|---|
| Net profit for the FY19-20 (Rs.) | 20,00,000 |
| WANES for FY2019-20 | 10,00,000 |
| Average fair value of one equity share in FY19-20 (Rs.) | 25.00 |
| WANES under option | 1,00,000 |
| Exercise price for option (Rs.) | 20.00 |
| Calculate DEPS | |

| Particulars | |
|---|---|
| Net profit (Rs.) [A] | 20,00,000 |
| WANES [B] | 10,00,000 |
| BEPS [A/B] (Rs.) | 2.00 |
| No of shares under option [C] | 1,00,000 |
| No of shares that would have been issued at fair value [1,00,000*20]/25 [D] | 80,000 |
| DEPS [A/(B+C-D)] | 1.96 |

**Ind AS regime:**
Same treatment is required under Ind AS 33 – Earnings per share

# Case – E Contingent issuable shares

- Consider it for Basic and diluted EPS from the date when the conditions under a contract are met.
- If conditions not met, then consider it for DEPS from the beginning of year  or date of agreement, if later
- Disclosure is encouraged for contingently issuable potential equity shares are exercised / issued subsequent to year end

# Case F – Treasury shares

ABC Private Limited

Trust created for the sole purpose of holding shares of ABC Pvt. Ltd.

XYZ Trust

(sole beneficiary: ABC Private Limited)

Whether to include the shares held by trust to calculate WANES for BEPS and DEPS calculation?

The Expert Advisory Committee in case of similar issue opined that considering the **'substance over form'** principle, the shares of the company held by the trust should be presented as a deduction from the share capital to the extent of face value of these shares.

**Ind AS regime:**
Same treatment is required under Ind AS 33 – Earnings per share

# Additional disclosures

- Basic and diluted EPS computed on the basis of earnings excluding extraordinary items (net of tax expense)
- Amounts used as the numerators in calculating basic and diluted EPS and a reconciliation with net profit or loss
- WANES used as the denominator in calculating basic and diluted EPS and a reconciliation of these denominators to each other
- Nominal value of shares along with the EPS figures
- In case of bonus issue, share spilt, etc., basic and diluted EPS should be restated for earlier years

# Example of disclosures as per para 48

NOTE "37" Earnings per Share (EPS):

| Particulars | | 2015-16 | 2015-14 |
|---|---|---|---|
| Profit after tax | ₹ in Lakh | 40,501 | 30,553 |
| Less : Dividend on Preference Shares (including dividend distribution tax) | ₹ in Lakh | 12,147 | 7,676 |
| Profit after tax available for equity shareholders | ₹ in Lakh | 28,354 | 22,877 |
| Weighted average number of equity shares used in computing Basic EPS | Nos | 2,768,827,547 | 2,768,771,879 |
| Face value of equity shares | Rupees | 10 | 10 |
| **Basic EPS** | **Rupees** | **1.02** | **0.83** |
| Profit after tax available for equity shareholders | ₹ in Lakh | 28,354 | 22,877 |
| Weighted Average Number of equity shares used in computing Basic earnings per share | Nos | 2,768,827,547 | 2,768,771,879 |
| Add: Potential weighted average number of equity shares | Nos | 57,190,623 | 57,246,291 |
| Weighted average number of shares in computing Diluted EPS | Nos | 2,826,018,170 | 2,826,018,170 |
| Face value of equity shares | Rupees | 10 | 10 |
| **Diluted EPS** | **Rupees** | **1.00** | 0.81 |

Notes :

1. Shares under the ESOP Schemes are issued at intrinsic value. [Refer Note 1(xiii)]
2. The earnings per equity share is calculated on the basis of net profit for the year after deducting the amount of preference dividends on cumulative redeemable preference shares and taxes attributable thereto, net of set off available.

