260 - Earnings Per Share

260-10 - Overall

260-10-00 - Status

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

260-10-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Down Round Feature	Added	Accounting Standards Update No. 2017-11	07/13/2017
Dropdown	Added	Accounting Standards Update No. 2015-06	04/30/2015
Equity Restructuring	Added	Accounting Standards Update No. 2017-11	07/13/2017
Financial Instrument	Amended	Accounting Standards Update No. 2024-02	03/29/2024
Financial Instrument	Added	Accounting Standards Update No. 2017-11	07/13/2017
Not-for-Profit Entity	Added	Accounting Standards Update No. 2017-11	07/13/2017
Option	Amended	Accounting Standards Update No. 2018-07	06/20/2018
Public Business Entity	Added	Accounting Standards Update No. 2017-11	07/13/2017
Share-Based Payment Arrangements	Added	Accounting Standards Update No. 2018-07	06/20/2018
Standard Antidilution Provisions	Added	Accounting Standards Update No. 2017-11	07/13/2017
260-10-05-1A	Added	Accounting Standards Update No. 2017-11	07/13/2017
260-10-25-1	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-25-1	Added	Accounting Standards Update No. 2017-11	07/13/2017
260-10-30-1	Amended	Maintenance Update 2020-18	11/25/2020
260-10-30-1	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-30-1	Added	Accounting Standards Update No. 2017-11	07/13/2017
260-10-30-2	Added	Accounting Standards Update No. 2017-11	07/13/2017
260-10-35-1	Amended	Maintenance Update 2020-18	11/25/2020
260-10-35-1	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-35-1	Added	Accounting Standards Update No. 2017-11	07/13/2017
260-10-45-3	Amended	Accounting Standards Update No. 2015-01	01/09/2015
260-10-45-5	Amended	Accounting Standards Update No. 2020-10	10/29/2020
260-10-45-12A	Superseded	Accounting Standards Update No. 2017-11	07/13/2017
260-10-45-12B	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-45-12B	Added	Accounting Standards Update No. 2017-11	07/13/2017
260-10-45-12C	Added	Accounting Standards Update No. 2017-11	07/13/2017
260-10-45-15	Added	Accounting Standards Update No. 2021-04	05/03/2021
260-10-45-16	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-45-18	Amended	Accounting Standards Update No. 2015-01	01/09/2015
260-10-45-20	Amended	Accounting Standards Update No. 2015-01	01/09/2015
260-10-45-21A	Added	Accounting Standards Update No. 2020-06	08/05/2020
260-10-45-22	Amended	Accounting Standards Update No. 2018-07	06/20/2018
260-10-45-23	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-45-28	Amended	Accounting Standards Update No. 2019-08	11/11/2019
260-10-45-28	Amended	Accounting Standards Update No. 2018-07	06/20/2018
260-10-45-28A	Amended	Accounting Standards Update No. 2018-07	06/20/2018
260-10-45-29 through 45-30	Amended	Accounting Standards Update No. 2018-07	06/20/2018
260-10-45-29	Amended	Accounting Standards Update No. 2016-09	03/30/2016
260-10-45-30	Amended	Maintenance Update 2020-18	11/25/2020
260-10-45-32	Amended	Accounting Standards Update No. 2018-07	06/20/2018
260-10-45-40	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-45-44	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-45-45	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-45-45	Amended	Accounting Standards Update No. 2018-07	06/20/2018
260-10-45-45A	Added	Accounting Standards Update No. 2020-06	08/05/2020
260-10-45-46	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-45-60B	Amended	Accounting Standards Update No. 2018-09	07/16/2018
260-10-45-61	Amended	Maintenance Update 2020-18	11/25/2020
260-10-45-64	Superseded	Accounting Standards Update No. 2020-06	08/05/2020
260-10-45-68B	Amended	Accounting Standards Update No. 2016-09	03/30/2016
260-10-45-70B	Added	Accounting Standards Update No. 2009-15	10/13/2009
260-10-50-1	Amended	Accounting Standards Update No. 2023-06	10/09/2023
260-10-50-1A	Added	Accounting Standards Update No. 2020-10	10/29/2020
260-10-50-3	Added	Accounting Standards Update No. 2015-06	04/30/2015
260-10-55-3	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-55-4	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-55-6	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-55-7	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-55-16A	Added	Accounting Standards Update No. 2015-06	04/30/2015
260-10-55-32 through 55-34	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-55-33	Amended	Accounting Standards Update No. 2018-07	06/20/2018
260-10-55-36	Superseded	Accounting Standards Update No. 2020-06	08/05/2020
260-10-55-36A	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-55-38	Amended	Accounting Standards Update No. 2015-01	01/09/2015
260-10-55-39	Amended	Accounting Standards Update No. 2015-01	01/09/2015
260-10-55-44	Amended	Accounting Standards Update No. 2015-01	01/09/2015
260-10-55-45	Amended	Accounting Standards Update No. 2015-01	01/09/2015
260-10-55-47 through 55-52	Amended	Accounting Standards Update No. 2015-01	01/09/2015
260-10-55-51	Amended	Accounting Standards Update No. 2023-06	10/09/2023
260-10-55-52	Amended	Accounting Standards Update No. 2023-06	10/09/2023
260-10-55-62	Amended	Accounting Standards Update No. 2018-09	07/16/2018
260-10-55-69	Amended	Accounting Standards Update No. 2018-07	06/20/2018
260-10-55-69	Amended	Accounting Standards Update No. 2016-09	03/30/2016
260-10-55-69A	Added	Accounting Standards Update No. 2016-09	03/30/2016

260-10-55-70	Amended	Accounting Standards Update No. 2016-09	03/30/2016
260-10-55-76A	Amended	Accounting Standards Update No. 2016-09	03/30/2016
260-10-55-78	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-55-79	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-55-82	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-55-84A	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-55-84B	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-55-84C through 55-84E	Added	Accounting Standards Update No. 2020-06	08/05/2020
260-10-55-94	Amended	Maintenance Update 2020-18	11/25/2020
260-10-55-95 through 55-97	Added	Accounting Standards Update No. 2017-11	07/13/2017
260-10-55-111	Added	Accounting Standards Update No. 2015-06	04/30/2015
260-10-60-1A	Amended	Accounting Standards Update No. 2018-07	06/20/2018
260-10-65-3	Added	Accounting Standards Update No. 2015-06	04/30/2015
260-10-65-4	Amended	Accounting Standards Update No. 2020-06	08/05/2020
260-10-65-4	Added	Accounting Standards Update No. 2017-11	07/13/2017

260-10-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

260-10-05-**1** The Earnings Per Share Topic contains only the Overall Subtopic. The Overall Subtopic specifies the computation, presentation, and disclosure requirements for earnings per share (EPS) for entities with publicly held common stock or potential common stock.Computation of EPS is included in Section 260-10-55.

260-10-05-**1A** An entity may issue a freestanding financial instrument (for example, a warrant) with a down round feature that is classified in equity. This Subtopic provides guidance on earnings per share and recognition and measurement of the effect of a down round feature when it is triggered.

Master Limited Partnerships

260-10-05-**2** The Master Limited Partnerships Subsections clarify the application of the General Subsection of the Other Presentation Matters Subtopic to master limited partnerships.

260-10-05-**3** Publicly traded master limited partnerships often issue multiple classes of securities that may participate in partnership distributions according to a formula specified in the partnership agreement. A typical master limited partnership consists of publicly traded common units held by limited partners, a general partner interest, and incentive distribution rights. Depending on the structure of the master limited partnership, the incentive distribution rights may be a separate class of nonvoting limited partner interest that the general partner initially holds but generally may transfer or sell apart from its overall interest. Alternatively, the incentive distribution rights may be embedded in the general partner interest such that they cannot be detached and transferred apart from the general partner's overall interest.

260-10-05-**4** Generally, the partnership agreement obligates the general partner to distribute 100 percent of the partnership's available cash (as defined in the partnership agreement) at the end of each reporting period to the general partner and limited partners via a distribution waterfall (that is, a schedule that prescribes distributions to the general partner and limited partners at each threshold) within a contractually determined period of time following the end of a reporting period. When certain thresholds are met, the distribution waterfall further allocates available cash to the holder of the separate class of nonvoting limited partner interest (the incentive distribution right holder) or, when the incentive distribution right is embedded in the general partner interest, to the general partner. The net income (or loss) of the partnership is allocated to the capital accounts of the general partner and limited partners based on their respective sharing of income or losses specified in the partnership agreement, but only after taking into account any priority income allocations resulting from incentive distributions.

260-10-05-**5** Paragraphs 260-10-45-59A through 45-70 address the use of the two-class method to calculate earnings per unit for capital structures that are not convertible into a class of common stock.

260-10-**10 - Objectives**

> **General Note:** The Objectives Section provides the high-level objectives that the Subtopic is intended to accomplish or attain. The Section does not summarize or discuss the main principles of accounting and reporting requirements.

General

Basic EPS

260-10-10-**1** The objective of basic earnings per share (EPS) is to measure the performance of an entity over the reporting period.

Diluted EPS

260-10-10-**2** The objective of diluted EPS is consistent with that of basic EPS-to measure the performance of an entity over the reporting period-while giving effect to all dilutive potential common shares that were outstanding during the period.

260-10-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Overall Guidance

260-10-15-**1** The Scope Section of the Overall Subtopic establishes the pervasive scope for the Earnings per Share Topic.

Entities

260-10-15-**2** The guidance in the Earnings per Share Topic requires presentation of earnings per share (EPS) by all entities that have issued common stock or potential common stock (that is, securities such as options, warrants, convertible securities, or contingent stock agreements) if those securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally. This Topic also requires presentation of EPS by an entity that has made a filing or is in the process of filing with a regulatory agency in preparation for the sale of those securities in a public market.

260-10-15-**3** The guidance in this Topic does not require presentation of EPS for investment companies that comply with the requirements of Topic 946 or in statements of wholly owned subsidiaries. Any entity that is not required to present EPS in its financial statements that chooses to present EPS in its financial statements shall do so in accordance with the provisions of this Topic.

Master Limited Partnerships

Overall Guidance

260-10-15-**4** The Master Limited Partnership Subsections follow the same Scope and Scope Exceptions as outlined in the General Subsection of this Subtopic. See paragraphs 260-10-15-1 through 15-3, with specific qualifications noted in the following paragraph.

Entities

260-10-15-**5** A master limited partnership may issue incentive distribution rights that are a separate class of nonvoting limited partner interest that the general partner initially holds or incentive distribution rights that are embedded in the general partner interest and therefore cannot be detached or transferred apart from the general partner's overall interest. Incentive distribution rights that are a separate class of non-voting limited partner interest generally may be transferred or sold apart from the general partner interest. The Master Limited Partnership Subsections apply to all master limited partnerships that meet both of the following criteria:

a. The partnership is required to make incentive distributions when certain thresholds have been met (regardless of whether the incentive distribution rights are a separate limited partner interest or embedded in the general partner interest)

b. The partnership accounts for the incentive distributions as equity distributions (as opposed to compensation costs).

The determination of whether the incentive distribution is an equity distribution or compensation cost is outside the scope of the Master Limited Partnership Subsection.

260-10-**20 - Glossary**

> **General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Antidilution

An increase in earnings per share amounts or a decrease in loss per share amounts.

Basic Earnings Per Share

The amount of earnings for the period available to each share of common stock outstanding during the reporting period.

Call Option

A contract that allows the holder to buy a specified quantity of stock from the writer of the contract at a fixed price for a given period. See Purchased Call Option.

Common Stock

A stock that is subordinate to all other stock of the issuer. Also called common shares.

Consolidated Financial Statements

The financial statements of a consolidated group of entities that include a parent and all its subsidiaries presented as those of a single economic entity.

Consolidated Group

A parent and all its subsidiaries.

Contingent Issuance

A possible issuance of shares of common stock that is dependent on the satisfaction of certain conditions.

Contingent Stock Agreement

An agreement to issue common stock (usually in connection with a business combination) that is dependent on the satisfaction of certain conditions. See Contingently Issuable Shares.

Contingently Convertible Instruments

Contingently convertible instruments are instruments that have embedded conversion features that are contingently convertible or exercisable based on either of the following:

a. A market price trigger

b. Multiple contingencies if one of the contingencies is a market price trigger and the instrument can be converted or share settled based on meeting the specified market condition.

A market price trigger is a market condition that is based at least in part on the issuer's own share price. Examples of contingently convertible instruments include contingently convertible debt, contingently convertible preferred stock, and the instrument described by paragraph 260-10-45-43, all with embedded market price triggers.

Contingently Issuable Shares

Shares issuable for little or no cash consideration upon the satisfaction of certain conditions pursuant to a contingent stock agreement. Also called contingently issuable stock. See Contingent Stock Agreement.

Conversion Rate

The ratio of the number of common shares issuable upon conversion to a unit of a convertible security. For example, $100 face value of debt convertible into 5 shares of common stock would have a conversion ratio of 5:1. Also called conversion ratio.

Convertible Security

A security that is convertible into another security based on a conversion rate. For example, convertible preferred stock that is convertible into common stock on a two-for-one basis (two shares of common for each share of preferred).

Diluted Earnings Per Share

The amount of earnings for the period available to each share of common stock outstanding during the reporting period and to each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the reporting period.

Dilution

A reduction in EPS resulting from the assumption that convertible securities were converted, that options or warrants were exercised, or that other shares were issued upon the satisfaction of certain conditions.

Down Round Feature

A feature in a financial instrument that reduces the strike price of an issued financial instrument if the issuer sells shares of its stock for an amount less than the currently stated strike price of the issued financial instrument or issues an equity-linked financial instrument with a strike price below the currently stated strike price of the issued financial instrument. A down round feature may reduce the strike price of a financial instrument to the current issuance price, or the reduction may be limited by a floor or on the basis of a formula that results in a price that is at a discount to the original exercise price but above the new issuance price of the shares, or may reduce the strike price to below the current issuance price. A standard antidilution provision is not considered a down round feature.

Dropdown

A transfer of certain net assets from a sponsor or general partner to a master limited partnership in exchange for consideration.

Earnings Per Share

The amount of earnings attributable to each share of common stock. For convenience, the term is used to refer to either earnings or loss per share.

Employee Stock Ownership Plan

An employee stock ownership plan is an employee benefit plan that is described by the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 as a stock bonus plan, or combination stock bonus and money purchase pension plan, designed to invest primarily in employer stock. Also called an employee share ownership plan.

Equity Restructuring

A nonreciprocal transaction between an entity and its shareholders that causes the per-share fair value of the shares underlying an option or similar award to change, such as a stock dividend, stock split, spinoff, rights offering, or recapitalization through a large, nonrecurring cash dividend.

Exercise Price

The amount that must be paid for a share of common stock upon exercise of an option or warrant.

Financial Instrument

Cash, evidence of an ownership interest in an entity, or a contract that both:

a. Imposes on one entity a contractual obligation either:
   1. To deliver cash or another financial instrument to a second entity
   2. To exchange other financial instruments on potentially unfavorable terms with the second entity.
b. Conveys to that second entity a contractual right either:
   1. To receive cash or another financial instrument from the first entity
   2. To exchange other financial instruments on potentially favorable terms with the first entity.

The use of the term financial instrument in this definition is recursive (because the term financial instrument is included in it), though it is not circular. The definition requires a chain of contractual obligations that ends with the delivery of cash or an ownership interest in an entity. Any number of obligations to deliver financial instruments can be links in a chain that qualifies a particular contract as a financial instrument. Contractual rights and contractual obligations encompass both those that are conditioned on the occurrence of a specified event and those that are not. All contractual rights (contractual obligations) that are financial instruments meet the definition of asset (liability) set forth in FASB Concepts Statement No. 6, Elements of Financial Statements, although some may not be recognized as assets (liabilities) in financial statements-that is, they may be off-balance-sheet-because they fail to meet some other criterion for recognition. For some financial instruments, the right is held by or the obligation is due from (or the obligation is owed to or by) a group of entities rather than a single entity.

PENDING CONTENT

Transition Date: P December 16, 2024; N December 16, 2025 **- Transition Guidance :** 105-10-65-9

Cash, evidence of an ownership interest in an entity, or a contract that both:

a. Imposes on one entity a contractual obligation either:
   1. To deliver cash or another financial instrument to a second entity
   2. To exchange other financial instruments on potentially unfavorable terms with the second entity.
b. Conveys to that second entity a contractual right either:
   1. To receive cash or another financial instrument from the first entity
   2. To exchange other financial instruments on potentially favorable terms with the first entity.

The use of the term financial instrument in this definition is recursive (because the term financial instrument is included in it), though it is not circular. The definition requires a chain of contractual obligations that ends with the delivery of cash or an ownership interest in an entity. Any number of obligations to deliver financial instruments can be links in a chain that qualifies a particular contract as a financial instrument. Contractual rights and contractual obligations encompass both those that are conditioned on the occurrence of a specified event and those that are not. Some contractual rights (contractual obligations) that are financial instruments may not be recognized in financial statements-that is, they may be off-balance-sheet-because they fail to meet some other criterion for recognition. For some financial instruments, the right is held by or the obligation is due from (or the obligation is owed to or by) a group of entities rather than a single entity.

If-Converted Method

A method of computing EPS data that assumes conversion of convertible securities at the beginning of the reporting period (or at time of issuance, if later).

Income Available to Common Stockholders

Income (or loss) from continuing operations or net income (or net loss) adjusted for preferred stock dividends.

Noncontrolling Interest

The portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. A noncontrolling interest is sometimes called a minority interest.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Option

Unless otherwise stated, a call option that gives the holder the right to purchase shares of common stock from the reporting entity in accordance with an agreement upon payment of a specified amount. Options include, but are not limited to, options granted and stock purchase agreements entered into with grantees. Options are considered securities. See Call Option.

