

CICA handbook – accounting revisions release nos. 7 & 8

December 2000

ACCOUNTING RECOMMENDATIONS

Income statement, paragraph 1520.02(f)

Amended to change reference from "earnings per share" to "basic and diluted earnings per share", as a result of the issue of new Section 3500.

Business combinations, paragraph 1580.83

Amended to change reference from "fully-diluted earnings per share" to "diluted earnings per share", as a result of the issue of new Section 3500.

Interim financial statements, Section 1751

Amended paragraphs 1751.12, 1751.31 and 1751.B35 to change reference from "fully diluted earnings per share" to "diluted earnings per share", as a result of the issue of new Section 3500.

Earnings per share, Section 3500 [JAN. 2001]

Revises and replaces Section 3500, EARNINGS PER SHARE.

The following Recommendations formerly appeared in Section 3500:

- .06 ♦ *All enterprises, except for the following, should show earnings per share for the current and preceding period in the financial statements covered by the auditors' report:*
 - (a) *business enterprises which do not have share capital;*
 - (b) *government owned companies;*
 - (c) *wholly-owned subsidiaries;*
 - (d) *companies with few shareholders.*

In addition, earnings per share need not be shown in the unconsolidated statements of parent companies where consolidated financial statements are presented to the shareholders. However, if earnings per share are shown in the foregoing cases, they should be calculated and disclosed in accordance with the Recommendations in this Section. [JAN. 1970]
- .09 ♦ *Basic earnings per share figures should be shown either on the face of the income statement or in a note to the financial statements cross-referenced to the income statement.* Ordinarily disclosure by note would be the more effective method where fully diluted or pro-forma earnings per share figures are also included. (See paragraphs 3500.29 to 3500.43 inclusive.) [JAN. 1970]
- .11 ♦ *Basic earnings per share figures for the current and preceding period should be shown for:*
 - (a) *income before discontinued operations and extraordinary items;*
 - (b) *net income for the period.*

It may also be desirable to show the per share figure for discontinued operations and extraordinary items to emphasize their significance to the overall results. [JAN. 1990]
- .16 ♦ *Basic earnings per share should relate to outstanding common shares and not to outstanding senior shares.* It is the rights and privileges of the shares in relation to earnings which determines their classification as "common" or "senior" shares. [JAN. 1970]
- .17 ♦ *Income figures used in the calculation of basic earnings per share should be the reported amounts reduced by:*
 - (a) *as to non-cumulative senior shares, the dividends declared (payable in cash or otherwise) during the period; and*
 - (b) *as to cumulative senior shares, the prescribed dividend (payable in cash or otherwise) whether or not declared.*[JAN. 1970]
- .18 ♦ *When income figures of the preceding period have been restated as a result of the retroactive application of a change in an accounting policy during the current period or a correction of an error, the basic earnings per share of the preceding period should be based on the restated amounts.* (See accounting changes, Section 1506.) [APRIL 1996]
- .20 ♦ *Where common shares have been issued or acquired by the company during the period, the basic earnings per share should be calculated using a weighted average of shares outstanding during the period.* The weighting may be accomplished in terms of either days or months. [JAN. 1972]

- .21 ♦ In the case of mergers and acquisitions involving the issue of common shares, the calculation of the weighted average of common shares outstanding during the period should consider the common shares as having been issued as at the date from which the results of operations of the acquired business are included in the income statement. [JAN. 1970]
- .23 ♦ In the case of common shares issued on conversion of senior shares or debt, the calculation of the weighted average of common shares outstanding during the year should consider the common shares as having been issued as at the date of the termination of the dividend or interest obligation. [JAN. 1970]
- .25 ♦ Where common shares have been issued in connection with a stock dividend on common shares or there has been a stock split or a reverse split during the period or subsequent to the date of the balance sheet, the basic earnings per share should be calculated recognizing the new subdivision of share capital as though it had existed from the beginning of the period. This Recommendation applies retroactively to the basic earnings per share of the preceding period. [JAN. 1970]
- .26 ♦ In calculating basic earnings per share where common shares have been issued as a stock dividend on senior shares, the common shares should be recognized only from the date of issue. [JAN. 1970]
- .28 ♦ Where common shares have been issued on conversion of senior shares or debt during the period, adjusted basic earnings per share should be calculated as though the conversion had taken place at the beginning of the period. For the purpose of this calculation, the income figures used should be those as determined according to paragraph 3500.17 increased by:
 - (a) the amount of dividends declared in the period on senior shares converted; and
 - (b) the amount of interest expensed during the period, after income taxes, on debt converted.