**Tata Capital**

| (i) Earnings per share | 2015 | 2014 |
|---|---|---|
| Earnings per share has been computed as under: | | |
| (a) Profit for the year (₹ in Crores) | 9607.73 | 8785.21 |
| (b) Weighted average number of Ordinary shares outstanding | 7,97,62,97,104 | 7,92,14,54,725* |
| (c) Effect of potential Ordinary shares on Employee Stock Options outstanding | 7,54,08,227 | 9,40,71,139 |
| (d) Weighted average number of Ordinary shares in computing diluted earnings per share [(b)+(c)] | 8,05,17,05,331 | 8,01,55,25,864 |
| (e) Earnings per share on profit for the year (Face Value ₹ 1.00 per share) | | |
| - Basic [(a)/(b)] | ₹ 12.05 | ₹ 11.09 |
| - Diluted [(a)/(d)] | ₹ 11.93 | ₹ 10.96 |

* Includes 87,761 shares issued pursuant to the Scheme of Arrangement [Refer Note 31(x)(c)].

**ITC**

# Example of EOM in audit report – Air India

**EMPHASIS OF MATTER**

We draw attention in respect of;

i) Note no. 27 In respect of Land including Buildings amounting to Rs.76,820.4 Million for which Original Title Deeds are not available / in possession of the company;

ii) Note no 27 (c) towards advance given for purchase of Nerul Land (partially encroached) Rs. 24.6 Million where execution of lease deed and possession thereof is pending;

iii) Non provision of remaining 25% amount Rs. 9,683.5 Million payable as per the report of Justice Dharmadhikari Committee for the payment of Salaries including arrears shown as contingent liabilities. (Refer Note no. 25A (vii));

iv) Expired Duty Credit Entitlement Scrip's under Serve From India Scheme (SFIS) Unutilized and Unapproved amounting to Rs.11,551.5 Million not provided for. Consequently, the carried forward loss of the Company stands understated and Advances Recoverable has been Overstated by the same amount. (Refer Note No. 29);

v) Note No. 10 contains Loans given to Hotel Corporation of India which needs to be read with Basis for Qualification Para 1(vi) amounting to Rs. 1,498 Million (including interest income of Rs.123.7 Million);

vi) Misappropriation/ Shortage of cash of Rs. 4.58 Million at Moscow Station and an additional cash shortage of Rs. 1.4 Million at Sydney Stations. Refer Para (b) & (c) of Note no- 36);

vii) Pending finalization of the Accounts of Subsidiaries and reconciliation, we are unable to comment on the impact, if any;

viii) The year- end balances of Inventory items as well as Consumption during the year have been accounted for based on Reports generated out of RAMCO, which are yet to be reconciled with the Financial Accounts amounting to Rs.63.5 Million;

ix) Completed Work Orders of earlier years but closed during the year amounting to Rs. 5,908 Million has been charged to Material Consumption instead of showing separately as Prior Period Expenses;

x) Note no. 54 (ii) relating to the Unascertained Statutory Dues payable on Transfer of Fixed Assets to subsidiaries.

xi) Note no. 51 (c) (i) The method for determination of arm's length in transactions with the subsidiary company Air India Engineering Services Limited (AIESL) has not been set;

xii) Impact on Earning Per Share, to the extent of the Understatement of the losses remaining unadjusted, due to the Qualifications given above;

**EOM given for the impact on EPS in audit report of Air India (FY14-15)**

# AS vis-à-vis Ind AS

| Particulars | AS 20 – Earnings per share | Ind AS 33 – Earnings per share |
|---|---|---|
| Additional disclosures | No such disclosure | Disclose instruments that are not included in calculation of diluted EPS [anti-dilutive for the periods presented] and which could potentially dilute the basic EPS in future |
| Continuing and discontinued operations | Separate disclosure is not required | Basic and diluted EPS should be presented for both continuing and discontinued operations |
| Compulsory convertible instrument | No specific requirement | Ordinary shares to be issued on conversion are included in calculation of basic EPS |
| Shares to be issued after a passage of time | No specific guidance | Ordinary shares that are to be issued after a passage of time are not treated as contingently issuable shares |
| Contingently returnable shares | No specific guidance | Ordinary shares which are subject to recall are excluded from calculation of basic EPS until the date the shares are no longer subject to recall |