Participating Security

A security that may participate in undistributed earnings with common stock, whether that participation is conditioned upon the occurrence of a specified event or not. The form of such participation does not have to be a dividend-that is, any form of participation in undistributed earnings would constitute participation by that security, regardless of whether the payment to the security holder was referred to as a dividend.

Potential Common Stock

A security or other contract that may entitle its holder to obtain common stock during the reporting period or after the end of the reporting period.

Preferred Stock

A security that has preferential rights compared to common stock.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).

b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.

c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.

d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Purchased Call Option

A contract that allows the reporting entity to buy a specified quantity of its own stock from the writer of the contract at a fixed price for a given period. See Call Option.

Put Option

A contract that allows the holder to sell a specified quantity of stock to the writer of the contract at a fixed price during a given period.

Reverse Treasury Stock Method

A method of recognizing the dilutive effect on EPS of satisfying a put obligation. It assumes that the proceeds used to buy back common stock (pursuant to the terms of a put option) will be raised from issuing shares at the average market price during the period. See Put Option.

Rights Issue

An offer to existing shareholders to purchase additional shares of common stock in accordance with an agreement for a specified amount (which is generally substantially less than the fair value of the shares) for a given period.

Security

A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.

b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

Security

The evidence of debt or ownership or a related right. It includes options and warrants as well as debt and stock.

Share-Based Payment Arrangements

An arrangement under which either of the following conditions is met:

a. One or more suppliers of goods or services (including employees) receive awards of equity shares, equity share options, or other equity instruments.

b. The entity incurs liabilities to suppliers that meet either of the following conditions:

   1. The amounts are based, at least in part, on the price of the entity's shares or other equity instruments. (The phrase at least in part is used because an award may be indexed to both the price of the entity's shares and something other than either the price of the entity's shares or a market, performance, or service condition.)

   2. The awards require or may require settlement by issuance of the entity's shares.

The term shares includes various forms of ownership interest that may not take the legal form of securities (for example, partnership interests), as well as other interests, including those that are liabilities in substance but not in form. Equity shares refers only to shares that are accounted for as equity. Also called share-based compensation arrangements.

Standard Antidilution Provisions

Standard antidilution provisions are those that result in adjustments to the conversion ratio in the event of an equity restructuring transaction that are designed to maintain the value of the conversion option.

Stock Dividend

An issuance by a corporation of its own common shares to its common shareholders without consideration and under conditions indicating that such action is prompted mainly by a desire to give the recipient shareholders some ostensibly separate evidence of a part of their respective interests in accumulated corporate earnings without distribution of cash or other property that the board of directors deems necessary or desirable to retain in the business. A stock dividend takes nothing from the property of the corporation and adds nothing to the interests of the stockholders; that is, the corporation's property is not diminished and the interests of the stockholders are not increased. The proportional interest of each shareholder remains the same.

Subsidiary

An entity, including an unincorporated entity such as a partnership or trust, in which another entity, known as its parent, holds a controlling financial interest. (Also, a variable interest entity that is consolidated by a primary beneficiary.)

Treasury Stock Method

A method of recognizing the use of proceeds that could be obtained upon exercise of options and warrants in computing diluted EPS. It assumes that any proceeds would be used to purchase common stock at the average market price during the period.

Warrant

A security that gives the holder the right to purchase shares of common stock in accordance with the terms of the instrument, usually upon payment of a specified amount.

Weighted-Average Number of Common Shares Outstanding

The number of shares determined by relating the portion of time within a reporting period that common shares have been outstanding to the total time in that period. In computing diluted EPS, equivalent common shares are considered for all dilutive potential common shares.

260-10-**25 - Recognition**

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

260-10-25-**1** An entity that presents earnings per share (EPS) in accordance with this Topic shall recognize the value of the effect of a down round feature in an equity-classified freestanding financial instrument (that is, instruments that are not convertible instruments) when the down round feature is triggered. That effect shall be treated as a dividend and as a reduction of income available to common stockholders in basic earnings per share, in accordance with the guidance in paragraph 260-10-45-12B. See paragraphs 260-10-55-95 through 55-97 for an illustration of this guidance.

PENDING CONTENT

Transition Date: P December 16, 2021; N December 16, 2023 **- Transition Guidance :** 815-40-65-1

Editor's Note: The content of paragraph 260-10-25-1 will change upon transition, together with the addition of the heading noted below.

> **Financial Instruments That Include a Down Round Feature**

An entity that presents earnings per share (EPS) in accordance with this Topic shall recognize the value of the effect of a down round feature in an equity-classified freestanding financial instrument and an equity-classified convertible preferred stock (if the conversion feature has not been bifurcated in accordance with other guidance) when the down round feature is triggered. That effect shall be treated as a dividend and as a reduction of income available to common stockholders in basic earnings per share, in accordance with the guidance in paragraph 260-10-45-12B. See paragraphs 260-10-55-95 through 55-97 for an illustration of this guidance.

260-10-**30 - Initial Measurement**

General Note: The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

Financial Instruments That Include a Down Round Feature

260-10-30-**1** As of the date that a down round feature is triggered (that is, upon the occurrence of the triggering event that results in a reduction of the strike price) in an equity-classified freestanding financial instrument, an entity shall measure the value of the effect of the feature as the difference between the following amounts determined immediately after the down round feature is triggered:

a. The fair value of the financial instrument (without the down round feature) with a strike price corresponding to the currently stated strike price of the issued instrument (that is, before the strike price reduction)

b. The fair value of the financial instrument (without the down round feature) with a strike price corresponding to the reduced strike price upon the down round feature being triggered.

> **PENDING CONTENT**
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> **Transition Date:** (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 As of the date that a down round feature is triggered (that is, upon the occurrence of the triggering event that results in a reduction of the strike price) in an equity-classified freestanding financial instrument and an equity-classified convertible preferred stock (if the conversion feature has not been bifurcated in accordance with other guidance), an entity shall measure the value of the effect of the feature as the difference between the following amounts determined immediately after the down round feature is triggered:
>
> a. The fair value of the financial instrument (without the down round feature) with a strike price corresponding to the currently stated strike price of the issued instrument (that is, before the strike price reduction)
>
> b. The fair value of the financial instrument (without the down round feature) with a strike price corresponding to the reduced strike price upon the down round feature being triggered.

260-10-30-**2** The fair values of the financial instruments in paragraph 260-10-30-1 shall be measured in accordance with the guidance in Topic 820 on fair value measurement. See paragraph 260-10-45-12B for related earnings per share guidance and paragraphs 505-10-50-3 through 50-3A for related disclosure guidance.

260-10-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

Financial Instruments That Include a Down Round Feature

260-10-35-**1** An entity shall recognize the value of the effect of a down round feature in an equity-classified freestanding financial instrument each time it is triggered but shall not otherwise subsequently remeasure the value of a down round feature that it has recognized and measured in accordance with paragraphs 260-10-25-1 and 260-10-30-1 through 30-2. An entity shall not subsequently amortize the amount in additional paid-in capital arising from recognizing the value of the effect of the down round feature.

> **PENDING CONTENT**
>
> **Transition Date:** (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 An entity shall recognize the value of the effect of a down round feature in an equity-classified freestanding financial instrument and an equity-classified convertible preferred stock (if the conversion feature has not been bifurcated in accordance with other guidance) each time it is triggered but shall not otherwise subsequently remeasure the value of a down round feature that it has recognized and measured in accordance with paragraphs 260-10-25-1 and 260-10-30-1 through 30-2. An entity shall not subsequently amortize the amount in additional paid-in capital arising from recognizing the value of the effect of the down round feature.

260-10-**45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

260-10-45-**1** This Section provides guidance pertaining to presentation of basic and diluted earnings per share (EPS).

Required EPS Presentation on the Face of the Income Statement

260-10-45-**2** Entities with simple capital structures, that is, those with only common stock outstanding, shall present basic per-share amounts for income from continuing operations and for net income on the face of the income statement. All other entities shall present basic and diluted per-share amounts for income from continuing operations and for net income on the face of the income statement with equal prominence.

260-10-45-**3** An entity that reports a discontinued operation in a period shall present basic and diluted per-share amounts for that line item either on the face of the income statement or in the notes to the financial statements.

260-10-45-**4** The terms basic EPS and diluted EPS are used to identify EPS data to be presented and are not required to be captions used in the income statement. There are no explicit requirements for the terms to be used in the presentation of basic and diluted EPS; terms such as earnings per common share and earnings per common share-assuming dilution, respectively, are appropriate.

260-10-45-**5** Per-share amounts not required to be presented by this Subtopic that an entity chooses to disclose shall be computed in accordance with this Subtopic and disclosed only in the notes to financial statements; it shall be noted whether the per-share amounts are pretax or net of tax. (See paragraph 260-10-50-1A.)

260-10-45-**6** Paragraph 230-10-45-3 prohibits reporting an amount of cash flow per share.

260-10-45-**7** EPS data shall be presented for all periods for which an income statement or summary of earnings is presented. If diluted EPS data are reported for at least one period, they shall be reported for all periods presented, even if they are the same amounts as basic EPS. If basic and diluted EPS are the same amount, dual presentation can be accomplished in one line on the income statement.

260-10-45-**8** See Example 1 (paragraph 260-10-55-38) for an illustration of this guidance.

260-10-45-**9** Paragraph not used.

Basic EPS

Computation of Basic EPS

260-10-45-**10** Basic EPS shall be computed by dividing income available to common stockholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) during the period. Shares issued during the period and shares reacquired during the period shall be weighted for the portion of the period that they were outstanding. See Example 1 (paragraph 260-10-55-38) for an illustration of this guidance.

Income Available to Common Stockholders and Preferred Dividends

260-10-45-**11** Income available to common stockholders shall be computed by deducting both the dividends declared in the period on preferred stock (whether or not paid) and the dividends accumulated for the period on cumulative preferred stock (whether or not earned) from income from continuing operations (if that amount appears in the income statement) and also from net income. If there is a loss from continuing operations or a net loss, the amount of the loss shall be increased by those preferred dividends. An adjustment to net income or loss for preferred stock dividends is required for all preferred stock dividends, regardless of the form of payment. Preferred dividends that are cumulative only if earned shall be deducted only to the extent that they are earned.

260-10-45-**11A** For purposes of computing EPS in consolidated financial statements (both basic and diluted), if one or more less-than-wholly-owned subsidiaries are included in the consolidated group, income from continuing operations and net income shall exclude the income attributable to the noncontrolling interest in subsidiaries. Example 7 (see paragraph 260-10-55-64) provides an example of calculating EPS when there is a noncontrolling interest in a subsidiary in the consolidated group.

260-10-45-**12** Preferred stock dividends that an issuer has paid or intends to pay in its own common shares shall be deducted from net income (or added to the amount of a net loss) in computing income available to common stockholders. In certain cases, the dividends may be payable in common shares or cash at the issuer's option. The adjustment to net income (or net loss) for preferred stock dividends payable in common stock in computing income available to common stockholders is consistent with the treatment of common stock issued for goods or services.

260-10-45-**12A** Paragraph superseded by Accounting Standards Update No. 2017-11.

Freestanding Equity-Classified Financial Instrument with a Down Round Feature

260-10-45-**12B** For a freestanding equity-classified financial instrument with a down round feature, an entity shall deduct the value of the effect of a down round feature (as recognized in accordance with paragraph 260-10-25-1 and measured in accordance with paragraphs 260-10-30-1 through 30-2) in computing income available to common stockholders when that feature has been triggered (that is, upon the occurrence of the triggering event that results in a reduction of the strike price).

> **PENDING CONTENT**
>
> **Transition Date:** P December 16, 2021; N December 16, 2023 **- Transition Guidance :** 815-40-65-1 For a freestanding equity-classified financial instrument and an equity-classified convertible preferred stock (if the conversion feature has not been bifurcated in accordance with other guidance) with a down round feature, an entity shall deduct the value of the effect of a down round feature (as recognized in accordance with paragraph 260-10-25-1 and measured in accordance with paragraphs 260-10-30-1 through 30-2) in computing income available to common stockholders when that feature has been triggered (that is, upon the occurrence of the triggering event that results in a reduction of the strike price).

Treatment of Contingently Issuable Shares in Weighted-Average Shares Outstanding

260-10-45-**12C** Contractual agreements (usually associated with purchase business combinations) sometimes provide for the issuance of additional common shares contingent upon certain conditions being met. Consistent with the objective that basic EPS should represent a measure of the performance of an entity over a specific reporting period, contingently issuable shares should be included in basic EPS only when there is no circumstance under which those shares would not be issued and basic EPS should not be restated for changed circumstances.

260-10-45-**13** Shares issuable for little or no cash consideration upon the satisfaction of certain conditions (contingently issuable shares) shall be considered outstanding common shares and included in the computation of basic EPS as of the date that all necessary conditions have been satisfied (in essence, when issuance of the shares is no longer contingent). Outstanding common shares that are contingently returnable (that is, subject to recall) shall be treated in the same manner as contingently issuable shares. Thus, contingently issuable shares include shares that meet any of the following criteria:

a. They will be issued in the future upon the satisfaction of specified conditions.

b. They have been placed in escrow and all or part must be returned if specified conditions are not met.

c. They have been issued but the holder must return all or part if specified conditions are not met.

260-10-45-**14** See paragraph 710-10-05-8 for guidance related to rabbi trust shares.

Issuer's Accounting for Modifications or Exchanges of Freestanding Equity-Classified Written Call Options

260-10-45-**15** For a modification or an exchange of a freestanding equity-classified written call option described in paragraph 815-40-35-17(d), an entity shall deduct the effect of the modification or exchange (as measured in accordance with paragraph 815-40-35-16) in computing income available to common stockholders when the modification or exchange is executed by the issuer and the holder or unilaterally by the issuer (see paragraph 815-40-15-7H).

Diluted EPS and Related Topics

Computation of Diluted EPS

260-10-45-**16** The computation of diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. In addition, in computing the dilutive effect of convertible securities, the numerator is adjusted to add back any convertible preferred dividends and the after-tax amount of interest recognized in the period associated with any convertible debt. The numerator also is adjusted for any other changes in income or loss that would result from the assumed conversion of those potential common shares, such as profit-sharing expenses. Similar adjustments also may be necessary for certain contracts that provide the issuer or holder with a choice between settlement methods. See Example 1 (paragraph 260-10-55-38) for an illustration of this guidance.

> **PENDING CONTENT**
>
> **Transition Date:** P December 16, 2021; N December 16, 2023 **- Transition Guidance :** 815-40-65-1 The computation of diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. In computing the dilutive effect of convertible securities, the numerator is adjusted in accordance with the guidance in paragraph 260-10-45-40. Adjustments also may be necessary for certain contracts that provide the issuer or holder with a choice between settlement methods. See Example 1 (paragraph 260-10-55-38) for an illustration of this guidance.

No Antidilution

260-10-45-**17** The computation of diluted EPS shall not assume conversion, exercise, or contingent issuance of securities that would have an antidilutive effect on EPS. Shares issued on actual conversion, exercise, or satisfaction of certain conditions for which the underlying potential common shares were antidilutive shall be included in the computation as outstanding common shares from the date of conversion, exercise, or satisfaction of those conditions, respectively. In determining whether potential common shares are dilutive or antidilutive, each issue or series of issues of potential common shares shall be considered separately rather than in the aggregate.

260-10-45-**18** Convertible securities may be dilutive on their own but antidilutive when included with other potential common shares in computing diluted EPS. To reflect maximum potential dilution, each issue or series of issues of potential common shares shall be considered in sequence from the most dilutive to the least dilutive. That is, dilutive potential common shares with the lowest earnings per incremental share shall be included in diluted EPS before those with a higher earnings per incremental share. Example 4 (see paragraph 260-10-55-57) illustrates that provision. Options and warrants generally will be included first because use of the treasury stock method does not affect the numerator of the computation. An entity that reports a discontinued operation in a period shall use income from continuing operations (adjusted for preferred dividends as described in paragraph 260-10-45-11) as the control number in determining whether those potential common shares are dilutive or antidilutive. That is, the same number of potential common shares used in computing the diluted per-share amount for income from continuing operations shall be used in computing all other reported diluted per-share amounts even if those amounts will be antidilutive to their respective basic per-share amounts. (See paragraph 260-10-45-3.) The control number excludes income from continuing operations attributable to the noncontrolling interest in a subsidiary in accordance with paragraph 260-10-45-11A. Example 14 (see paragraph 260-10-55-90) provides an illustration of this guidance.

260-10-45-**19** Including potential common shares in the denominator of a diluted per-share computation for continuing operations always will result in an antidilutive per-share amount when an entity has a loss from continuing operations or a loss from continuing operations available to common stockholders (that is, after any preferred dividend deductions). Although including those potential common shares in the other diluted per-share computations may be dilutive to their comparable basic per-share amounts, no potential common shares shall be included in the computation of any diluted per-share amount when a loss from continuing operations exists, even if the entity reports net income.

260-10-45-**20** The control number for determining whether including potential common shares in the diluted EPS computation would be antidilutive should be income from continuing operations (or a similar line item above net income if it appears on the income statement). As a result, if there is a loss from continuing operations, diluted EPS would be computed in the same manner as basic EPS is computed, even if an entity has net income after adjusting for a discontinued operation. Similarly, if an entity has income from continuing operations but its preferred dividend adjustment made in computing income available to common stockholders in accordance with paragraph 260-10-45-11 results in a loss from continuing operations available to common stockholders, diluted EPS would be computed in the same manner as basic EPS.

