

**Statement of
Financial Accounting Standards
No. 24**

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Translated by

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Financial Accounting Standards Committee

Statement of Financial Accounting Standards No. 24

Earnings Per Share

I Introduction

- (1) This Statement establishes the accounting standards for the calculation and disclosure of earnings per share for publicly traded enterprises.

II Definitions

- (2) The definitions of key terms used in this Statement are as follows:
- (a) *Earnings per share*: The amount of profit earned or loss incurred attributable to each share of common stock of an enterprise during an accounting period. For convenience, the term “earnings per share” (EPS hereinafter) is used to refer to either earnings or loss per share.
 - (b) *Basic EPS*: The amount of earnings (or loss) per share computed by dividing the amount of net income (or loss) attributable to common stock outstanding for the period by the weighted average number of common shares outstanding during the period.
 - (c) *Diluted EPS*: The amount of earnings (or loss) attributable to each share of common stock under the assumption that all dilutive potential common shares have been converted, exercised or that all contingently issuable shares have been issued.

- (d) *Potential common stock*: A financial instrument or other contract that may entitle its holder to obtain common stock. Potential common stock includes:
- (1) debt or equity instruments that are convertible into common stock (e.g. convertible bonds or convertible preferred stock) ;
 - (2) stock warrants, stock options or similar rights (e.g. call options);
 - (3) Contingent stock agreements that require common stock to be issued upon satisfaction of certain conditions. If all the required conditions have been met, such contingently issuable shares shall be considered as common shares outstanding in computing the earnings per share. Contingent stock agreements generally relate to the purchase of a business or the purchase of assets.
- (e) *Weighted average number of common shares outstanding*: It is the number of common shares outstanding multiplied by the number of days that the specific shares are outstanding as a proportion of the total number of days in the period.
- (f) *Dilutive effect*: A reduction in earnings per share from continuing operations resulting from the assumption that potential common shares have been converted, exercised, or that common shares have been issued (hereinafter referred to as "conversion of potential common stock"). On the contrary, if an increase in earnings per share from continuing operations results, it is called *anti-dilutive effect*.
- (g) *"If-converted" method*: A method of testing whether or not equity or debt securities convertible to common shares are dilutive. This method assumes that the above-stated convertible securities are converted at the beginning of the

period reported (or at the time of issuance, if conversion occurs during the period reported).

- (h) *Treasury stock method*: A method of testing whether or not stock options or warrants are dilutive. This method assumes that the holder of stock options or warrants exercises such options or warrants at the beginning of the period reported (or at the time of issuance, if conversion occurs during the period reported) and any cash proceeds thus obtained by the company would be used to purchase treasury stock at average market prices.
- (i) *Stock options*: The right to purchase a specified number of shares of common stock from the company during a specified period of time, and at a previously agreed-upon exercise price.
- (j) *Stock warrants*: The certificates granting the holder the right to purchase common stock.
- (k) *Exercise price*: The amount that should be paid for exercising the right to purchase one share of common stock.
- (l) *Call option*: A contract that allows the holder to purchase a specified quantity of common shares from the issuing company (the reporting enterprise) at a fixed price for a given period.
- (m) *Put option*: A contract that allows the holders to sell a specified quantity of common shares to the issuing company (the reporting enterprise) at a fixed price for a given period.
- (n) *Financial instrument*: Any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.
- (o) *Fair value*: The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties

in an arm's length transaction.

- (p) *Rights to purchase new shares:* The rights offered to existing shareholders and employees to purchase specified quantity of common shares for a given period. (If the purchase price is substantially less than the fair value of the shares, then such rights contain a bonus element).
- (q) *Contingently issuable shares:* Shares issuable for little or no cash consideration upon the satisfaction of certain conditions pursuant to a contingent stock agreement.

III Explanation

Significance of Earnings Per Share

- (3) Earnings per share is commonly used to evaluate an enterprises' profitability and stock investment risk. Variations in earnings per share over periods represent the profitability trend of an enterprise. The ratio of market price per share to earnings per share (price/earnings ratio or P/E ratio) is often used as a critical indicator for measuring investment return and investment risk, and is important information for making investment decisions

Types of Capital Structure

- (4) An enterprise's capital structure can be classified as either a simple or a complex capital structure. A simple capital structure means that an enterprise issues common stock only, or issues both common stock and non-convertible preferred stock. Capital structures that are not considered simple are all complex capital structures.
- (5) An enterprise with a simple capital structure should present basic EPS on the face of the income statement to present earnings or loss per common share in the current period. An enterprise with a complex capital structure should consider the dilutive effects of potential common shares and present basic EPS and diluted EPS on the face of the income statement, and is known as "dual

presentation."