# Key takeaways

Control on excel working for EPS and ensure links are refreshed

For new company, weighted time factor is not relevant

Conduct audit steps of inquiry and verification for share based payments

Avoid common disclosure errors by use of checklist

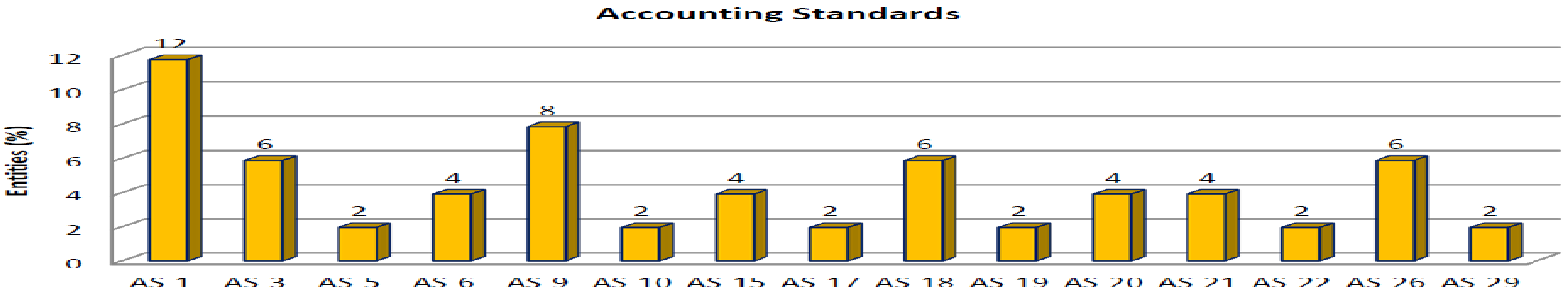
# Non-compliances observed by ICAI and QRB

- Non-disclosure of basic and diluted EPS on face of P&L
- Non-disclosure of reconciliation as per para 48(ii) of AS 20 [e. g reconciliation of numerator of EPS calculation with net profit / loss]
- Non-adjustment of dividend on cumulative preference shares while determining NPAES

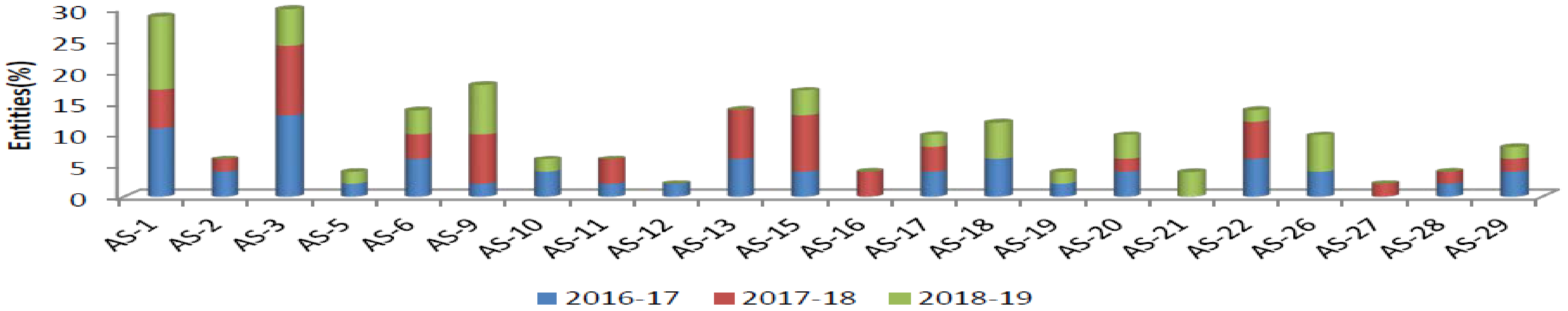
# Summary of non-compliances

# Non-compliances observed by QRB

% of Entities having observations on Accounting Standards (AS)[2] for reviews conducted during FY 2018-19




Comparative Pattern of Key Findings for reviews conducted during FY 2016-17, 2017-18 and 2018-19



# Questions

# Thank You