Conversion Rate or Exercise Price

260-10-45-**21** Diluted EPS shall be based on the most advantageous conversion rate or exercise price from the standpoint of the security holder. Previously reported diluted EPS data shall not be retroactively adjusted for subsequent conversions or subsequent changes in the market price of the common stock.

Variable Denominator

260-10-45-**21A**

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 Changes in an entity's share price may affect the exercise price of a financial instrument or the number of shares that would be used to settle the financial instrument. For example, when the principal of a convertible debt instrument is required to be settled in cash but the conversion premium is required to (or may) be settled in shares, the number of shares to be included in the diluted EPS denominator is affected by the entity's share price. In applying both the treasury stock method and the if-converted method of calculating diluted EPS, the average market price shall be used for purposes of calculating the denominator for diluted EPS when the number of shares that may be issued is variable, except for contingently issuable shares within the scope of the guidance in paragraphs 260-10-45-48 through 45-57. See paragraphs 260-10-55-4 through 55-5 for implementation guidance on determining an average market price.

Options, Warrants, and Their Equivalents and the Treasury Stock Method

260-10-45-**22** The dilutive effect of outstanding call options and warrants (and their equivalents) issued by the reporting entity shall be reflected in diluted EPS by application of the treasury stock method unless the provisions of paragraphs 260-10-45-35 through 45-36 and 260-10-55-8 through 55-11 require that another method be applied. Equivalents of options and warrants include nonvested stock granted under a share-based payment arrangement, stock purchase contracts, and partially paid stock subscriptions (see paragraph 260-10-55-23). Antidilutive contracts, such as purchased put options and purchased call options, shall be excluded from diluted EPS.

260-10-45-**23** Under the treasury stock method:

a. Exercise of options and warrants shall be assumed at the beginning of the period (or at time of issuance, if later) and common shares shall be assumed to be issued.

b. The proceeds from exercise shall be assumed to be used to purchase common stock at the average market price during the period. (See paragraphs 260-10-45-29 and 260-10-55-4 through 55-5.)

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.

Example 15 (see paragraph 260-10-55-92) provides an illustration of this guidance.

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Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 Under the treasury stock method:

a. Exercise of options and warrants shall be assumed at the beginning of the period (or at time of issuance, if later) and common shares shall be assumed to be issued.

b. The proceeds from exercise shall be assumed to be used to purchase common stock at the average market price during the period. (See paragraphs 260-10-45-29 and 260-10-55-4 through 55-5.)

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.

Example 15 (see paragraph 260-10-55-92) provides an illustration of this guidance. See paragraph 260-10-45-21A if the exercise price of a financial instrument or the number of shares that would be used to settle the financial instrument is variable.

260-10-45-**24** Paragraph not used.

260-10-45-**25** Options and warrants will have a dilutive effect under the treasury stock method only when the average market price of the common stock during the period exceeds the exercise price of the options or warrants (they are in the money). Previously reported EPS data shall not be retroactively adjusted as a result of changes in market prices of common stock.

260-10-45-**26** Dilutive options or warrants that are issued during a period or that expire or are cancelled during a period shall be included in the denominator of diluted EPS for the period that they were outstanding. Likewise, dilutive options or warrants exercised during the period shall be included in the denominator for the period prior to actual exercise. The common shares issued upon exercise of options or warrants shall be included in the denominator for the period after the exercise date. Consequently, incremental shares assumed issued shall be weighted for the period the options or warrants were outstanding, and common shares actually issued shall be weighted for the period the shares were outstanding.

260-10-45-**27** Paragraphs 260-10-55-3 through 55-11 provide additional guidance on the application of the treasury stock method.

Share-Based Payment Arrangements

260-10-45-**28** The provisions in paragraphs 260-10-45-28A through 45-31 apply to share-based awards issued to grantees under a share-based payment arrangement in exchange for goods and services or as consideration payable to a customer.

260-10-45-**28A** Awards of share options and nonvested shares (as defined in Topic 718) to be issued to a grantee under a share-based payment arrangement are considered options for purposes of computing diluted EPS. Such share-based awards shall be considered to be outstanding as of the grant date for purposes of computing diluted EPS even though their exercise may be contingent upon vesting. Those share-based awards are included in the diluted EPS computation even if the grantee may not receive (or be able to sell) the stock until some future date. Accordingly, all shares to be issued shall be included in computing diluted EPS if the effect is dilutive. The dilutive effect of share-based payment arrangements shall be computed using the treasury stock method. If the equity share options or other equity instruments are outstanding for only part of a period, the shares issuable shall be weighted to reflect the portion of the period during which the equity instruments were outstanding. See Example 8 (paragraph 260-10-55-68).

260-10-45-**28B** In applying the treasury stock method, all dilutive potential common shares, regardless of whether they are exercisable, are treated as if they had been exercised. The treasury stock method assumes that the proceeds upon exercise are used to repurchase the entity's stock, reducing the number of shares to be added to outstanding common stock in computing EPS.

260-10-45-**29** In applying the treasury stock method described in paragraph 260-10-45-23, the assumed proceeds shall be the sum of both of the following:

a. The amount, if any, the grantee must pay upon exercise.

b. The amount of cost attributed to share-based payment awards (within the scope of Topic 718 on stock compensation) not yet recognized. This amount includes share-based payment awards that are not contingent upon satisfying certain conditions as described in paragraph 260-10-45-32 and contingently issuable shares that have been determined to be included in the computation of diluted EPS as described in paragraphs 260-10-45-48 through 45-57

c. Subparagraph superseded by Accounting Standards Update No. 2016-09.

260-10-45-**29A** Under paragraphs 718-10-35-1D and 718-10-35-3, the effect of forfeitures is taken into account by recognizing compensation cost for those instruments for which the employee's requisite service has been rendered or the nonemployee's vesting conditions have been met and no compensation cost shall be recognized for instruments that grantees forfeit because a service or performance condition is not satisfied. See Example 8 (paragraph 260-10-55-68) for an illustration of this guidance.

260-10-45-**30** If share-based payment arrangements are payable in common stock or in cash at the election of either the entity or the grantee, the determination of whether such share-based awards are potential common shares shall be made based on the provisions in paragraph 260-10-45-45. If an entity has a tandem award (as defined in Topic 718) that allows the entity or the grantee to make an election involving two or more types of equity instruments, diluted EPS for the period shall be computed based on the terms used in the computation of compensation cost for that period.

260-10-45-**31** Awards with a market condition, a performance condition, or any combination thereof (as defined in Topic 718) shall be included in diluted EPS pursuant to the contingent share provisions in paragraphs 260-10-45-48 through 45-57.

260-10-45-**32** Fixed grantee stock options (fixed awards) and nonvested stock (including restricted stock) shall be included in the computation of diluted EPS based on the provisions for options and warrants in paragraphs 260-10-45-22 through 45-27. Even though their issuance may be contingent upon vesting, they shall not be considered to be contingently issuable shares (see Section 815-15-55 and paragraph 260-10-45-48). However, because issuance of performance-based stock options (and performance-based nonvested stock) is contingent upon satisfying conditions in addition to the mere passage of time, those options and nonvested stock shall be considered to be contingently issuable shares in the computation of diluted EPS. A distinction shall be made only between time-related contingencies and contingencies requiring specific achievement.

260-10-45-**33** Paragraph not used.

260-10-45-**34** Paragraph not used.

Written Put Options and the Reverse Treasury Stock Method

260-10-45-**35** Contracts that require that the reporting entity repurchase its own stock, such as written put options and forward purchase contracts other than forward purchase contracts accounted for under paragraphs 480-10-30-3 through 30-5 and 480-10-35-3, shall be reflected in the computation of diluted EPS if the effect is dilutive. If those contracts are in the money during the reporting period (the exercise price is above the average market price for that period), the potential dilutive effect on EPS shall be computed using the reverse treasury stock method. Under that method:

a. Issuance of sufficient common shares shall be assumed at the beginning of the period (at the average market price during the period) to raise enough proceeds to satisfy the contract.

b. The proceeds from issuance shall be assumed to be used to satisfy the contract (that is, to buy back shares).

c. The incremental shares (the difference between the number of shares assumed issued and the number of shares received from satisfying the contract) shall be included in the denominator of the diluted EPS computation.

260-10-45-**36** For example, an entity sells 100 put options with an exercise price of $25; the average market price for the period is $20. In computing diluted EPS at the end of the period, the entity assumes it issues 125 shares at $20 per share to satisfy its put obligation of $2,500. The difference between the 125 shares issued and the 100 shares received from satisfying the put option (25 incremental shares) would be added to the denominator of diluted EPS.

Purchased Options

260-10-45-**37** Contracts such as purchased put options and purchased call options (options held by the entity on its own stock) shall not be included in the computation of diluted EPS because including them would be antidilutive. That is, the put option would be exercised only when the exercise price is higher than the market price and the call option would be exercised only when the exercise price is lower than the market price; in both instances, the effect would be antidilutive under both the treasury stock method and the reverse treasury stock method, respectively.

260-10-45-**38** Paragraph not used.

260-10-45-**39** Paragraph not used.

Convertible Securities and the If-Converted Method

260-10-45-**40** The dilutive effect of convertible securities shall be reflected in diluted EPS by application of the if-converted method. Under that method:

a. If an entity has convertible preferred stock outstanding, the preferred dividends applicable to convertible preferred stock shall be added back to the numerator. The amount of preferred dividends added back will be the amount of preferred dividends for convertible preferred stock deducted from income from continuing operations (and from net income) in computing income available to common stockholders pursuant to paragraph 260-10-45-11.

b. If an entity has convertible debt outstanding:

   1. Interest charges applicable to the convertible debt shall be added back to the numerator.

   2. To the extent nondiscretionary adjustments based on income made during the period would have been computed differently had the interest on convertible debt never been recognized, the numerator shall be appropriately adjusted. Nondiscretionary adjustments include any expenses or charges that are determined based on the income (loss) for the period, such as profit-sharing and royalty agreements.

   3. The numerator shall be adjusted for the income tax effect of (b)(1) and (b)(2).

c. The convertible preferred stock or convertible debt shall be assumed to have been converted at the beginning of the period (or at time of issuance, if later), and the resulting common shares shall be included in the denominator.

PENDING CONTENT

Transition Date: P December 16, 2021; N December 16, 2023 **- Transition Guidance :** 815-40-65-1 The dilutive effect of convertible securities shall be reflected in diluted EPS by application of the if-converted method. Under that method:

a. If an entity has convertible preferred stock outstanding, the preferred dividends applicable to convertible preferred stock shall be added back to the numerator. The amount of preferred dividends added back will be the amount of preferred dividends for convertible preferred stock deducted from income from continuing operations (and from net income) in computing income available to common stockholders pursuant to paragraph 260-10-45-11.

b. If an entity has convertible debt outstanding:

   1. Interest charges applicable to the convertible debt shall be added back to the numerator. For convertible debt for which the principal is required to be paid in cash, the interest charges shall not be added back to the numerator.

   2. To the extent nondiscretionary adjustments based on income made during the period would have been computed differently had the interest on convertible debt never been recognized, the numerator shall be appropriately adjusted. Nondiscretionary adjustments include any expenses or charges that are determined based on the income (loss) for the period, such as profit-sharing and royalty agreements.

   3. The numerator shall be adjusted for the income tax effect of (b)(1) and (b)(2).

c. The convertible preferred stock or convertible debt shall be assumed to have been converted at the beginning of the period (or at time of issuance, if later), and the resulting common shares shall be included in the denominator. See paragraph 260-10-45-21A if the incremental shares are variable (such as when calculating a conversion premium).

260-10-45-**41** In applying the if-converted method, conversion shall not be assumed for purposes of computing diluted EPS if the effect would be antidilutive. Convertible preferred stock is antidilutive whenever the amount of the dividend declared in or accumulated for the current period per common share obtainable on conversion exceeds basic EPS. Similarly, convertible debt is antidilutive whenever its interest (net of tax and nondiscretionary adjustments) per common share obtainable on conversion exceeds basic EPS.

260-10-45-**42** Dilutive securities that are issued during a period and dilutive convertible securities for which conversion options lapse, for which preferred stock is redeemed, or for which related debt is extinguished during a period, shall be included in the denominator of diluted EPS for the period that they were outstanding. Likewise, dilutive convertible securities converted during a period shall be included in the denominator for the period prior to actual conversion. The common shares issued upon actual conversion shall be included in the denominator for the period after the date of conversion. Consequently, shares assumed issued shall be weighted for the period the convertible securities were outstanding, and common shares actually issued shall be weighted for the period the shares were outstanding.

Contingently Convertible Instruments

260-10-45-**43** While the terms of contingently convertible instruments vary, a typical instrument includes a market price trigger that exceeds a specified conversion price of the issuer's underlying stock price on the date of issuance by a specified percentage (for example, 10 percent, 20 percent, or 30 percent). Some contingently convertible instruments have floating market price triggers for which conversion is dependent upon the market price of the issuer's stock exceeding the conversion price by a specified percentage or percentages at specified times during the term of the debt. Other contingently convertible instruments require that the market price of the issuer's stock exceed a specified level for a specified period (for example, 20 percent above the conversion price for a 30-day period). In addition, contingently convertible instruments may have additional features such as parity features, issuer call options, and investor put options.

260-10-45-**44** Contingently convertible instruments shall be included in diluted EPS (if dilutive) regardless of whether the market price trigger has been met. There is no substantive economic difference between contingently convertible instruments and conventional convertible instruments with a market price conversion premium. The treatment for diluted EPS shall not differ because of a contingent market price trigger. The guidance provided in this paragraph also shall be applied to instruments that have multiple contingencies if one of the contingencies is a market price trigger and the instrument is convertible or settleable in shares based on meeting a market condition-that is, the conversion is not dependent (or no longer dependent) on a substantive non-market-based contingency. For example, this guidance applies if an instrument is convertible upon meeting a market price trigger or a substantive non-market-based contingency (for example, a change in control). Alternatively, if the instrument is convertible upon achieving both a market price trigger and a substantive non-market-based contingency, this guidance would not apply until the non-market-based contingency has been met. See Example 11 (paragraph 260-10-55-78) for an illustration of this guidance.

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 Contingently convertible instruments shall be included in diluted EPS (if dilutive) regardless of whether the market price trigger has been met. There is no substantive economic difference between contingently convertible instruments and convertible instruments with a market price conversion premium. The treatment for diluted EPS shall not differ because of a contingent market price trigger. The guidance provided in this paragraph also shall be applied to instruments that have multiple contingencies if one of the contingencies is a market price trigger and the instrument is convertible or settleable in shares based on meeting a market condition-that is, the conversion is not dependent (or no longer dependent) on a substantive non-market-based contingency. For example, this guidance applies if an instrument is convertible upon meeting a market price trigger or a substantive non-market-based contingency (for example, a change in control). Alternatively, if the instrument is convertible upon achieving both a market price trigger and a substantive non-market-based contingency, this guidance would not apply until the non-market-based contingency has been met. See Example 11 (paragraph 260-10-55-78) for an illustration of this guidance.

Contracts That May Be Settled in Stock or Cash

260-10-45-**45** If an entity issues a contract that may be settled in common stock or in cash at the election of either the entity or the holder, the determination of whether that contract shall be reflected in the computation of diluted EPS shall be made based on the facts available each period. It shall be presumed that the contract will be settled in common stock and the resulting potential common shares included in diluted EPS (in accordance with the relevant provisions of this Topic) if the effect is more dilutive. Share-based payment arrangements that are payable in common stock or in cash at the election of either the entity or the grantee shall be accounted for pursuant to this paragraph and paragraph 260-10-45-46. An example of such a contract is a written put option that gives the holder a choice of settling in common stock or in cash.

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 The effect of potential share settlement shall be included in the diluted EPS calculation (if the effect is more dilutive) for an otherwise cash-settleable instrument that contains a provision that requires or permits share settlement (regardless of whether the election is at the option of an entity or the holder, or the entity has a history or policy of cash settlement). An example of such a contract accounted for in accordance with this paragraph and paragraph 260-10-45-46 is a written call option that gives the holder a choice of settling in common stock or in cash. An election to share settle an instrument, for purposes of applying the guidance in this paragraph, does not include circumstances in which share settlement is contingent upon the occurrence of a specified event or circumstance (such as contingently issuable shares). In those circumstances (other than if the contingency is an entity's own share price), the guidance on contingently issuable shares should first be applied, and, if the contingency would be considered met, then the guidance in this paragraph should be applied. Share-based payment arrangements that are payable in common stock or in cash at the election of either the entity or the grantee shall be accounted for pursuant to this paragraph and paragraph 260-10-45-46, unless the share-based payment arrangement is classified as a liability because of the requirements in paragraph 718-10-25-15 (see paragraph 260-10-45-45A for guidance for those instruments). If the payment of cash is required only upon the final liquidation of an entity, then the entity shall include the effect of potential share settlement in the diluted EPS calculation until the liquidation occurs.

260-10-45-**45A**

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 For a share-based payment arrangement that is classified as a liability because of the requirements in paragraph 718-10-25-15 and may be settled in common stock or in cash at the election of either the entity or the holder, determining whether that contract shall be reflected in the computation of diluted EPS shall be prepared on the basis of the facts available each period. It shall be presumed that the contract will be settled in common stock and the resulting potential common shares included in diluted EPS (in accordance with the relevant guidance of this Topic) if the effect is more dilutive. The presumption that the contract will be settled in common stock may be overcome if past experience or a stated policy provides a reasonable basis to conclude that the contract will be paid partially or wholly in cash.

