

CICA handbook – accounting highlight summary no. 8 December 2000

HIGHLIGHT SUMMARY

(Note: New Handbook material or changes in existing material are identified in each HANDBOOK REVISIONS RELEASE.)

Earnings per share, Section 3500

This Section revises and replaces earnings per share, Section 3500. The main features of the revised Section 3500 are:

- Enterprises are required to present basic and diluted earnings per share figures for income before discontinued operations and extraordinary items and for net income with equal prominence on the face of the income statement. Presentation of both figures is required, regardless of the size of any difference between them.
- Enterprises that report a discontinued operation or an extraordinary item must also present basic and diluted per share amounts for these line items, either on the face of the income statement or in the notes to the financial statements.
- In the computation of diluted earnings per share:
 - income before discontinued operations and extraordinary items is used as the "control number" in determining whether potential common shares are dilutive or anti-dilutive;
 - each issue or series of issues of potential common shares is considered in sequence from the most dilutive to the least dilutive;
 - there is no time limit on the recognition of potentially dilutive factors; and
 - the treasury stock method is used instead of the imputed earnings approach for determining the dilutive effects of warrants, options and similar instruments. The reverse treasury stock method is used for determining the dilutive effects of written put options and forward purchase contracts.
- Guidance is provided for determining the effects on diluted earnings per share of contingently issuable shares and contracts that may be settled in shares or cash at the issuer's option or the holder's option.
- New disclosure requirements include:
 - a reconciliation of the numerators and the denominators of the basic and diluted per share computations for income before discontinued operations and extraordinary items. The reconciliation includes the individual income and share amount effect of each class of securities that affects earnings per share
 - the identification of the securities that could potentially dilute basic earnings per share in the future but that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the period presented.
- Presentation of pro forma earnings per share figures is replaced by a description of the transactions occurring subsequent to the end of the period that have a material effect on the number of common shares or potential common shares. (Disclosure of adjusted earnings per share figures is no longer required.)

The Recommendations should be applied for fiscal years beginning on or after January 1, 2001, although earlier adoption is encouraged. All prior period earnings per share information presented should be restated to conform with the Recommendations of the Section when adopted.

The Section includes two appendices to provide additional guidance on the application of the Accounting Recommendations to complex capital structures or complex instruments and illustrative examples of the computation and presentation of earnings per share information as required by the Section.

EIC Abstract

- Accounting by commodity producers for written call options (EIC-113)

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