Dilutive Effect

- (6) When computing diluted EPS, potential common shares are included in the denominator if they are dilutive. On the contrary, anti-dilutive potential common shares are ignored in calculating dilutive EPS. When an enterprise incurs loss from continuing operations, including potential common shares in the diluted EPS computation will result in an anti-dilutive effect, therefore such shares should not be included.
- (7) The number of common shares that would be issued on the conversion of dilutive potential common shares is determined from the terms of the potential common shares. To maximize the dilutive effect, the computation assumes the most advantageous conversion rate or exercise price from the standpoint of the holder of the potential common shares.

Treasury Stock Method

- (8) When using the treasury stock method to test whether or not potential common shares have dilutive effects, if the number of shares issued upon the conversion of potential common shares is greater than the number of shares that can be repurchased under the treasury stock method, the number of common shares outstanding will increase but net income will not increase, thus earnings per share will decrease, which has a dilutive effect. On the contrary, if the number of treasury shares is greater than the number of shares issued when potential common shares are converted, the number of common shares outstanding will decrease and earnings per share will increase, which has an anti-dilutive effect.

If-Converted Method

- (9) After the potential common shares are converted into common shares, the dividends, interest (including amortization of discount or premium) and other income or expense associated with these

potential ordinary shares will no longer be incurred. Therefore, the net income (or loss) for the period attributable to common stockholders is increased (or reduced) upon the conversion of the potential common shares.

- (10) If the conversion of potential common shares leads to consequential changes in other income or expenses, the net income (or loss) for the period should be adjusted for any such consequential changes in income or expense when calculating diluted EPS.

Weighted Average Number of Common Shares Outstanding

- (11) Since earnings per share are used to evaluate the profitability of common shares, therefore, in calculating earnings per share, if there is capital increase (or decrease) in cash, treasury stock transactions or other reasons resulting in change in shares, the weighted-average number of shares outstanding should be used in order to reflect the effect of increase (or decrease) in capital on current period earnings when such change in shares occurs.
- (12) Common shares issued as part of the purchase consideration of a business combination accounted for under the purchase method are included in the weighted average number of shares as of the date of the acquisition, because the acquirer incorporates the results of the operations of the acquiree into its income statement as from the date of acquisition.

Common shares issued as part of a business combination accounted for under the pooling of interests method are included in the calculation of the weighted average number of shares for all periods presented because the financial statements of the combined enterprise are prepared as if the combined entity had always existed. Therefore, the number of common shares used for the calculation of basic earnings per share in a business combination using the pooling of interests method is the aggregate of the weighted average number of shares of the combined enterprises, adjusted to equivalent shares of the enterprise whose shares are outstanding after the combination.

Potential Common Shares Issued by Subsidiary, Jointly-Controlled Entity, or Investee Company Valued at Equity Method

- (13) A subsidiary may issue potential common shares that are convertible into common shares of either the subsidiary or the parent company. If these potential common shares of the subsidiary have dilutive effects on the consolidated or parent company's basic EPS, they are included in the calculation of diluted EPS.

IV Accounting standards

- (14) Enterprises with simple capital structures shall calculate basic EPS. Those with complex capital structures shall calculate basic EPS and diluted EPS.

Calculation of Basic Earnings Per Share

- (15) Basic EPS shall be calculated by dividing the net income (or loss) for the reporting period attributable to common stockholders by the weighted average number of common shares outstanding during that period.

Basic Earnings Per Share - Numerator

- (16) For the purpose of calculating basic EPS, the net income (or loss) for the reporting period attributable to common stockholder shall be the net income (or loss) for the period after deducting preferred dividends. If there are cumulative preferred stocks outstanding, preferred stock dividends shall be deducted from net income (or loss) whether or not dividends are declared. If there are non-cumulative preferred stocks outstanding, preferred dividends for the current period declared and expected to be paid in the next period shall be deducted from net income (or loss). If the preferred dividends are not expected to be paid in the subsequent period, no adjustment shall be needed.