260-10-45-**46** A contract that is reported as an asset or liability for accounting purposes may require an adjustment to the numerator for any changes in income or loss that would result if the contract had been reported as an equity instrument for accounting purposes during the period. That adjustment is similar to the adjustments required for convertible debt in paragraph 260-10-45-40(b). The presumption that the contract will be settled in common stock may be overcome if past experience or a stated policy provides a reasonable basis to believe that the contract will be paid partially or wholly in cash.

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 A contract that is reported as an asset or liability for accounting purposes may require an adjustment to the numerator for any changes in income or loss that would result if the contract had been reported as an equity instrument for accounting purposes during the period. That adjustment is similar to the adjustments required for convertible debt in paragraph 260-10-45-40(b).

260-10-45-**47** Paragraphs 260-10-55-32 through 55-36A provide additional guidance on contracts that may be settled in stock or cash.

Contingently Issuable Shares

260-10-45-**48** Shares whose issuance is contingent upon the satisfaction of certain conditions shall be considered outstanding and included in the computation of diluted EPS as follows:

a. If all necessary conditions have been satisfied by the end of the period (the events have occurred), 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 diluted EPS shall be based on the number of shares, if any, that would be issuable if the end of the reporting period were the end of the contingency period (for example, the number of shares that would be issuable based on current period earnings or period-end market price) and if the result would be dilutive. 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).

260-10-45-**49** For year-to-date computations, contingent shares shall be included on a weighted-average basis. That is, contingent shares shall be weighted for the interim periods in which they were included in the computation of diluted EPS.

260-10-45-**50** Paragraphs 260-10-45-51 through 45-54 provide general guidelines that shall be applied in determining the EPS impact of different types of contingencies that may be included in contingent stock agreements.

260-10-45-**51** If attainment or maintenance of a specified amount of earnings is the condition and if that amount has been attained, the additional shares shall be considered to be outstanding for the purpose of computing diluted EPS if the effect is dilutive. The diluted EPS computation shall include those shares that would be issued under the conditions of the contract based on the assumption that the current amount of earnings will remain unchanged until the end of the agreement, but only if the effect would be dilutive. Because the amount of earnings may change in a future period, basic EPS shall not include such contingently issuable shares because all necessary conditions have not been satisfied. Example 3 (see paragraph 260-10-55-53) illustrates that provision.

260-10-45-**52** The number of shares contingently issuable may depend on the market price of the stock at a future date. In that case, computations of diluted EPS shall reflect the number of shares that would be issued based on the current market price at the end of the period being reported on if the effect is dilutive. If the condition is based on an average of market prices over some period of time, the average for that period shall be used. Because the market price may change in a future period, basic EPS shall not include such contingently issuable shares because all necessary conditions have not been satisfied.

260-10-45-**53** In some cases, the number of shares contingently issuable may depend on both future earnings and future prices of the shares. In that case, the determination of the number of shares included in diluted EPS shall be based on both conditions, that is, earnings to date and current market price-as they exist at the end of each reporting period. If both conditions are not met at the end of the reporting period, no contingently issuable shares shall be included in diluted EPS.

260-10-45-**54** If the contingency is based on a condition other than earnings or market price (for example, opening a certain number of retail stores), the contingent shares shall be included in the computation of diluted EPS based on the assumption that the current status of the condition will remain unchanged until the end of the contingency period. Example 3 (see paragraph 260-10-55-53) illustrates that provision.

260-10-45-**55** Contingently issuable potential common shares (other than those covered by a contingent stock agreement, such as contingently issuable convertible securities) shall be included in diluted EPS as follows:

a. An entity shall determine whether the potential common shares may be assumed to be issuable based on the conditions specified for their issuance pursuant to the contingent share provisions in paragraphs 260-10-45-48 through 45-54.

b. If those potential common shares should be reflected in diluted EPS, an entity shall determine their impact on the computation of diluted EPS by following the provisions for options and warrants in paragraphs 260-10-45-22 through 45-37, the provisions for convertible securities in paragraphs 260-10-45-40 through 45-42, and the provisions for contracts that may be settled in stock or cash in paragraph 260-10-45-45, as appropriate.

260-10-45-**56** Neither interest nor dividends shall be imputed for the additional contingently issuable convertible securities because any imputed amount would be reversed by the if-converted adjustments for assumed conversions.

260-10-45-**57** However, exercise or conversion shall not be assumed for purposes of computing diluted EPS unless exercise or conversion of similar outstanding potential common shares that are not contingently issuable is assumed. See Example 3 (paragraph 260-10-55-53) for an illustration of this guidance.

Special Issues Affecting Basic and Diluted EPS

260-10-45-**58** These special issues may affect both basic and diluted EPS.

260-10-45-**59** Paragraph not used.

Participating Securities and the Two-Class Method

260-10-45-**59A** The capital structures of some entities include:

a. Securities that may participate in dividends with common stocks according to a predetermined formula (for example, two for one) with, at times, an upper limit on the extent of participation (for example, up to, but not beyond, a specified amount per share)

b. A class of common stock with different dividend rates from those of another class of common stock but without prior or senior rights.

260-10-45-**60** The two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that otherwise would have been available to common shareholders but does not require the presentation of basic and diluted EPS for securities other than common stock. The presentation of basic and diluted EPS for a participating security other than common stock is not precluded.

260-10-45-**60A** All securities that meet the definition of a participating security, irrespective of whether the securities are convertible, nonconvertible, or potential common stock securities, shall be included in the computation of basic EPS using the two-class method.

260-10-45-**60B** Under the two-class method:

a. Income from continuing operations (or net income) shall be reduced by the amount of dividends declared in the current period for each class of stock and by the contractual amount of dividends (or interest on participating income bonds) that must be paid for the current period (for example, unpaid cumulative dividends). Dividends declared in the current period do not include dividends declared in respect of prior-year unpaid cumulative dividends. Preferred dividends that are cumulative only if earned are deducted only to the extent that they are earned.

b. The remaining earnings shall be allocated to common stock and participating securities to the extent that each security may share in earnings as if all of the earnings for the period had been distributed. The total earnings allocated to each security shall be determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

c. The total earnings allocated to each security shall be divided by the number of outstanding shares of the security to which the earnings are allocated to determine the EPS for the security.

d. Basic and diluted EPS data shall be presented for each class of common stock.

For the diluted EPS computation, outstanding common shares shall include all potential common shares assumed issued. Example 6 (see paragraph 260-10-55-62) illustrates the two-class method.

260-10-45-**61** Fully vested share-based compensation subject to the provisions of Topic 718, including fully vested options and fully vested stock, that contain a right to receive dividends declared on the common stock of the issuer, are subject to the guidance in paragraph 260-10-45-60A.

260-10-45-**61A** Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method under the requirements of paragraph 260-10-45-60A.

260-10-45-**62** Dividends or dividend equivalents transferred to the holder of a convertible security in the form of a reduction to the conversion price or an increase in the conversion ratio of the security do not represent participation rights. This guidance applies similarly to other contracts (securities) to issue an entity's common stock if these contracts (securities) provide for an adjustment to the exercise price that is tied to the declaration of dividends by the issuer. The scope of the guidance in this paragraph excludes forward contracts to issue an entity's own equity shares.

260-10-45-**63** In a forward contract to issue an entity's own equity shares, a provision that reduces the contract price per share when dividends are declared on the issuing entity's common stock represents a participation right. Such a provision constitutes a participation right because it results in a noncontingent transfer of value to the holder of the forward contract for dividends declared during the forward contract period. That is, the forward contract holder has a right to participate in the undistributed earnings of the issuing entity because a dividend declaration by the issuing entity results in a transfer of value to the holder of the forward contract through a reduction in the forward purchase price per share. Because that value transfer is not contingent-as opposed to a similar reduction in the exercise price of an option or warrant-the forward contract is a participating security, regardless of whether, during the period the contract is outstanding, a dividend is declared.

260-10-45-**64** A dividend equivalent that is applied to reduce the conversion price or increase the conversion ratio of a convertible security may represent a contingent beneficial conversion feature. Guidance on whether such a dividend equivalent represents a contingent beneficial conversion feature is presented in Subtopic 470-20. That Subtopic also establishes the accounting required for contingent beneficial conversion features.

PENDING CONTENT

Transition Date: December 16, 2021; December 16, 2023 **- Transition Guidance :** 815-40-65-1 Paragraph superseded by Accounting Standards Update No. 2020-06.

260-10-45-**65** Undistributed earnings for a period shall be allocated to a participating security based on the contractual participation rights of the security to share in those current earnings as if all of the earnings for the period had been distributed. If the terms of the participating security do not specify objectively determinable, nondiscretionary participation rights, then undistributed earnings would not be allocated based on arbitrary assumptions. For example, if an entity could avoid distribution of earnings to a participating security, even if all of the earnings for the year were distributed, then no allocation of that period's earnings to the participating security would be made. Paragraphs 260-10-55-24 through 55-31 provide additional guidance on participating securities and undistributed earnings.

260-10-45-**66** Under the two-class method the remaining earnings shall be allocated to common stock and participating securities to the extent that each security may share in earnings as if all of the earnings for the period had been distributed. This allocation is required despite its pro forma nature and that it may not reflect the economic probabilities of actual distributions to the participating security holders.

260-10-45-**67** An entity would allocate losses to a nonconvertible participating security in periods of net loss if, based on the contractual terms of the participating security, the security had not only the right to participate in the earnings of the issuer, but also a contractual obligation to share in the losses of the issuing entity on a basis that was objectively determinable. Determination of whether a participating security holder has an obligation to share in the losses of the issuing entity in a given period shall be made on a period-by-period basis, based on the contractual rights and obligations of the participating security. The holder of a participating security would have a contractual obligation to share in the losses of the issuing entity if either of the following conditions is present:

a. The holder is obligated to fund the losses of the issuing entity (that is, the holder is obligated to transfer assets to the issuer in excess of the holder's initial investment in the participating security without any corresponding increase in the holder's investment interest).

b. The contractual principal or mandatory redemption amount of the participating security is reduced as a result of losses incurred by the issuing entity.

260-10-45-**68** A convertible participating security should be included in the computation of basic EPS in periods of net loss if, based on its contractual terms, the convertible participating security has the contractual obligation to share in the losses of the issuing entity on a basis that is objectively determinable. The guidance in this paragraph also applies to the inclusion of convertible participating securities in basic EPS, irrespective of the differences that may exist between convertible and nonconvertible securities. That is, an entity should not automatically exclude a convertible participating security from the computation of basic EPS if an entity has a net loss from continuing operations. Determination of whether a participating security holder has an obligation to share in the losses of the issuing entity in a given period shall be made on a period-by-period basis, based on the contractual rights and obligations of the participating security.

260-10-45-**68A** Paragraph not used.

260-10-45-**68B** Paragraph 718-10-55-45 requires that nonrefundable dividends or dividend equivalents paid on awards for which the requisite service is not (or is not expected to be) rendered be recognized as additional compensation cost and that dividends or dividend equivalents paid on awards for which the requisite service is (or is expected to be) rendered be charged to retained earnings. As a result, an entity shall not include dividends or dividend equivalents that are accounted for as compensation cost in the earnings allocation in computing EPS. To do so would include the dividend as a reduction of earnings available to common shareholders from both compensation cost and distributed earnings. Undistributed earnings shall be allocated to all share-based payment awards outstanding during the period, including those for which the requisite service is not expected to be rendered (or is not rendered because of forfeiture during the period, if an entity elects to account for forfeitures when they occur in accordance with paragraph 718-10-35-3). An entity's estimate of the number of awards for which the requisite service is not expected to be rendered (or no estimate, if the entity has elected to account for forfeitures when they occur in accordance with paragraph 718-10-35-3) for the purpose of determining EPS under this Topic shall be consistent with the estimate used for the purposes of recognizing compensation cost under Topic 718. Paragraph 718-10-35-3 requires that an entity apply a change in the estimate of the number of awards for which the requisite service is not expected to be rendered in the period that the change in estimate occurs. This change in estimate will affect net income in the current period; however, a current-period change in an entity's expected forfeiture rate would not affect prior-period EPS calculations. See Example 9 for an illustration of this guidance.

260-10-45-**69** Paragraph not used.

260-10-45-**70** See Example 9 (paragraph 260-10-55-71) for an illustration of this guidance.

Certain Redeemable Financial Instruments

260-10-45-**70A** Paragraph 480-10-45-4 provides guidance on calculating basic and diluted EPS if an entity has mandatorily redeemable shares of common stock or has entered into certain forward contracts that require physical settlement by repurchase of a fixed number of the issuer's equity shares of common stock.

Own-Share Lending Arrangements Issued in Contemplation of Convertible Debt Issuance or Other Financing

260-10-45-**70B** Paragraph 470-20-45-2A provides guidance on calculating basic and diluted earnings per share if an entity has entered into own-share lending arrangements issued in contemplation of convertible debt issuance or other financing.

Master Limited Partnerships

260-10-45-**71** This Subsection provides guidance pertaining to the presentation of earnings per unit for master limited partnerships.

Incentive Distribution Rights That Are a Separate Class of Limited Partner Interest

260-10-45-**72** Incentive distribution rights that are a separate class of limited partner interest are participating securities because they have a right to participate in earnings with common equity holders. Therefore, current-period earnings shall be allocated to the general partner, limited partner, and incentive distribution right holder using the two-class method to calculate earnings per unit.

Incentive Distribution Rights That Are Embedded in the General Partner Interest

260-10-45-**73** Incentive distribution rights that are embedded in the general partner interest are not separate participating securities. However, because the general partner and limited partner interests are separate classes of equity, the two-class method shall be applied in computing earnings per unit for the general partner and limited partner interests.

260-10-**50 - Disclosure**

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

260-10-50-**1** For each period for which an income statement is presented, an entity shall disclose all of the following:

a. A reconciliation of the numerators and the denominators of the basic and diluted per-share computations for income from continuing operations. The reconciliation shall include the individual income and share amount effects of all securities that affect earnings per share (EPS). Example 2 (see paragraph 260-10-55-51) illustrates that disclosure. (See paragraph 260-10-45-3.) An entity is encouraged to refer to pertinent information about securities included in the EPS computations that is provided elsewhere in the financial statements as prescribed by Subtopic 505-10.

b. The effect that has been given to preferred dividends in arriving at income available to common stockholders in computing basic EPS.

c. Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive for the period(s) presented. Full disclosure of the terms and conditions of these securities is required even if a security is not included in diluted EPS in the current period.

PENDING CONTENT

Transition Date: P June 30, 2027; N June 30, 2027 **- Transition Guidance :** 105-10-65-7

For each period for which an income statement is presented, including interim periods, an entity shall disclose all of the following:

a. A reconciliation of the numerators and the denominators of the basic and diluted per-share computations for income from continuing operations. The reconciliation shall include the individual income and share amount effects of all securities that affect earnings per share (EPS). Example 2 (see paragraph 260-10-55-51) illustrates that disclosure. (See paragraph 260-10-45-3.) An entity is encouraged to refer to pertinent information about securities included in the EPS computations that is provided elsewhere in the financial statements as prescribed by Subtopic 505-10.

b. The effect that has been given to preferred dividends in arriving at income available to common stockholders in computing basic EPS.

c. Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive for the period(s) presented. Full disclosure of the terms and conditions of these securities is required even if a security is not included in diluted EPS in the current period.

d. The methods used in the diluted EPS computation for each type of dilutive instrument (for example, treasury stock method, if-converted method, two-class method, or reverse treasury stock method).

260-10-50-**1A** Per-share amounts not required to be presented by this Subtopic that an entity chooses to disclose shall be computed in accordance with this Subtopic and disclosed only in the notes to financial statements; it shall be noted whether the per-share amounts are pretax or net of tax. (See paragraph 260-10-45-5.)

260-10-50-**2** For the latest period for which an income statement is presented, an entity shall provide a description of any transaction that occurs after the end of the most recent period but before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25) that would have changed materially the number of common shares or potential common shares outstanding at the end of the period if the transaction had occurred before the end of the period. Examples of those transactions include the issuance or acquisition of common shares; the issuance of warrants, options, or convertible securities; the resolution of a contingency pursuant to a contingent stock agreement; and the conversion or exercise of potential common shares outstanding at the end of the period into common shares.

Master Limited Partnerships

260-10-50-**3** In the period in which a dropdown transaction occurs that is accounted for under the Transactions Between Entities Under Common Control Subsections of Subtopic 805-50, a reporting entity shall disclose in narrative format how the rights to the earnings (losses) of the transferred net assets differ before and after the dropdown transaction occurs for purposes of computing earnings per unit under the two-class method.

260-10-**55 - Implementation Guidance and Illustrations**

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Implementation Guidance

260-10-55-**1** This Section, which is an integral part of the requirements of this Subtopic, provides general guidance to be used in the computation of earnings per share (EPS).

Computing a Weighted-Average

260-10-55-**2** The weighted-average number of shares is an arithmetical mean average of shares outstanding and assumed to be outstanding for EPS computations. The most precise average would be the sum of the shares determined on a daily basis divided by the number of days in the period. Less-precise averaging methods may be used, however, as long as they produce reasonable results. Methods that introduce artificial weighting, such as the Rule of 78 method, are not acceptable for computing a weighted-average number of shares for EPS computations.

Applying the Treasury Stock Method

Year-to-Date Computations

260-10-55-**3** The number of incremental shares included in quarterly diluted EPS shall be computed using the average market prices during the three months included in the reporting period. For year-to-date diluted EPS, the number of incremental shares to be included in the denominator shall be determined by computing a year-to-date weighted average of the number of incremental shares included in each quarterly diluted EPS computation. Example 1 (see paragraph 260-10-55-38) provides an illustration of that provision.