If the resulting per share figures are materially different from the basic earnings per share, they should be disclosed in a note to the financial statements cross-referenced to the income statement; figures should be given for "income before discontinued operations and extraordinary items" and "net income for the period". [JAN. 1990]
- .30 ♦ Where the effect of potential conversions of senior shares or debt, exercises of rights, warrants and options and contingent issuances on earnings per share would be materially dilutive, fully diluted earnings per share figures for "income before discontinued operations and extraordinary items" and "net income for the period", should be disclosed, for the current period, in a note to the financial statements, cross-referenced to the income statement. Such figures should be described as fully diluted. [JAN. 1990]
- .32 ♦ Where fully diluted earnings per share figures are provided for the preceding period, the previously reported fully diluted earnings per share figures should not be recalculated for conversions of senior shares or debt, exercises of rights, warrants and options and contingent issuances which took place during the current period. Similarly, convertible senior shares, convertible debt, options, rights and warrants issued during the period should be excluded from any calculation of fully diluted earnings per share for the preceding period. [JAN. 1970]
- .33 ♦ Conversion or exercise rights which do not become effective within ten years following the date of the balance sheet need not be considered as a dilutive factor. [JAN. 1970]
- .34 ♦ The calculation of fully diluted earnings per share should exclude any potential conversion of senior shares or debt, exercise of rights, warrants and options or other contingent issuances that would increase earnings per share or decrease a loss per share. The purpose of fully diluted earnings per share figures is to reflect the maximum potential dilution of current earnings per share on a prospective basis. [JAN. 1970]
- .35 ♦ Fully diluted earnings per share figures for the current period should be calculated as though the common shares, related to conversions, exercises or other issuances during the period and to all potential dilutive factors, had actually been issued at the beginning of that period (or date of issuance of the convertible or other security, if later). Where the basis of conversion or the exercise price will change from time to time, the calculation of fully diluted earnings per share should be based on the conversion or exercise rights which have the most dilutive effect on earnings per share. [JAN. 1970]
- .36 ♦ Potential dilutive factors include potential conversions of senior shares or debt, exercises of rights, warrants and options and contingent issuances existing at the end of the current period that would be dilutive, if they occurred. [JAN. 1970]
- .37 ♦ For purposes of calculating fully diluted earnings per share, the income figures should be those determined according to paragraph 3500.17 increased by the following:
 - (a) the amount of dividends applicable to convertible senior shares for the period;
 - (b) the amount of interest expensed for the period, after income taxes, on convertible debt; and
 - (c) imputed earnings, after income taxes, on the cash which would have been received on the exercise of options, warrants and rights at an appropriate rate of return. The appropriate rate of return for imputing earnings must be a matter of judgment in each case and should be disclosed together with the dollar amount of imputed earnings after income taxes. [JAN. 1970]
- .39 ♦ Where transactions occurring subsequent to the date of the balance sheet involve the issue of common shares:
 - (a) for cash where the proceeds are to be used to retire senior shares or debt outstanding at the balance sheet date;
 - (b) on the conversion of senior shares or debt outstanding at the balance sheet date; or

(c) *in a reorganization;*
pro-forma basic earnings per share figures for the current period using the altered share capital, for "income before discontinued operations and extraordinary items" and "net income for the period", should be disclosed in a note to the financial statements cross-referenced to the income statement. Such figures should be described as pro-forma. The pro-forma figures would not be shown for the preceding period. Issues of common shares, in circumstances other than those set out above, would not normally be included in pro-forma basic earnings per share calculations. [JAN. 1990]

- .40 ♦ *The pro-forma basic earnings per share figures should be calculated as though the issue of common shares had taken place at the beginning of the current period (or at the date of issuance of the senior shares or debt, if later). For purposes of this calculation, the income figures used should be those as determined according to paragraph 3500.17 increased by:*
- (a) *the amount of dividends for the period applicable to the senior shares to be retired or converted; and*
(b) *the amount of interest expensed for the period, after income taxes, on the debt to be retired or converted.* [JAN. 1970]
- .41 ♦ *Where transactions occurring subsequent to the date of the balance sheet involve the issue of common shares:*
- (a) *for cash where the proceeds are to be used to retire senior shares or debt outstanding at the balance sheet date; or*
(b) *in a reorganization;*
pro-forma fully diluted earnings per share figures for the current period based on the altered potential common share capital, for "income before discontinued operations and extraordinary items" and "net income for the period", should be disclosed in a note to the financial statements, cross-referenced to the income statement. Such figures should be described as pro-forma. The pro-forma figures would not be shown for the preceding period. Issues of common shares, in circumstances other than those set out above, would normally not be included in pro-forma fully diluted earnings per share calculations. [JAN. 1990]
- .42 ♦ *The pro-forma fully diluted earnings per share figures should be calculated as though the issue of common shares had taken place at the beginning of the current period (or at the date of issuance of the senior shares or debt, if later). For purposes of this calculation, the income figures should be those as determined according to paragraph 3500.37 increased by:*
- (a) *the amount of dividends for the period applicable to the senior shares to be retired; and*
(b) *the amount of interest expensed for the period, after income taxes, on the debt to be retired.* [JAN. 1970]
- .45 ♦ *Fully diluted earnings per share figures of an investor should reflect any dilutive factors which exist in investees which are consolidated or accounted for by the equity method.* [JAN. 1973]
- .48 ♦ *Where a company must also comply with the requirements of a regulatory authority outside Canada, any additional earnings per share information required by the foreign jurisdiction which differs from that called for under this Section should be distinguished and identified as being required by other regulatory authorities.* [JAN. 1970]

ACCOUNTING GUIDELINE

The Year 2000 issue (AcG-10)

Withdrawn November 2000.

EIC ABSTRACT

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

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