Basic Earnings Per Share – Denominator

- (17) For the purpose of calculating basic EPS, the number of common shares shall be the weighted average number of common shares outstanding during the reporting period.

The newly issued common shares as of capital increase date (for capital increase in cash) or conversion date (for conversion of corporate bonds to common shares) shall be included in the calculation of the weighted-average number of shares outstanding.

- (18) Contingently issuable shares shall be considered outstanding from the date when all necessary conditions have been satisfied and shall be included in the calculation of weighted-average number of common shares outstanding in computing the basic EPS.

- (19) The weighted-average number of common shares outstanding during the period and for all periods presented shall be adjusted for events, other than the conversion of potential common shares, that have changed the number of common shares outstanding without a corresponding change in resources. For example, the weighted-average number of common shares outstanding shall be adjusted currently and retroactively for the *increase* in common shares outstanding from stock issuance (capitalization of retained earnings, additional paid-in capital or employees' bonus), bonus element (such as bonus element in a rights issue to existing stockholders) or stock split. Similarly, the weighted-average number of common shares outstanding shall also be adjusted for the *reduction* in common shares outstanding from a reverse stock split or reverse capitalization due to losses.

- (20) If a rights issue includes a bonus element, the number of common shares to be used in calculating basic EPS for all periods prior to the rights issue shall be the number of common shares outstanding immediately prior to the issue multiplied by the following factor:

Fair value per share immediately prior to the exercise of rights

Theoretical ex-rights fair value per share.

The “theoretical ex-rights fair value per share” is calculated by adding the aggregate fair value of the shares immediately prior to 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.

Diluted Earnings Per Share

- (21) The calculation of diluted EPS is consistent with the calculation of basic EPS while giving the effects of all dilutive potential common shares that were outstanding during the reporting period. When calculating diluted EPS, the net income (or loss) attributable to common stockholders and the weighted-average number of shares outstanding shall be adjusted for the effects of all dilutive potential common shares.

Diluted Earnings Per Share - Numerator

- (22) For the purpose of calculating diluted EPS, the amount of net income (or loss) for the reporting period attributable to common stockholders, as computed in accordance with paragraph 16, shall be adjusted by the after-tax effect:
- (a) dividends on dilutive potential common shares;
 - (b) interest recognized in the period for the dilutive potential common shares; and
 - (c) any other changes in income or expense that would result from the conversion of the dilutive potential common shares.

Diluted Earnings Per Share - Denominator

- (23) For the purpose of calculating diluted EPS, the number of common shares shall be the weighted-average number of common shares outstanding calculated in accordance with paragraphs 17 to 20, plus the weighted-average number of common shares which would be

issued on the conversion of all the dilutive potential common shares into common stocks. Dilutive potential common shares shall be deemed to have been converted into common shares at the beginning of the period or, if later, the date of the issue of the potential common shares.

Contingently Issuable Shares

- (24) Contingently issuable shares may increase the number of common shares in the future. In order to reflect the dilutive effects of current period EPS, the following accounting treatment should be applied in computing the diluted EPS:
- (a) If all necessary conditions have been satisfied by the end of the period, those shares shall be included as of the beginning of the period in which the conditions were satisfied (or as of the date of the contingent stock agreement, if later).
 - (b) If all necessary conditions have not been satisfied by the end of the period, the number of contingently issuable shares included in the diluted EPS computation shall be based on the estimated number of shares, if any, that would be issuable if the end of the reporting period was the end of the contingency period. Those contingently issuable shares shall be included in the denominator of diluted EPS as of the beginning of the period (or as of the date of the contingent stock agreement, if later).
- (25) If a contingent stock agreement requires the issuance of additional shares contingent upon maintenance or attainment of a specified earnings level, and if that amount has been attained by the end of the reporting period, then the diluted EPS computation shall include those shares that would be issued under the conditions of the contract on the assumption that the current amount of earnings will remain unchanged until the end of the agreement. The diluted EPS computation shall include those contingently issuable shares as of the beginning of the period (or as of the date of the contingent stock agreement, if later).