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1

Editor's Note: The level 2 heading that precedes paragraph 260-10-55-3 will be amended upon transition as shown below. Simultaneously, the level 3 heading will be deleted. The content of the paragraph will not change.

> > **Applying the Treasury Stock Method: Year-to-Date Computations**

The number of incremental shares included in quarterly diluted EPS shall be computed using the average market prices during the three months included in the reporting period. For year-to-date diluted EPS, the number of incremental shares to be included in the denominator shall be determined by computing a year-to-date weighted average of the number of incremental shares included in each quarterly diluted EPS computation. Example 1 (see paragraph 260-10-55-38) provides an illustration of that provision.

260-10-55-**3A** Computation of year-to-date diluted EPS when an entity has a year-to-date loss from continuing operations including one or more quarters with income from continuing operations and when in-the-money options or warrants were not included in one or more quarterly diluted EPS computations because there was a loss from continuing operations in those quarters is as follows. In computing year-to-date diluted EPS, year-to-date income (or loss) from continuing operations shall be the basis for determining whether or not dilutive potential common shares not included in one or more quarterly computations of diluted EPS shall be included in the year-to-date computation.

260-10-55-**3B** Therefore:

a. When there is a year-to-date loss, potential common shares should never be included in the computation of diluted EPS, because to do so would be antidilutive.

b. When there is year-to-date income, if in-the-money options or warrants were excluded from one or more quarterly diluted EPS computations because the effect was antidilutive (there was a loss from continuing operations in those periods), then those options or warrants should be included in the diluted EPS denominator (on a weighted-average basis) in the year-to-date computation as long as the effect is not antidilutive. Similarly, contingent shares that were excluded from a quarterly computation solely because there was a loss from continuing operations should be included in the year-to-date computation unless the effect is antidilutive.

Example 12 (see paragraph 260-10-55-85) illustrates this guidance.

Average Market Price

260-10-55-**4** In applying the treasury stock method, the average market price of common stock shall represent a meaningful average. Theoretically, every market transaction for an entity's common stock could be included in determining the average market price. As a practical matter, however, a simple average of weekly or monthly prices usually will be adequate.

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1

Editor's Note: The content of paragraph 260-10-55-4 will change upon transition, together with a change in the heading noted below.

> > **Average Market Price**

The average market price of common stock shall represent a meaningful average. Theoretically, every market transaction for an entity's common stock could be included in determining the average market price. As a practical matter, however, a simple average of weekly or monthly prices usually will be adequate.

260-10-55-**5** Generally, closing market prices are adequate for use in computing the average market price. When prices fluctuate widely, however, an average of the high and low prices for the period that the price represents usually would produce a more representative price. The method used to compute the average market price shall be used consistently unless it is no longer representative because of changed conditions. For example, an entity that uses closing market prices to compute the average market price for several years of relatively stable market prices might need to change to an average of high and low prices if prices start fluctuating greatly and the closing market prices no longer produce a representative average market price.

Options and Warrants and Their Equivalents

260-10-55-**6** Options or warrants to purchase convertible securities shall be assumed to be exercised to purchase the convertible security whenever the average prices of both the convertible security and the common stock obtainable upon conversion are above the exercise price of the options or warrants. However, exercise shall not be assumed unless conversion of similar outstanding convertible securities, if any, also is assumed. The treasury stock method shall be applied to determine the incremental number of convertible securities that are assumed to be issued and immediately converted into common stock. Interest or dividends shall not be imputed for the incremental convertible securities because any imputed amount would be reversed by the if-converted adjustments for assumed conversions.

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1

Editor's Note: The content of paragraph 260-10-55-6 will change upon transition, together with a change in the heading noted below.

> > **Options and Warrants and Their Equivalents**

Options or warrants to purchase convertible securities shall be assumed to be exercised to purchase the convertible security whenever the average prices of both the convertible security and the common stock obtainable upon conversion are above the exercise price of the options or warrants. However, exercise shall not be assumed unless conversion of similar outstanding convertible securities, if any, also is assumed. The treasury stock method shall be applied to determine the incremental number of convertible securities that are assumed to be issued and immediately converted into common stock. Interest or dividends shall not be imputed for the incremental convertible securities because any imputed amount would be reversed by the if-converted adjustments for assumed conversions.

260-10-55-**7** Paragraphs 260-10-55-9 through 55-11 provide guidance on how certain options, warrants, and convertible securities should be included in the computation of diluted EPS. Conversion or exercise of the potential common shares discussed in those paragraphs shall not be reflected in diluted EPS unless the effect is dilutive. Those potential common shares will have a dilutive effect if either of the following conditions is met:

a. The average market price of the related common stock for the period exceeds the exercise price.

b. The security to be tendered is selling at a price below that at which it may be tendered under the option or warrant agreement and the resulting discount is sufficient to establish an effective exercise price below the market price of the common stock obtainable upon exercise.

PENDING CONTENT

Transition Date: December 16, 2021; December 16, 2023 **- Transition Guidance :** 815-40-65-1 Paragraphs 260-10-55-9 through 55-11 provide guidance on how certain options and warrants should be included in the computation of diluted EPS. Exercise of the potential common shares discussed in those paragraphs shall not be reflected in diluted EPS unless the effect is dilutive. Those potential common shares will have a dilutive effect if either of the following conditions is met:

a. The average market price of the related common stock for the period exceeds the exercise price.

b. The security to be tendered is selling at a price below that at which it may be tendered under the option or warrant agreement and the resulting discount is sufficient to establish an effective exercise price below the market price of the common stock obtainable upon exercise.

260-10-55-**8** When several conversion alternatives exist, the computation shall give effect to the alternative that is most advantageous to the holder of the convertible security. Similar treatment shall be given to preferred stock that has similar provisions or to other securities that have conversion options that permit the investor to pay cash for a more favorable conversion rate.

260-10-55-**9** Options or warrants may permit or require the tendering of debt or other securities of the issuer (or its parent or its subsidiary) in payment of all or a portion of the exercise price. In computing diluted EPS, those options or warrants shall be assumed to be exercised and the debt or other securities shall be assumed to be tendered. If tendering cash would be more advantageous to the option holder or warrant holder and the contract permits tendering cash, the treasury stock method shall be applied. Interest (net of tax) on any debt assumed to be tendered shall be added back as an adjustment to the numerator. The numerator also shall be adjusted for any nondiscretionary adjustments based on income (net of tax). The treasury stock method shall be applied for proceeds assumed to be received in cash.

260-10-55-**10** The underlying terms of certain options or warrants may require that the proceeds received from the exercise of those securities be applied to retire debt or other securities of the issuer (or its parent or its subsidiary). In computing diluted EPS, those options or warrants shall be assumed to be exercised and the proceeds applied to purchase the debt at its average market price rather than to purchase common stock under the treasury stock method. The treasury stock method shall be applied, however, for excess proceeds received from the assumed exercise. Interest, net of tax, on any debt assumed to be purchased shall be added back as an adjustment to the numerator. The numerator also shall be adjusted for any nondiscretionary adjustments based on income (net of tax).

260-10-55-**11** Convertible securities that permit or require the payment of cash by the holder of the security at conversion are considered the equivalent of warrants. In computing diluted EPS, the proceeds assumed to be received shall be assumed to be applied to purchase common stock under the treasury stock method and the convertible security shall be assumed to be converted under the if-converted method. See Example 11 (paragraph 260-10-55-78) for guidance on the effects of contingently convertible instruments on diluted EPS.

Restatement of EPS Data

Stock Dividends or Stock Splits

260-10-55-**12** If the number of common shares outstanding increases as a result of a stock dividend or stock split (see Subtopic 505-20) or decreases as a result of a reverse stock split, the computations of basic and diluted EPS shall be adjusted retroactively for all periods presented to reflect that change in capital structure. If changes in common stock resulting from stock dividends, stock splits, or reverse stock splits occur after the close of the period but before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25), the per-share computations for those and any prior-period financial statements presented shall be based on the new number of shares. If per-share computations reflect such changes in the number of shares, that fact shall be disclosed.

Rights Issues

260-10-55-**13** A rights issue whose exercise price at issuance is less than the fair value of the stock contains a bonus element that is somewhat similar to a stock dividend. If a rights issue contains a bonus element and the rights issue is offered to all existing stockholders, basic and diluted EPS shall be adjusted retroactively for the bonus element for all periods presented. If the ability to exercise the rights issue is contingent on some event other than the passage of time, the provisions of this paragraph shall not be applicable until that contingency is resolved.

260-10-55-**14** The number of common shares used in computing basic and diluted 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 the rights)/(theoretical ex-rights fair value per share). Theoretical ex-rights fair value per share shall be computed by adding the aggregate fair value of the shares immediately prior to the exercise of the rights to the proceeds expected from the exercise of the rights and dividing by the number of shares outstanding after the exercise of the rights. Example 5 (see paragraph 260-10-55-60) illustrates that provision. If the rights themselves are to be publicly traded separately from the shares prior to the exercise date, fair value for the purposes of this computation shall be established at the close of the last day on which the shares are traded together with the rights.

Prior-Period Adjustments

260-10-55-**15** If authoritative literature requires that a restatement of the results of operations of a prior period be included in the income statement or summary of earnings, then EPS data given for the prior period or periods shall be restated. The effect of the restatement, expressed in per-share terms, shall be disclosed in the period of restatement.

260-10-55-**16** Restated EPS data shall be computed as if the restated income or loss had been reported originally in the prior period or periods. Thus, it is possible that common stock assumed to be issued upon exercise, conversion, or issuance of potential common shares in accordance with the provisions of this Subtopic may not be included in the computation of restated EPS amounts. That is, retroactive restatement of income from continuing operations could cause potential common shares originally determined to be dilutive to become antidilutive pursuant to the control number provision in paragraph 260-10-45-18 . The reverse also is true. Retroactive restatement also may cause the numerator of the EPS computation to change by an amount that differs from the amount of the retroactive adjustment.

260-10-55-**16A** See paragraph 260-10-55-111 for guidance on the presentation of prior-period earnings per unit for entities within the scope of the Master Limited Partnerships Subsections that retrospectively adjust their financial statements and financial information for prior periods as a result of a dropdown transaction accounted for under the Transactions Between Entities Under Common Control Subsections of Subtopic 805-50.

Business Combinations and Reorganizations

260-10-55-**17** When common shares are issued to acquire a business in a business combination, the computations of EPS shall recognize the existence of the new shares only from the acquisition date. In reorganizations, EPS computations shall be based on analysis of the particular transaction and the provisions of this Subtopic.

260-10-55-**18** Paragraph not used.

260-10-55-**19** Paragraph not used.

Securities of Subsidiaries

260-10-55-**20** The effect on consolidated EPS of options, warrants, and convertible securities issued by a subsidiary depends on whether the securities issued by the subsidiary enable their holders to obtain common stock of the subsidiary or common stock of the parent entity. The following general guidelines shall be used for computing consolidated diluted EPS by entities with subsidiaries that have issued common stock or potential common shares to parties other than the parent entity

a. Securities issued by a subsidiary that enable their holders to obtain the subsidiary's common stock shall be included in computing the subsidiary's EPS data. Those per-share earnings of the subsidiary shall then be included in the consolidated EPS computations based on the consolidated group's holding of the subsidiary's securities. Example 7 (see paragraph 260-10-55-64) illustrates that provision.

b. Securities of a subsidiary that are convertible into its parent entity's common stock shall be considered among the potential common shares of the parent entity for the purpose of computing consolidated diluted EPS. Likewise, a subsidiary's options or warrants to purchase common stock of the parent entity shall be considered among the potential common shares of the parent entity in computing consolidated diluted EPS. Example 7 (see paragraph 260-10-55-64) illustrates that provision.

260-10-55-**21** The preceding provisions also apply to investments in common stock of corporate joint ventures and investee companies accounted for under the equity method.

260-10-55-**22** The if-converted method shall be used in determining the EPS impact of securities issued by a parent entity that are convertible into common stock of a subsidiary or an investee entity accounted for under the equity method. That is, the securities shall be assumed to be converted and the numerator (income available to common stockholders) adjusted as necessary in accordance with the provisions in paragraph 260-10-45-40(a) through (b). In addition to those adjustments, the numerator shall be adjusted appropriately for any change in the income recorded by the parent (such as dividend income or equity method income) due to the increase in the number of common shares of the subsidiary or equity method investee outstanding as a result of the assumed conversion. The denominator of the diluted EPS computation would not be affected because the number of shares of parent entity common stock outstanding would not change upon assumed conversion.

Partially Paid Shares and Partially Paid Stock Subscriptions

260-10-55-**23** If an entity has common shares issued in a partially paid form (permitted in some countries) and those shares are entitled to dividends in proportion to the amount paid, the common-share equivalent of those partially paid shares shall be included in the computation of basic EPS to the extent that they were entitled to participate in dividends. Partially paid stock subscriptions that do not share in dividends until fully paid are considered the equivalent of warrants and shall be included in diluted EPS by use of the treasury stock method. That is, the unpaid balance shall be assumed to be proceeds used to purchase stock under the treasury stock method. The number of shares included in diluted EPS shall be the difference between the number of shares subscribed and the number of shares assumed to be purchased.

Participating Securities and Undistributed Earnings

260-10-55-**23A** Paragraphs 260-10-55-24 through 55-31 provide additional guidance on the requirements in paragraph 260-10-45-65 related to the allocation of undistributed earnings to participating securities.

260-10-55-**24** In all of the following circumstances, the participation rights of the securities may be required to be disclosed in accordance with the provisions of Subtopic 505-10, regardless of whether undistributed earnings are allocated to the participating security.

260-10-55-**25** If a participating security provides the holder with the ability to participate in all dividends declared with the holders of common stock on a one-to-one per-share basis, then the undistributed earnings should be allocated between the common stock and the participating security on a one-to-one per-share basis.

260-10-55-**26** If a participating security provides the holder with the ability to participate with the holders of common stock in dividends declared contingent upon the occurrence of a specified event, the occurrence of which is subject to management discretion or is not objectively determinable (for example, liquidation of the entity or management determination of an extraordinary dividend), then the terms of the participating security do not specify objectively determinable, nondiscretionary participation rights; therefore, undistributed earnings would not be allocated to the participating security.

260-10-55-**27** If a participating security provides the holder with the ability to participate with the holders of common stock in earnings for a period in which a specified event occurs, regardless of whether a dividend is paid during the period (for example, achievement of a target market price of a security or achievement of a certain earnings level), then undistributed earnings would be allocated to common stock and the participating security based on the assumption that all of the earnings for the period are distributed. Undistributed earnings would be allocated to the participating security if the contingent condition would have been satisfied at the reporting date, irrespective of whether an actual distribution was made for the period.

260-10-55-**28** If a participating security provides the holder with the ability to participate in extraordinary dividends and the classification of dividends as extraordinary is predetermined by a formula, for example, any dividend per common share in excess of 5 percent of the current market price of the stock is defined as extraordinary, then undistributed earnings would be allocated to common stock and the participating security based on the assumption that all of the earnings for the period are distributed. If earnings for a given period exceed the specified threshold above which the participating security would participate (that is, earnings for the period are in excess of 5 percent of the current market price of the stock), undistributed earnings would be allocated to the participating security according to its terms.

260-10-55-**29** If a participating security provides the holder with the ability to participate in extraordinary dividends and the classification of dividends as extraordinary is within the sole discretion of the board of directors, then undistributed earnings would be allocated only to common stock. Since the classification of dividends as extraordinary is within the sole discretion of the board of directors, undistributed earnings would not be allocated to the participating security as the participation in the undistributed earnings would not be objectively determinable.

260-10-55-**30** If a participating security provides the holder with the ability to participate in all dividends up to a specified threshold (for example, the security participates in dividends per common share up to 5 percent of the current market price of the stock), then undistributed earnings would be allocated to common stock and the participating security based on the assumption that all of the earnings for the period are distributed. In this example, undistributed earnings would be allocated to common stock and to the participating security up to 5 percent of the current market price of the common stock, as the amount of the threshold for participation by the participating security is objectively determinable. The remaining undistributed earnings for the period would be allocated to common stock.

260-10-55-**31** See Example 9 (paragraph 260-10-55-71) for an illustration of this guidance.

Contracts That May Be Settled in Stock or Cash

260-10-55-**32** Adjustments shall be made to the numerator for contracts that are classified, in accordance with Section 815-40-25, as equity instruments but for which the entity has a stated policy or for which past experience provides a reasonable basis to believe that such contracts will be paid partially or wholly in cash (in which case there will be no potential common shares included in the denominator). That is, a contract that is reported as an equity instrument for accounting purposes may require an adjustment to the numerator for any changes in income or loss that would result if the contract had been reported as an asset or liability for accounting purposes during the period. For purposes of computing diluted EPS, the adjustments to the numerator are only permitted for instruments for which the effect on net income (the numerator) is different depending on whether the instrument is accounted for as an equity instrument or as an asset or liability (for example, those that are within the scope of Subtopics 480-10 and 815-40).

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 Adjustments shall be made to the numerator for contracts that are asset or liability classified, in accordance with Section 815-40-25, but for which the potential common shares are included in the denominator in accordance with the guidance in paragraph 260-10-45-45. For purposes of computing diluted EPS, the adjustments to the numerator are only permitted for instruments for which the effect on net income (the numerator) is different depending on whether the instrument is accounted for as an equity instrument or as an asset or liability (for example, those that are within the scope of Subtopics 480-10 and 815-40).

260-10-55-**33** The references in paragraphs 260-10-45-30 and 260-10-45-45 for share-based payment arrangements that are payable in common stock or in cash at the election of either the entity or the grantee refer to using the guidance in paragraph 260-10-45-45 for purposes of determining whether shares issuable in accordance with such plans are included in the denominator for purposes of computing diluted EPS amounts. Accordingly, the numerator is not adjusted in those circumstances. Paragraph 260-10-55-36A illustrates these requirements.

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 The references in paragraphs 260-10-45-30 and 260-10-45-45 for share-based payment arrangements that are payable in common stock or in cash at the election of either the entity or the grantee refer to using the guidance in paragraph 260-10-45-45A for purposes of determining whether shares issuable in accordance with such plans are included in the denominator for purposes of computing diluted EPS amounts. Accordingly, the numerator is not adjusted in those circumstances. Paragraph 260-10-55-36A illustrates these requirements.

260-10-55-**34** Year-to-date diluted EPS calculations may require an adjustment to the numerator in certain circumstances. For example, for contracts in which the counterparty controls the method of settlement and that would have a more dilutive effect if settled in shares, the numerator adjustment is equal to the earnings effect of the change in the fair value of the asset or liability recorded pursuant to Section 815-40-35 during the year-to-date period. In that example, the number of incremental shares included in the denominator should be determined by calculating the number of shares that would be required to settle the contract using the average share price during the year-to-date period.

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 Year-to-date diluted EPS calculations may require an adjustment to the numerator in certain circumstances. For example, for contracts that are share settled for EPS purposes, the numerator adjustment is equal to the earnings effect of the change in the fair value of the asset or liability recorded pursuant to Section 815-40-35 during the year-to-date period. In that example, the number of incremental shares included in the denominator should be determined in accordance with the guidance in paragraph 260-10-55-3.

260-10-55-**35** Paragraph not used.

260-10-55-**36** For contracts in which the counterparty controls the means of settlement, past experience or a stated policy is not determinative. Accordingly, in those situations, the more dilutive of cash or share settlement shall be used.

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 Paragraph superseded by Accounting Standards Update No. 2020-06.

260-10-55-**36A** The following table illustrates the guidance in paragraphs 260-10-55-32 through 55-36 for the effects of contracts that may be settled in stock or cash on the computation of diluted EPS.

Assumed Settlement for EPS Purposes [(a)]	Accounting for Book Purposes (per Topic 480 or 815)	Adjustment Required to Book Earnings (Numerator) for Purposes of Computing Diluted Earnings per Share? [(b)]	Adjustment Required to Number of Shares Included in Denominator? [(b)]
Shares	Asset/Liability	Yes (per paragraph 260-10-45-45)	Yes
Shares	Equity	No	Yes
Cash	Asset/Liability	No	No
Cash	Equity	Yes (per Topic 260)	No

(a) Note that for purposes of computing EPS, delivery of the full stated amount of cash in exchange for delivery of the full stated number of shares (physical settlement) should be considered share settlement.

(b) Except for forward purchase contracts that require physical settlement by repurchase of a fixed number of shares in exchange for cash. Topic 480 provides EPS guidance for those contracts.

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1The following table illustrates the guidance in paragraphs 260-10-45-45 through 45-46 and 260-10-55-32 through 55-34 for the effects of contracts that may be settled in stock or cash on the computation of diluted EPS.

Assumed Settlement for EPS Purposes [(a)]	Accounting for Book Purposes (per Topic 480 or 815)	Adjustment Required to Book Earnings (Numerator) for Purposes of Computing Diluted Earnings per Share? [(b)]	Adjustment Required to Number of Shares Included in Denominator? [(b)]
Shares	Asset/Liability	Yes (per paragraph 260-10-45-45)	Yes
Shares	Equity	No	Yes
Cash	Asset/Liability	No	No

(a) Note that for purposes of computing EPS, delivery of the full stated amount of cash in exchange for delivery of the full stated number of shares (physical settlement) should be considered share settlement.

(b) Except for forward purchase contracts that require physical settlement by repurchase of a fixed number of shares in exchange for cash. Topic 480 provides EPS guidance for those contracts.

Illustrations

260-10-55-**37** The following Examples illustrate this Subtopic's application to entities with complex capital structures. Certain assumptions have been made to simplify the computations and focus on the issue at hand in each Example.

Example 1: Computation of Basic and Diluted EPS and Income Statement Presentation

260-10-55-**38** This Example illustrates the quarterly and annual computations of basic and diluted EPS in the year 20X1 for Entity A, which has a complex capital structure. The control number used in this Example (and in Example 2) is income from continuing operations. Paragraph 260-10-55-49 illustrates the presentation of basic and diluted EPS on the face of the income statement. The facts assumed are as follows:

a. Average market price of common stock. The average market prices of common stock for the calendar-year 20X1 were as follows.

First quarter	$ 59
Second quarter	$ 70
Third quarter	$ 72
Fourth quarter	$ 72

b. The average market price of common stock from July 1 to September 1, 20X1 was $71.

c. Common stock. The number of shares of common stock outstanding at the beginning of 20X1 was 3,300,000. On March 1, 20X1, 100,000 shares of common stock were issued for cash.

d. Convertible debentures. In the last quarter of 20X0, 4 percent convertible debentures with a principal amount of $10,000,000 due in 20 years were sold for cash at $1,000 (par). Interest is payable semiannually on November 1 and May 1. Each $1,000 debenture is convertible into 20 shares of common stock. No debentures were converted in 20X0. The entire issue was converted on April 1, 20X1, because the issue was called by Entity A.

e. Convertible preferred stock. In the second quarter of 20X0, 600,000 shares of convertible preferred stock were issued for assets in a purchase transaction. The quarterly dividend on each share of that convertible preferred stock is $0.05, payable at the end of the quarter. Each share is convertible into one share of common stock. Holders of 500,000 shares of that convertible preferred stock converted their preferred stock into common stock on June 1, 20X1.

f. Warrants. Warrants to buy 500,000 shares of common stock at $60 per share for a period of 5 years were issued on January 1, 20X1. All outstanding warrants were exercised on September 1, 20X1.

g. Options. Options to buy 1,000,000 shares of common stock at $85 per share for a period of 10 years were issued on July 1, 20X1. No options were exercised during 20X1 because the exercise price of the options exceeded the market price of the common stock.

h. Tax rate. The tax rate was 40 percent for 20X1.

260-10-55-**39** The following table illustrates the income (loss) from continuing operations.

Year 20X1	Income (Loss) from Continuing Operations[(a)]	Net Income (Loss)
First quarter	$ 3,000,000	$ 3,000,000
Second quarter	4,500,000	4,500,000
Third quarter	500,000	(1,500,000) [(b)]
Fourth quarter	(500,000)	(500,000)
Full year	$ 7,500,000	$ 5,500,000

(a) This is the control number (before adjusting for preferred dividends). See paragraph 260-10-45-18.

(b) Entity A had a $2 million loss on discontinued operations (net of tax) in the third quarter.

260-10-55-**40** The following tables illustrate calculation of basic EPS for the first quarter.

First Quarter 20X1

Basic EPS Computation	
Net income	$ 3,000,000
Less: Preferred stock dividends	(30,000) (a)
Income available to common stockholders	$ 2,970,000

Dates Outstanding	Shares Outstanding	Fraction of Period	Weighted-Average Shares
January 1–February 28	3,300,000	⅔	2,200,000
Issuance of common stock on March 1	100,000		
March 1–March 31	3,400,000	⅓	1,133,333
Weighted-average shares			3,333,333

Basic EPS $0.89

The equation for computing basic EPS is:

$$\frac{\text{Income available to common stockholders}}{\text{Weighted-average shares}}$$

(a) 600,000 shares × $0.05

260-10-55-**41** The following table illustrates calculation of diluted EPS for the first quarter.

First Quarter 20X1

Diluted EPS Computation

Income available to common stockholders		$ 2,970,000
Plus: Income impact of assumed conversions		
Preferred stock dividends	$ 30,000 (a)	
Interest on 4% convertible debentures	60,000 (b)	
Effect of assumed conversions		90,000
Income available to common stockholders + assumed conversions		$ 3,060,000
Weighted-average shares		3,333,333
Plus: Incremental shares from assumed conversions		
Warrants	- (c)	
Convertible preferred stock	600,000	
4% convertible debentures	200,000	
Dilutive potential common shares		800,000
Adjusted weighted-average shares		4,133,333

Diluted EPS $0.74

The equation for computing diluted EPS is:

$$\frac{\text{Income available to common stockholders + Effect of assumed conversions}}{\text{Weighted-average shares + Dilutive potential common shares}}$$

(a) 600,000 shares × $0.05
(b) ($10,000,000 × 4%) ÷ 4; less taxes at 40%
(c) The warrants were not assumed exercised because they were antidilutive in the period ($60 exercise price > $59 average price).

260-10-55-**42** The following tables illustrate calculation of basic EPS for the second quarter.

Second Quarter 20X1

Basic EPS Computation

Net income	$ 4,500,000
Less: Preferred stock dividends	(5,000) (a)
Income available to common stockholders	$ 4,495,000

Dates Outstanding	Shares Outstanding	Fraction of Period	Weighted-Average Shares
April 1	3,400,000		
Conversion of 4% debentures on April 1	200,000		
April 1–May 31	3,600,000	⅔	2,400,000
Conversion of preferred stock on June 1	500,000		
June 1–June 30	4,100,000	⅓	1,366,667
Weighted-average shares			3,766,667

Basic EPS $1.19

The equation for computing basic EPS is:

$$\frac{\text{Income available to common stockholders}}{\text{Weighted-average shares}}$$

(a) 100,000 shares × $0.05

260-10-55-**43** The following table illustrates calculation of diluted EPS for the second quarter.

Second Quarter 20X1

Diluted EPS Computation

Income available to common stockholders		$ 4,495,000
Plus: Income impact of assumed conversions		
Preferred stock dividends	$ 5,000 (a)	
Effect of assumed conversions		5,000
Income available to common stockholders + assumed conversions		$ 4,500,000
Weighted-average shares		3,766,667
Plus: Incremental shares from assumed conversions		
Warrants	71,429 (b)	
Convertible preferred stock	433,333 (c)	
Dilutive potential common shares		504,762
Adjusted weighted-average shares		4,271,429

Diluted EPS $1.05

The equation for computing diluted EPS is:

$$\frac{\text{Income available to common stockholders + Effect of assumed conversions}}{\text{Weighted-average shares + Dilutive potential common shares}}$$

(a) 100,000 shares × $0.05
(b) $60 × 500,000 = $30,000,000; $30,000,000 ÷ $70 = 428,571; 500,000 – 428,571 = 71,429 shares OR [($70 – $60) ÷ $70] × 500,000 shares = 71,429 shares
(c) (600,000 shares × 2/3) + (100,000 shares × 1/3)

Second Quarter 20X1

Diluted EPS Computation

Income available to common stockholders
Plus: Income impact of assumed conversions
Preferred stock dividends
Effect of assumed conversions
Income available to common stockholders + assumed conversions
Weighted-average shares
Plus: Incremental shares from assumed conversions
Warrants
Convertible preferred stock
Dilutive potential common shares
Adjusted weighted-average shares

Diluted EPS $1.05

The equation for computing diluted EPS is:

Income available to common stockholders + Effect of assumed cc
Weighted-average shares + Dilutive potential common sha

(a) 100,000 shares × $0.05
(b) $60 × 500,000 = $30,000,000; $30,000,000 ÷ $70 = 428,571; 500,00
shares OR [($70 – $60) ÷ $70] × 500,000 shares = 71,429 shares
(c) (600,000 shares × 2/3) + (100,000 shares × 1/3)

260-10-55-**44** The following tables illustrate calculation of basic EPS for the third quarter.

Third Quarter 20X1

Basic EPS Computation	
Income from continuing operations	$ 500,000
Less: Preferred stock dividends	(5,000)
Income available to common stockholders	495,000
Loss on discontinued operations	(2,000,000)
Net loss available to common stockholders	$ (1,505,000)

Dates Outstanding	Shares Outstanding	Fraction of Period	Weighted-Average Shares
July 1-August 31	4,100,000	⅔	2,733,333
Exercise of warrants on September 1	500,000		
September 1–September 30	4,600,000	⅓	1,533,333
Weighted-average shares			4,266,666

Basic EPS	
Income from continuing operations	$ **0.12**
Loss on discontinued operations	$ **(0.47)**
Net loss	$ **(0.35)**

The equation for computing basic EPS is:

$$\frac{\text{Income available to common stockholders}}{\text{Weighted-average shares}}$$

260-10-55-**45** The following tables illustrate calculation of diluted EPS for the third quarter.

Third Quarter 20X1

Diluted EPS Computation		
Income available to common stockholders		$ 495,000
Plus: Income impact of assumed conversions		
Preferred stock dividends	$ 5,000	
Effect of assumed conversions		5,000
Income available to common stockholders + assumed conversions		500,000
Loss on discontinued operations		(2,000,000)
Net loss available to common stockholders + assumed conversions		$ (1,500,000)
Weighted-average shares		4,266,666
Plus: Incremental shares from assumed conversions		
Warrants	51,643 (a)	
Convertible preferred stock	100,000	
Dilutive potential common shares		151,643
Adjusted weighted-average shares		4,418,309

Diluted EPS	
Income from continuing operations	$ **0.11**
Loss on discontinued operations	$ **(0.45)**
Net loss	$ **(0.34)**

The equation for computing diluted EPS is:

$$\frac{\text{Income available to common stockholders + Effect of assumed conversions}}{\text{Weighted-average shares + Dilutive potential common shares}}$$

(a) [($71 – $60) ÷ $71] × 500,000 = 77,465 shares; 77,465 × 2/3 = 51,643 shares

Note that the incremental shares from assumed conversions are included in computing the diluted per-share amounts for the discontinued operation and net loss even though they are antidilutive. This is because the control number (income from continuing operations, adjusted for preferred dividends) was income, not a loss. (See paragraphs 260-10-45-18 through 45-19.)

260-10-55-**46** The following tables illustrate calculation of basic and diluted EPS for the fourth quarter.

Fourth Quarter 20X1

Basic and Diluted EPS Computation	
Net loss	$ (500,000)
Plus: Preferred stock dividends	(5,000)
Net loss available to common stockholders	$ (505,000)

Dates Outstanding	Shares Outstanding	Fraction of Period	Weighted-Average Shares
October 1–December 31	4,600,000	3/3	4,600,000
Weighted-average shares			4,600,000

Basic and Diluted EPS	
Net loss	$ (0.11)

The equation for computing basic (and diluted) EPS is:

$$\frac{\text{Income available to common stockholders}}{\text{Weighted-average shares}}$$

Note that the incremental shares from assumed conversions are not included in computing the diluted per-share amounts for net loss because the control number (net loss adjusted for preferred dividends) was a loss, not income. (See paragraphs 260-10-45-18 through 45-19.)

260-10-55-**47** The following tables illustrate calculation of basic EPS for the full year 20X1.

Full Year 20X1

Basic EPS Computation	
Income from continuing operations	$ 7,500,000
Less: Preferred stock dividends	(45,000)
Income available to common stockholders	7,455,000
Loss on discontinued operations	(2,000,000)
Net income available to common stockholders	$ 5,455,000

Dates Outstanding	Shares Outstanding	Fraction of Period	Weighted-Average Shares
January 1–February 28	3,300,000	2/12	550,000
Issuance of common stock on March 1	100,000		
March 1–March 31	3,400,000	1/12	283,333
Conversion of 4% debenture on April 1	200,000		
April 1–May 31	3,600,000	2/12	600,000
Conversion of preferred stock on June 1	500,000		
June 1–August 31	4,100,000	3/12	1,025,000
Exercise of warrants on September 1	500,000		
September 1–December 31	4,600,000	4/12	1,533,333
Weighted-average shares			3,991,666

Basic EPS		
Income from continuing operations	$	**1.87**
Loss on discontinued operations	$	**(0.50)**
Net income	$	**1.37**

The equation for computing basic EPS is:

$$\frac{\text{Income available to common stockholders}}{\text{Weighted-average shares}}$$

260-10-55-**48** The following tables illustrate calculation of diluted EPS for the full year 20X1.

Full Year 20X1

Diluted EPS Computation		
Income available to common stockholders		$ 7,455,000
Plus: Income impact of assumed conversions		
Preferred stock dividends	$ 45,000	
Interest on 4% convertible debentures	60,000	
Effect of assumed conversions		105,000
Income available to common stockholders + assumed conversions		7,560,000
Loss on discontinued operations		(2,000,000)
Net income available to common stockholders + assumed conversions		$ 5,560,000
Weighted-average shares		3,991,666
Plus: Incremental shares from assumed conversions		
Warrants	30,768 (a)	
Convertible preferred stock	308,333 (b)	
4% convertible debentures	50,000 (c)	
Dilutive potential common shares		389,101
Adjusted weighted-average shares		4,380,767
Diluted EPS		
Income from continuing operations	$ **1.73**	
Loss on discontinued operations	$ **(0.46)**	
Net income	$ **1.27**	

The equation for computing diluted EPS is:

$$\frac{\text{Income available to common stockholders + Effect of assumed conversions}}{\text{Weighted-average shares + Dilutive potential common shares}}$$

(a) (71,429 shares × 3/12) + (51,643 shares × 3/12)
(b) (600,000 shares × 5/12) + (100,000 shares × 7/12)
(c) 200,000 shares × 3/12

260-10-55-**49** The following table illustrates how Entity A might present its EPS data on its income statement. Note that the per-share amount for the discontinued operation is not required to be shown on the face of the income statement.