- (26) If a contingent stock agreement requires that the number of contingently issuable shares depends on market price of the stock at a future date, and if the effect of such shares is dilutive, then the market price at the end of the reporting period should be used as a basis for determining the number of issuable shares in computing the diluted EPS.
- (27) If a contingent stock agreement requires that the number of contingently issuable shares depends on an average market price over a specified period of time, then the average market price over that period of time should be used as a basis for determining the number of issuable shares in computing the diluted EPS.
- (28) If a contingent stock agreement requires that the number of contingently issuable shares depends on both future earnings and the market price of future shares, and if the effect of such shares is dilutive, then the earnings to date and market price at the end of the reporting period should be used as a basis for determining the number of issuable shares in computing the diluted EPS. If both of the above conditions are not met at the end of the reporting period, then such contingently issuable shares shall not be included in the computation of diluted EPS.
- (29) If a contingent stock agreement requires that the number of contingently issuable shares depends on conditions other than earnings or market price of stock, then in computing the diluted EPS, the issuable shares shall be determined based upon the assumption that the conditions at the end of the reporting period remain unchanged until the end of such agreement.

Basis for Assessing Dilutive Effect

- (30) An enterprise shall use net income (or loss) from continuing operations as the basis of assessing whether or not the potential common shares have dilutive effect.
- (31) The number of common shares that would be issued on the

conversion of dilutive potential common shares is determined from the terms of the potential common shares. The computation of diluted EPS shall assume the most advantageous conversion rate or exercise price from the standpoint of the holder of the potential common shares.

Treasury Stock Method

- (32) The treasury stock method shall be used to test whether or not call options, stock rights or warrants have dilutive effects in calculating diluted EPS. Under this method:
- (a) Common shares shall be assumed to be issued based upon the exercise of call options, stock options or warrants at the beginning of the period (or at agreement date, if later).
 - (b) The proceeds from exercise of call options, stock options or warrants shall be assumed to be used for purchase of common stock at the average market price during the period.
 - (c) The incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) shall be included in the denominator of the diluted EPS computation.
- (33) Contracts that require that the reporting enterprise repurchase its own stock (e.g. put options and forward purchase contracts) shall be reflected in the computation of diluted EPS if the effect is dilutive. If the exercise price of those contracts is above the average market price for that period, the potential dilutive effect of EPS shall be computed using the *reverse treasury stock method*. Under this method:
- (a) Issuance of sufficient common shares shall be assumed at the beginning of the period (or at agreement date, if later) at the average market price during the period to raise enough proceeds to satisfy the agreement terms.
 - (b) The exercise price shall be assumed to buy back common

shares.

- (c) The incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) shall be included in the denominator of the diluted EPS computation.

If-Converted Method

- (34) The 'if-converted' method shall be used to test whether or not convertible bonds or convertible preferred stocks have dilutive effects. That is, assuming convertible bonds or convertible preferred stocks have been converted at the beginning of the reporting period, therefore, increasing the number of common shares outstanding. The resulting savings in after-tax interest expenses or preferred stock dividends, will increase the net income attributable to common shares. The increase in net income shall be divided by the increase in the weighted-average common shares outstanding in the calculation of individual EPS of convertible bonds or convertible preferred stock.
- (35) In computing the diluted EPS, the assumed increase in common shares from stock options or warrants that have dilutive effect shall first be added to the denominator. Secondly, the individual EPS calculated in the preceding paragraph shall be combined in the diluted EPS computation in the ascending order.
- (36) Potential common shares shall be weighted for the period they were outstanding. For example, potential common shares that were cancelled or allowed to lapse during the reporting period shall be included in the computation of diluted EPS only for the portion of the period during which they were outstanding. Potential common shares that have been converted into common shares during the reporting period shall be included in the calculation of diluted EPS from the beginning of the period to the date of conversion; and from the date of conversion to the end of the period, the resulting common shares shall be included in both basic EPS and diluted EPS. When using the treasury stock method, the calculation of the diluted EPS

for the period from the beginning of the reporting period to the date of conversion shall be based on the average market price of the common stock before the conversion date.