	For the Year Ended 20X1
Earnings per common share	
Income from continuing operations	$ 1.87
Loss on discontinued operations	(0.50)
Net income	$ 1.37
Earnings per common share—assuming dilution	
Income from continuing operations	$ 1.73
Loss on discontinued operations	(0.46)
Net income	$ 1.27

260-10-55-**50** The following table includes the quarterly and annual EPS data for Entity A. The purpose of this table is to illustrate that the sum of the four quarters' EPS data will not necessarily equal the annual EPS data. This Subtopic does not require disclosure of this information.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Basic EPS					
Income (loss) from continuing operations	$ 0.89	$ 1.19	$ 0.12	$ (0.11)	$ 1.87
Loss on discontinued operations	-	-	(0.47)	-	(0.50)
Net income (loss)	$ 0.89	$ 1.19	$ (0.35)	$ (0.11)	$ 1.37
Diluted EPS					
Income (loss) from continuing operations	$ 0.74	$ 1.05	$ 0.11	$ (0.11)	$ 1.73
Loss on discontinued operations	-	-	(0.45)	-	(0.46)
Net income (loss)	$ 0.74	$ 1.05	$ (0.34)	$ (0.11)	$ 1.27

Example 2: EPS Disclosures

260-10-55-**51** This Example illustrates the reconciliation of the numerators and denominators of the basic and diluted EPS computations for income from continuing operations and other related disclosures required by paragraph 260-10-50-1 for Entity A in Example 1. Note that Topic 718 has specific disclosure requirements related to share-based compensation arrangements.

PENDING CONTENT

Transition Date: (P) June 30, 2027; (N) June 30, 2027 **- Transition Guidance :** 105-10-65-7

This Example illustrates the reconciliation of the numerators and denominators of the basic and diluted EPS computations for income from continuing operations and other related disclosures required by paragraph 260-10-50-1 for Entity A in Example 1. This disclosure is required in both interim and annual periods. Note that Topic 718 has specific disclosure requirements related to share-based compensation arrangements.

260-10-55-**52** The following table illustrates the computation of basic and diluted EPS for the year ended 20X1.

	For the Year Ended 20X1		
	Income (Numerator)	**Shares (Denominator)**	**Per-Share Amount**
Income from continuing operations	$ 7,500,000		
Less: Preferred stock dividends	(45,000)		
Basic EPS			
Income available to common stockholders	7,455,000	3,991,666	$ 1.87
Effect of Dilutive Securities			
Warrants		30,768	
Convertible preferred stock	45,000	308,333	
4% convertible debentures	60,000	50,000	
Diluted EPS			
Income available to common stockholders + assumed conversions	$ 7,560,000	4,380,767	$ 1.73

Options to purchase 1,000,000 shares of common stock at $85 per share were outstanding during the second half of 20X1 but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. The options, which expire on June 30, 20Y1, were still outstanding at the end of year 20X1.

PENDING CONTENT

Transition Date: (P) June 30, 2027; (N) June 30, 2027 **- Transition Guidance :** 105-10-65-7

The following table illustrates the computation of basic and diluted EPS for the year ended 20X1.

	For the Year Ended 20X1		
	Income (Numerator)	**Shares (Denominator)**	**Per-Share Amount**
Income from continuing operations	$ 7,500,000		
Less: Preferred stock dividends	(45,000)		
Basic EPS			
Income available to common stockholders	7,455,000	3,991,666	$ 1.87
Effect of Dilutive Securities			
Warrants		30,768	
Convertible preferred stock	45,000	308,333	
4% convertible debentures	60,000	50,000	
Diluted EPS			
Income available to common stockholders + assumed conversions	$ 7,560,000	4,380,767	$ 1.73

Diluted EPS was computed using the treasury stock method for warrants and the if-converted method for convertible instruments. Options to purchase 1,000,000 shares of common stock at $85 per share were outstanding during the second half of 20X1 but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. The options, which expire on June 30, 20Y1, were still outstanding at the end of year 20X1.

Example 3: Contingently Issuable Shares

260-10-55-**53** This Example illustrates the contingent share provisions described in paragraphs 260-10-45-13 and 260-10-45-48 through 45-57. This Example has the following assumptions:

a. Entity A had 100,000 shares of common stock outstanding during the entire year ended December 31, 20X1. It had no options, warrants, or convertible securities outstanding during the period.

b. Terms of a contingent stock agreement related to a recent business combination provided the following to certain shareholders of Entity A:

1. 1,000 additional common shares for each new retail site opened during 20X1
2. 5 additional common shares for each $100 of consolidated, after-tax net income in excess of $500,000 for the year ended December 31, 20X1.

c. Entity A opened two new retail sites during the year:

1. One on May 1, 20X1
2. One on September 1, 20X1.

d. Entity A's consolidated, year-to-date after-tax net income was:

1. $400,000 as of March 31, 20X1
2. $600,000 as of June 30, 20X1
3. $450,000 as of September 30, 20X1
4. $700,000 as of December 31, 20X1.

260-10-55-**54** Note that in computing diluted EPS for an interim period, contingent shares are included as of the beginning of the period. For year-to-date computations, paragraph 260-10-45-49 requires that contingent shares be included on a weighted-average basis.

260-10-55-**55** The following table illustrates the quarterly and annual calculation of basic and diluted EPS.

260-10-55-**56**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Basic EPS Computation					
Numerator	$ 400,000	$ 200,000	$ (150,000)	$ 250,000	$ 700,000
Denominator:					
Common shares outstanding	100,000	100,000	100,000	100,000	100,000
Retail site contingency	0	667 (a)	1,333 (b)	2,000	1,000 (c)
Earnings contingency (d)	0	0	0	0	0
Total shares	100,000	100,667	101,333	102,000	101,000
Basic EPS	$ 4.00	$ 1.99	$ (1.48)	$ 2.45	$ 6.93

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Diluted EPS Computation					
Numerator	$ 400,000	$ 200,000	$ (150,000)	$ 250,000	$ 700,000
Denominator:					
Common shares outstanding	100,000	100,000	100,000	100,000	100,000
Retail site contingency	0	1,000	2,000	2,000	1,250 (e)
Earnings contingency	0 (f)	5,000 (g)	0 (h)	10,000 (i)	3,750 (j)
Total shares	100,000	106,000	102,000	112,000	105,000
Diluted EPS	$ 4.00	$ 1.89	$ (1.47) (k)	$ 2.23	$ 6.67

(a) 1,000 shares × ⅔
(b) 1,000 shares + (1,000 shares × ⅓)
(c) (1,000 shares × 8/12) + (1,000 shares × 4/12)
(d) The earnings contingency has no effect on basic EPS because it is not certain that the condition is satisfied until the end of the contingency period (see paragraphs 260-10-45-50 through 45-57). The effect is negligible for the fourth-quarter and full-year computations because it is not certain that the condition is met until the last day of the period.
(e) (0 + 1,000 + 2,000 + 2,000) ÷ 4
(f) Entity A did not have $500,000 year-to-date, after-tax net income at March 31, 20X1. Projecting future earnings levels and including the related contingent shares are not permitted by this Subtopic.
(g) [($600,000 – $500,000) ÷ $100] × 5 shares
(h) Year-to-date, after-tax net income was less than $500,000.
(i) [($700,000 – $500,000) ÷ $100] × 5 shares
(j) (0 + 5,000 + 0 + 10,000) ÷ 4
(k) Loss during the third quarter is due to an extraordinary item; therefore, antidilution rules (see paragraph 260-10-45-17) do not apply.

Example 4: Antidilution Sequencing

260-10-55-**57** This Example illustrates the antidilution sequencing provisions described in paragraph 260-10-45-18 for Entity A for the year ended December 31, 20X0. This Example has the following assumptions:

a. Entity A had income available to common stockholders of $10,000,000 for the year 20X0.

b. 2,000,000 shares of common stock were outstanding for the entire year 20X0.

c. The average market price of the common stock was $75.

d. Entity A had the following potential common shares outstanding during the year:

   1. Options (not compensation- related) to buy 100,000 shares of common stock at $60 per share.

   2. 800,000 shares of convertible preferred stock entitled to a cumulative dividend of $8 per share. Each preferred share is convertible into two shares of common stock.

   3. 5 percent convertible debentures with a principal amount of $100,000,000 (issued at par). Each $1,000 debenture is convertible into 20 shares of common stock.

e. The tax rate was 40 percent for 20X0.

260-10-55-**58** The following table illustrates calculation of earnings per incremental share.

Determination of Earnings per Incremental Share

	Increase in Income	Increase in Number of Common Shares	Earnings per Incremental Share
Options	-	20,000 (a)	-
Convertible preferred stock	$ 6,400,000 (b)	1,600,000 (c)	$ 4.00
5% convertible debentures	3,000,000 (d)	2,000,000 (e)	1.50

(a) [($75 – $60) ÷ $75] × 100,000
(b) 800,000 shares × $8
(c) 800,000 shares × 2
(d) ($100,000,000 × 5%) less taxes at 40%
(e) 100,000 debentures × 20

260-10-55-**59** The following table illustrates calculation of diluted EPS.

Computation of Diluted Earnings per Share

	Income Available	Common Shares	Per Share	
As reported	$ 10,000,000	2,000,000	$ 5.00	
Options	-	20,000		
	10,000,000	2,020,000	4.95	Dilutive
5% convertible debentures	3,000,000	2,000,000		
	13,000,000	4,020,000	3.23	Dilutive
Convertible preferred stock	6,400,000	1,600,000		
	$ 19,400,000	5,620,000	3.45	Antidilutive

Note that because diluted EPS increases from $3.23 to $3.45 when convertible preferred shares are included in the computation, those convertible preferred shares are antidilutive and are ignored in the computation of diluted EPS. Therefore, diluted EPS is reported as $3.23.

Example 5: Rights Issues

260-10-55-**60** This Example illustrates the provisions for stock rights issues that contain a bonus element as described in paragraphs 260-10-55-13 through 55-14. This Example has the following assumptions:

a. Net income was $1,100 for the year ended December 31, 20X0.

b. 500 common shares were outstanding for the entire year ended December 31, 20X0.

c. A rights issue was offered to all existing shareholders in January 20X1. The last date to exercise the rights was March 1, 20X1. The offer provided 1 common share for each 5 outstanding common shares (100 new shares).

d. The exercise price for the rights issue was $5 per share acquired.

e. The fair value of 1 common share was $11 at March 1, 20X1.

f. Basic EPS for the year 20X0 (prior to the rights issuance) was $2.20.

260-10-55-**61** As a result of the bonus element in the January 20X1 rights issue, basic and diluted EPS for 20X0 will have to be adjusted retroactively. The number of common shares used in computing basic and diluted EPS is the number of shares outstanding immediately prior to the rights issue (500) multiplied by an adjustment factor. Prior to computing the adjustment factor, the theoretical ex-rights fair value per share must be computed. Those computations follow.

Theoretical ex-rights fair value per share [(a)]	$10	=	$\frac{(500 \times \$11) + (100 \times \$5)}{(500 + 100)}$
Adjustment factor [(b)]	1.1	=	$11 ÷ $10
Denominator for restating basic EPS	550	=	500 × 1.1
Restated basic EPS for 20X0	$2.00	=	$1,100 ÷ 550

(a) The equation for computing the theoretical ex-rights fair value per share is:

$$\frac{\text{Aggregate fair value of shares prior to exercise of rights + Proceeds from exercise of rights}}{\text{Total shares outstanding after exercise of rights}}$$

(b) The equation for computing the adjustment factor is:

$$\frac{\text{Fair value per share immediately prior to exercise of rights}}{\text{Theoretical ex-rights fair value per share}}$$

Diluted EPS would be adjusted retroactively by adding 50 shares to the denominator that was used in computing diluted EPS prior to the restatement.

Example 6: Two-Class Method

260-10-55-**62** This Example illustrates the two-class method of computing basic EPS (see paragraph 260-10-45-60B) for an entity that has more than one class of nonconvertible securities. This method is described in paragraphs 260-10-45-59A through 45-70. Diluted EPS would be computed in a similar manner. This Example has the following assumptions for the year 20X0:

a. Net income was $65,000.

b. 10,000 shares of $50 par value common stock were outstanding.

c. 5,000 shares of $100 par value nonconvertible preferred stock were outstanding.

d. The preferred stock was entitled to a noncumulative annual dividend of $5 per share before any dividend is paid on common stock.

e. After common stock has been paid a dividend of $2 per share, the preferred stock then participates in any additional dividends on a 40:60 per-share ratio with common stock. (That is, after preferred and common stock have been paid dividends of $5 and $2 per share, respectively, preferred stock participates in any additional dividends at a rate of two-thirds of the additional amount paid to common stock on a per-share basis.)

f. Preferred stockholders have been paid $27,000 ($5.40 per share).

g. Common stockholders have been paid $26,000 ($2.60 per share).

260-10-55-**63** Basic EPS for 20X0 would be computed as follows.

Net income		$65,000
Less dividends paid:		
Preferred	$27,000	
Common	26,000	53,000
Undistributed 20X0 earnings		$12,000

Allocation of undistributed earnings:

To preferred:

0.4(5,000) ÷ [0.4(5,000) + 0.6(10,000)] × $12,000 = $3,000
$3,000 ÷ 5,000 shares = $0.60 per share

To common:

0.6(10,000) ÷ [0.4(5,000) + 0.6(10,000)] × $12,000 = $9,000
$9,000 ÷ 10,000 shares = $0.90 per share

Basic per-share amounts:

	Preferred Stock	Common Stock
Distributed earnings	$ 5.40	$ 2.60
Undistributed earnings	0.60	0.90
Totals	$ 6.00	$ 3.50

Example 7: Securities of a Subsidiary-Computation of Basic and Diluted EPS

260-10-55-**64** This Example illustrates the EPS computations for a subsidiary's securities that enable their holders to obtain the subsidiary's common stock based on the provisions in paragraph 260-10-55-20. The facts assumed are as follows:

260-10-55-**65** Parent Entity:

a. Net income was $10,000 (excluding any earnings of or dividends paid by the subsidiary).
b. 10,000 shares of common stock were outstanding; the parent entity had not issued any other securities.
c. The parent entity owned 900 common shares of a domestic subsidiary entity.
d. The parent entity owned 40 warrants issued by the subsidiary.
e. The parent entity owned 100 shares of convertible preferred stock issued by the subsidiary.

260-10-55-**66** Subsidiary Entity:

a. Net income was $3,600.
b. 1,000 shares of common stock were outstanding.
c. Warrants exercisable to purchase 200 shares of its common stock at $10 per share (assume $20 average market price for common stock) were outstanding.
d. 200 shares of convertible preferred stock were outstanding. Each share is convertible into two shares of common stock.
e. The convertible preferred stock paid a dividend of $1.50 per share.
f. No interentity eliminations or adjustments were necessary except for dividends.
g. Income taxes have been ignored for simplicity.

260-10-55-**67** The following table illustrates subsidiary's EPS.

Subsidiary's Earnings per Share

Basic EPS	$3.30	Computed:	($3,600[a] - $300[b]) ÷ 1,000[c]
Diluted EPS	$2.40	Computed:	$3,600[d] ÷ (1,000 + 100[e] + 400[f])

Consolidated Earnings per Share

Basic EPS	$1.31	Computed:	($10,000[g] + $3,120[h]) ÷ 10,000[i]
Diluted EPS	$1.27	Computed:	($10,000 + $2,160[j] + $48[k] + $480[l]) ÷ 10,000

(a) Subsidiary's net income
(b) Dividends paid by subsidiary on convertible preferred stock
(c) Shares of subsidiary's common stock outstanding
(d) Subsidiary's income available to common stockholders ($3,300) increased by $300 preferred dividends from applying the if-converted method for convertible preferred stock
(e) Incremental shares from warrants from applying the treasury stock method, computed: [($20 – $10) ÷ $20] × 200
(f) Shares of subsidiary's common stock assumed outstanding from conversion of convertible preferred stock, computed: 200 convertible preferred shares × conversion factor of 2
(g) Parent's net income
(h) Portion of subsidiary's income to be included in consolidated basic EPS, computed: (900 × $3.30) + (100 × $1.50)
(i) Shares of parent's common stock outstanding
(j) Parent's proportionate interest in subsidiary's earnings attributable to common stock, computed: (900 ÷ 1,000) × (1,000 shares × $2.40 per share)
(k) Parent's proportionate interest in subsidiary's earnings attributable to warrants, computed: (40 ÷ 200) × (100 incremental shares × $2.40 per share)
(l) Parent's proportionate interest in subsidiary's earnings attributable to convertible preferred stock, computed: (100 ÷ 200) × (400 shares from conversion × $2.40 per share)

Example 8: Application of the Treasury Stock Method to a Share-Based Payment Arrangement

260-10-55-**68** This Example illustrates the guidance in paragraph 260-10-45-28A for the application of the treasury stock method when share options are forfeited.

260-10-55-**69** Entity A adopted a share option plan on January 1, 20X7, and granted 900,000 at-the-money share options with an exercise price of $30. All share options vest at the end of three years (cliff vesting). Entity A's accounting policy is to estimate the number of forfeitures expected to occur in accordance with paragraph 718-10-35-1D or 718-10-35-3. At the grant date, Entity A assumes an annual forfeiture rate of 3 percent and therefore expects to receive the service for 821,406 [900,000 × (.97 to the third power)] share options. On January 1, 20X7, the fair value of each share option granted is $14.69. Grantees forfeited 15,000 stock options ratably during 20X7.

260-10-55-**69A** The average stock price during 20X7 is $44. Net income for the period is $97,385,602. For the year ended December 31, 20X7, there are 25,000,000 weighted-average common shares outstanding. This guidance also applies if the service inception date precedes the grant date.

260-10-55-**70** The following table illustrates computation of basic and diluted EPS for the year ended December 31, 20X7.