- (37) If one of the following issuing conditions is satisfied, the *'if-converted' method* shall be used first to calculate diluted EPS, and then the *treasury stock method* be used if there is additional cash collected:
- (a) holders of stock options or warrants are allowed to use the bonds or other securities of the issuing enterprise to pay for total or part of the exercise price;
 - (b) issuing enterprise is required to use the cash proceeds from warrants to redeem its bonds when bonds are issued with warrants;
 - (c) holders will pay cash to convert their convertible securities.

Potential Common Shares Issued by Subsidiary, Jointly-Controlled Entity, or Investee Company Valued at Equity Method

- (38) If a subsidiary has dilutive potential common stock, the consolidated diluted EPS and parent's diluted EPS shall be calculated by deducting the parent's share of the realized net income of the subsidiary (which is the subsidiary's current net income or loss less any unrealized gain or loss from transactions between parent and subsidiaries) from the consolidated income, plus the parent's share of the subsidiary's diluted EPS (i.e., the equivalent number of common shares held by the parent company times the basic or diluted EPS of the subsidiary).

Retroactive Adjustment of Earnings Per Share

- (39) If the number of common shares or potential common shares outstanding *increases* from bonus issue (capitalization of retained earnings, additional paid-in capital or employees bonus), bonus element (such as bonus element in a rights issue) or stock split, or *decreases* from a reverse stock split or reverse capitalization due to losses, the calculation of basic EPS and diluted EPS for all periods

presented shall be adjusted retroactively. If these changes occur after the balance sheet date but before the issuance date of the financial statements, such EPS calculations shall also be retroactively adjusted. If the EPS calculation is affected by the above described changes, then the corresponding facts should be disclosed in the financial statements. In addition, the basic EPS and diluted EPS for all periods presented shall be adjusted for:

- (a) prior period adjustments due to accounting errors or change in accounting principles, resulting in restatement of financial statements; and
 - (b) business combination using pooling of interests method.
- (40) An enterprise shall not restate diluted EPS of any prior period presented because of changes in the assumptions used or conversion of potential common shares into common shares outstanding.

Financial Statements Presentation

- (41) An enterprise with simple capital structure shall present basic EPS on the face of the income statement. Those with complex capital structures shall present both basic EPS and diluted EPS on the face of the income statement.
- (42) Earnings per share data shall be presented for all periods covered by comparative income statements. If a complex capital structure exists in any of the periods covered by comparative income statements, dual presentation of basic EPS and diluted EPS shall be made for all periods presented. Other information required by this Statement shall also be disclosed to reflect the extent and trend of the potential dilution.
- (43) Both pretax and after-tax EPS data shall be presented separately in financial statements.

Financial Statements Disclosure

- (44) The financial statements of an enterprise shall disclose the following:

- (a) the amounts used as the numerators in calculating basic EPS and diluted EPS, and a reconciliation of those amounts to the net income or loss for the period; and
 - (b) the weighted-average number of common shares used as the denominator in calculating basic EPS and diluted EPS, and a reconciliation of these denominators to each other.
 - (c) nature and terms of other potential common shares that are not included in the computation of diluted EPS.
- (45) The pre-tax and after-tax amounts of each of the following EPS items should be separately disclosed in the financial statements:
- (a) net income (or loss) from continuing operations;
 - (b) net income (or loss) from discontinued operations;
 - (c) extraordinary items;
 - (d) cumulative effects of changes in accounting principles; and
 - (e) net income (or loss) of the current period.
- (46) An enterprise shall provide a description of any transaction that occurs after the end of the most recent period but before issuance of the financial statements that would have materially changed the number of common shares or potential common shares outstanding at the end of the period. For example, the issuance or acquisition of common shares; the issuance of convertible securities, conversion of preferred stock, stock options or warrants; fulfillment of all of the terms of a contingent stock agreement, and the conversion of potential common shares.

V Notes

- (47) The calculation and disclosure of earnings per share for non-publicly owned enterprises shall be in accordance with this Statement.
- (48) This Statement was issued on July 27, 1995 and was revised on November 11, 2001. The revised statement is effective for financial statements with fiscal years ending on and after December 31, 2002.

An enterprise adopting this Statement for the first time shall follow the provisions of this Statement for preparing the comparative financial statements.

An enterprise having adopted the original provisions of this Statement previously and preparing comparative financial statements for the current period shall follow the revised provisions of this Statement to restate prior-period EPS data.

The provisions of this Statement need not be applied to immaterial items.