Computation of Basic EPS for the Year Ended December 31, 20X7:

Net income		$ 97,385,602
Weighted-average common shares outstanding		25,000,000
Basic earnings per share		$ 3.90
Computation of assumed proceeds for diluted earnings per share:		
Amount employees would pay if the weighted-average number of options outstanding were exercised using the average exercise price (892,500[(b)] × $30)		$ 26,775,000
Average unrecognized compensation cost in 20X7 (see computation)		10,944,050
Assumed proceeds		$ 37,719,050
Computation of average unrecognized compensation cost in 20X7:		
Beginning of period		
Unrecognized compensation cost (900,000 × $14.69)		$ 13,221,000
End of the period		
Beginning of period	$ 13,221,000	
Annual compensation cost recognized during 20X7, based on estimated forfeitures	(4,022,151) [(a)]	
Annual compensation cost not recognized during the period related to outstanding options at December 31, 20X7, for which the requisite service is not expected to be rendered	(311,399) [(c)]	
Total compensation cost of actual forfeited options	(220,350) [(d)]	
Total unrecognized compensation cost, end of the period, based on actual forfeitures		8,667,100
Subtotal		$ 21,888,100
Average total unrecognized compensation, based on actual forfeitures		$ 10,944,050
Assumed repurchase of shares:		
Repurchase shares at average market price during the year ($37,719,050 ÷ $44)		857,251
Incremental shares (892,500 – 857,251)		35,249
Computation of Diluted EPS for the Year Ended December 31, 20X7:		
Net income		$ 97,385,602
Weighted-average common shares outstanding		25,000,000
Incremental shares		35,249
Total shares outstanding		25,035,249
Diluted earnings per share		$ 3.89

(a) Pre-tax annual share-based compensation cost is $4,022,151 [(821,406 × $14.69) ÷ 3].

(b) Share options granted at the beginning of the year plus share options outstanding at the end of the year divided by two equals the weighted-average number of share options outstanding in 20X7: [(900,000 + 885,000) ÷ 2] = 892,500. This example assumes that forfeitures occurred ratably throughout 20X7.

(c) 885,000 (options outstanding at December 31, 20X7) – 821,406 (options for which the requisite service is expected to be rendered) = 63,594. 63,594 options × $14.69 (grant-date fair value per option) = $934,196 (total fair value). $934,196 ÷ 3 = $311,399 (annual share-based compensation cost).

(d) 15,000 (forfeited options) × $14.69 (grant-date fair value per option) = $220,350 (total fair value).

Example 9: Participating Securities and the Two-Class Method

260-10-55-**71** Participating securities should be included in the computation of basic earnings per share using the two-class method. The following Cases illustrate the guidance in paragraphs 260-10-45-59A through 45-70 for the application of the two-class method of computing basic earnings per share when:

a. An entity has participating convertible preferred stock (Case A).

b. An entity has participating convertible bonds (Case B).

c. An entity has participating warrants (Case C).

d. An entity has participating share-based payment awards (Case D).

260-10-55-**72** The application of the two-class method in each of Cases A, B, and C presents an EPS calculation for both the common stock and the participating security. This presentation is for illustrative purposes only. The presentation of EPS is only required for each class of common stock (as clarified by this Example). However, the presentation of basic and diluted EPS for a participating security other than common stock is not precluded. Cases A, B, and C share both of the following assumptions:

a. 10,000 shares of Class A common stock

b. Reported net income of $65,000 for 20X1.

Case A: Participating Convertible Preferred Stock

260-10-55-**73** Assume that Entity A had 5,000 shares of preferred stock outstanding during 20X1. Each share of preferred stock is convertible into two shares of Class A common stock. The preferred stock is entitled to a noncumulative annual dividend of $5 per share. After Class A has been paid a dividend of $2 per share, the preferred stock then participates in any additional dividends on a 40:60 per share ratio with Class A. For 20X1, the Class A shareholders have been paid $26,000 (or $2.60 per share), and the preferred shareholders have been paid $27,000 (or $5.40 per share). Basic EPS under the two-class method for 20X1 would be computed as follows.

Net income		$ 65,000
Less dividends paid:		
Class A common	$ 26,000	
Preferred stock	27,000	53,000
Undistributed 20X1 earnings		$ 12,000

Allocation of undistributed earnings:

To preferred:

0.4(5,000) ÷ [0.4(5,000) + 0.6(10,000)] x $12,000 = $3,000

$3,000 ÷ 5,000 shares = $0.60 per share

To common:

0.6(10,000) ÷ [0.4(5,000) + 0.6(10,000)] x $12,000 = $9,000

$9,000 ÷ 10,000 shares = $0.90 per share

Basic earnings per share amounts:

	Preferred	Class A
Distributed earnings	$ 5.40	$ 2.60
Undistributed earnings	0.60	0.90
Total	$ 6.00	$ 3.50

Case B: Participating Convertible Debt Instrument

260-10-55-**74** Assume that on January 1, 20X1, Entity A issues 1,000 30-year convertible bonds with an aggregate par value of $1,000,000. Each bond is convertible into 8 shares of Class A common stock and carries a coupon rate of 3 percent. After Class A has been paid a dividend of $2 per share, the bondholders then participate in any additional dividends on a 40:60 per share ratio with Class A shareholders. The bondholders receive common stock dividends based on the number of shares of common stock that the bonds are convertible into. The bondholders do not have any voting rights prior to conversion into common stock. For 20X1, the Class A shareholders have been paid $20,000 (or $2.00 per share). Basic EPS under the two-class method for 20X1 would be computed as follows.

Net income		$ 65,000
Less dividends paid:		
Class A common	$ 20,000	20,000
Undistributed 20X1 earnings		$ 45,000

Allocation of undistributed earnings:

To convertible bonds:

0.4(8,000) ÷ [0.4(8,000) + 0.6(10,000)] x $45,000 = $15,652

$15,652 ÷ 8,000 shares = $1.96 per share

To common:

0.6(10,000) ÷ [0.4(8,000) + 0.6(10,000)] x $45,000 = $29,348

$29,348 ÷ 10,000 shares = $2.93 per share

Basic earnings per share amounts:

	Convertible Bonds	Class A
Distributed earnings	$ -	$ 2.00
Undistributed earnings	1.96	2.93
Total	$ 1.96	$ 4.93

Case C: Participating Warrants

260-10-55-**75** Assume that Entity A had warrants to purchase 5,000 shares of common stock outstanding during 20X1 Each warrant entitles the holder to purchase 1 share of common stock at $10 (fair value at date of grant) per share. In addition, the warrant holders receive dividends on the underlying common stock to the extent they are declared. For 20X1, common shareholders have been paid $26,000 (or $2.60 per share), and the warrant holders have been paid $13,000 (or, also, $2.60 per share). Basic EPS under the two-class method for 20X1 would be computed as follows:

Net income		$ 65,000
Less dividends paid:		
Common stock	$ 26,000	
Warrants	13,000	39,000
Undistributed 20X1 earnings		$ 26,000

Allocation of undistributed

To warrants:

0.5(5,000) ÷ [0.5(5,000) + 0.5(10,000)] x $26,000 = $8,667

$8,667 ÷ 5,000 shares = $1.73 per share

To common:

0.5(10,000) ÷ [0.5(5,000) + 0.5(10,000)] x $26,000 = $17,333

$17,333 ÷ 10,000 shares = $1.73 per share

Or, to simplify, since the common shareholders and the warrant holders share in dividends on a one-to-one basis, undistributed earnings could also be calculated as follows.

$26,000 ÷ 15,000 shares = $1.73 per common share and warrant.

Basic earnings per share amounts:

	Common	Warrants
Distributed earnings	$ 2.60	$ 2.60
Undistributed earnings	1.73	1.73
Total	$ 4.33	$ 4.33

260-10-55-**76** Paragraph not used.

Case D: Participating Share-Based Payment Awards

260-10-55-**76A** Assume that Entity A had 25,000 shares of common stock and 5,000 unvested share-based payment awards outstanding during 20X8 and reported net income of $100,000. The share-based payment awards participate in any dividends on a 1:1 per-share ratio with common stock, and the dividends are nonforfeitable by the holder of the share-based payment awards. Entity A's accounting policy is to estimate the number of forfeitures expected to occur in accordance with paragraph 718-10-35-3.

260-10-55-**76B** As of the beginning of 20X8, Entity A estimated that the requisite service will not be provided for 200 of the 5,000 share-based payment awards outstanding. At the end of 20X8, Entity A adjusts its estimate to reflect an increased expected forfeiture rate and now expects that the requisite service will not be provided for 300 awards. It recognizes the cumulative effect of this change in compensation cost in the current period.

260-10-55-**76C** Entity A paid a $1.50 per-share dividend at the end of 20X8. Net income includes an expense of $450 related to dividends paid to the awards for which the requisite service is not expected to be rendered in accordance with paragraph 718-10-55-45. Basic EPS under the two-class method for 20X8 would be computed as follows:

Net income		$ 100,000
Less dividends paid:		
Common stock	$ 37,500	
Unvested share-based payment awards	$ 7,050 (a)	
		$ 44,550
Undistributed earnings		$ 55,450

(a) Reflects the dividends paid to unvested share-based payment awards ($7,500 = 5,000 unvested share-based payment awards × $1.50 dividend per share) less the dividends paid to awards for which the requisite service is not expected to be rendered ($450 = 300 share-based payment awards for which the requisite service is not expected to be rendered × $1.50 dividend per share). Dividends paid on awards for which the requisite service is not expected to be rendered are already recognized in net income as additional compensation cost.

Net income		$ 100,000
Less dividends paid:		
Common stock	$ 37,500	
Unvested share-based payment awards	$ 7,050 (a)	
		$ 44,550
Undistributed earnings		$ 55,450

(a) Reflects the dividends paid to unvested share-based payment awards ($7,500 = 5,000 unvested share-based payment awards × $1.50 dividend per share) less the dividends paid to awards for which the requisite service is not expected to be rendered ($450 = 300 share-based payment awards for which the requisite service is not expected to be rendered × $1.50 dividend per share). Dividends paid on awards for which the requisite service is not expected to be rendered are already recognized in net income as additional compensation cost.

Allocation of undistributed earnings:

To unvested share-based payment awards:
5,000 ÷ (5,000 + 25,000) × $55,450 = $9,242
$9,242 ÷ 5,000 total unvested share-based payment awards = $1.85 per share

To common:
25,000 ÷ (5,000 + 25,000) × $55,450 = $46,208
$46,208 ÷ 25,000 shares of common stock = $1.85 per share

Allocation of undistributed earnings:

To unvested share-based payment awards:
5,000 ÷ (5,000 + 25,000) × $55,450 = $9,242
$9,242 ÷ 5,000 total unvested share-based payment awards = $1.85 per share

To common:
25,000 ÷ (5,000 + 25,000) × $55,450 = $46,208
$46,208 ÷ 25,000 shares of common stock = $1.85 per share

Or, to simplify, because the common shareholders and the share-based payment award holders share in dividends on a 1:1 basis, undistributed earnings could also be calculated as follows:

$55,450 ÷ 30,000 shares[(b)] = $1.85 per common share and share-based payment award $55,450 ÷ 30,000 shares[(b)] = $1.85 per common share and share-based payment awar

(b) 25,000 shares of common stock + 5,000 total unvested share-based payment awards (b) 25,000 shares of common stock + 5,000 total unvested share-based payment award

Basic earnings per share amounts:

	Unvested Share-Based Payment Awards	Common Stock
Distributed earnings	$1.41 (c)	$1.50
Undistributed earnings	1.85	1.85
	$3.26	$3.35

(c) $7,050 of distributed earnings allocated to the unvested share-based payment awards divided by 5,000 total unvested share-based payment awards. Although all unvested share-based payment awards received a payment of $1.50 per share, totaling $7,500, only dividends to awards for which the requisite service is expected to be rendered are considered distributed earnings as that term is used in paragraph 260-10-45-60B(a). Dividends paid on awards for which the requisite service is not expected to be rendered are recognized in net income as additional compensation cost.

Basic earnings per share amounts:

	Unvested Share-Based Payment Awards	Common Stock
Distributed earnings	$1.41 (c)	$1.50
Undistributed earnings	1.85	1.85
	$3.26	$3.35

(c) $7,050 of distributed earnings allocated to the unvested share-based payment awards divided by 5,000 total unvested share-based payment awards. Although all unvested share-based payment awards received a payment of $1.50 per share, totaling $7,500, only dividends to awards for which the requisite service is expected to be rendered are considered distributed earnings as that term is used in paragraph 260-10-45-60B(a). Dividends paid on awards for which the requisite service is not expected to be rendered are recognized in net income as additional compensation cost.

260-10-55-**76D** Note that in this illustrative example, application of the two-class method presents an EPS calculation for both the common stock and the participating security, that is, the unvested share-based payment awards. This presentation is for illustrative purposes only. The presentation of EPS is only required for each class of common stock. However, the presentation of basic and diluted EPS for a participating security other than common stock is not precluded. The disclosure in the notes to financial statements of actual distributions to unvested share-based payment awards, rather than the amount presented as distributed earnings, also is not precluded to reconcile earnings per common share and per unvested share-based payment awards. For example, Entity A in the example above may disclose that actual distributions to unvested share-based payment awards were $7,500 and that $450 of those distributions was included in net income as compensation cost related to awards for which the requisite service is not expected to be rendered. Disclosure on a per-share basis also is not precluded.

260-10-55-**77** Paragraph not used.

Example 11: Computation of Basic and Diluted EPS for Two Examples of Contingently Convertible Instruments

260-10-55-**78** The following Cases illustrate the guidance in paragraphs 260-10-45-43 through 45-44 related to diluted EPS computations for two examples of contingently convertible instruments:

a. Contingently convertible debt with a market price trigger (Case A)

b. Contingently convertible debt with a market price trigger, issuer must settle the principal amount of the debt in cash, but may settle any conversion premium in either cash or stock (Case B).

PENDING CONTENT

Transition Date: P December 16, 2021; N December 16, 2023 **- Transition Guidance :** 815-40-65-1

Editor's Note: The content of paragraph 260-10-55-78 will change upon transition, together with a change in the heading noted below.
> > **Example 11: Computation of Basic and Diluted EPS for Three Examples of Contingently Convertible Instruments**
The following Cases illustrate the guidance in paragraphs 260-10-45-43 through 45-46 related to diluted EPS computations for three examples of contingently convertible instruments:

a. Contingently convertible debt with a market price trigger (Case A)

b. Contingently convertible debt with a market price trigger, issuer must settle the principal amount of the debt in cash, but may settle any conversion premium in either cash or stock (Case B)

c. Convertible debt for which the principal and conversion premium can be settled in any combination of shares or cash (Case C).

260-10-55-**79** Cases A and B share all of the following assumptions:

a. Principal amount of the convertible debt: $1,000

b. Conversion ratio: 20

c. Conversion price per share of common stock: $50 Conversion price = (Convertible bond's principal amount) ÷ (Conversion ratio) = $1,000 ÷ 20 = $50.

d. Share price of common stock at issuance: $40

e. Market price trigger: average share price for the year must exceed $65 (130% of conversion price)

f. Interest rate: 4%

g. Effective tax rate: 35%

h. Shares of common stock outstanding: 2,000.

PENDING CONTENT

Transition Date: P December 16, 2021; N December 16, 2023 **- Transition Guidance :** 815-40-65-1 Cases A, B, and C share all of the following assumptions:

a. Principal amount of the convertible debt: $1,000

b. Conversion ratio: 20

c. Conversion price per share of common stock: $50 Conversion price = (Convertible bond's principal amount) ÷ (Conversion ratio) = $1,000 ÷ 20 = $50.

d. Share price of common stock at issuance: $40

e. Market price trigger: average share price for the year must exceed $65 (130% of conversion price)

f. Interest rate: 4%

g. Effective tax rate: 35%

h. Shares of common stock outstanding: 2,000.

260-10-55-**80** Paragraph not used.

Case A: Contingently Convertible Debt with a Market Price Trigger

260-10-55-**81** The holder of the debt may convert the debt into shares of common stock when the share price exceeds the market price trigger; otherwise, the holder is only entitled to the par value of the debt.

260-10-55-**82** The contingently convertible debt is issued on January 1, 200X, income available to common shareholders for the year ended December 31, 200X, is $10,000, and the average share price for the year is $55. The issuer of the contingently convertible debt should apply the consensus in this Issue, which requires the issuer to include the dilutive effect of the convertible debt in diluted EPS even though the market price trigger of $65 has not been met. In this Case, basic EPS is $5.00. (Basic EPS = [Income available to common shareholders (IACS)] ÷ [Shares outstanding (SO)] = $10,000 ÷ 2,000 shares = $5.00 per share) and applying the if-converted method to the debt instrument dilutes EPS to $4.96 (Diluted EPS computed using the if-converted method = [IACS + Interest (1-tax rate)] ÷ (SO + Potential common shares) = ($10,000 + $26) ÷ (2,000 + 20) shares = $4.96 per share.)

PENDING CONTENT

Transition Date: December 16, 2021; December 16, 2023 **- Transition Guidance :** 815-40-65-1 The contingently convertible debt is issued on January 1, 200X, income available to common shareholders for the year ended December 31, 200X, is $10,000, and the average share price for the year is $55. The issuer of the contingently convertible debt should apply the guidance in paragraphs 260-10-45-43 through 45-44 which requires the issuer to include the dilutive effect of the convertible debt in diluted EPS even though the market price trigger of $65 has not been met. In this Case, basic EPS is $5.00. (Basic EPS = [Income available to common shareholders (IACS)] ÷ [Shares outstanding (SO)] = $10,000 ÷ 2,000 shares = $5.00 per share) and applying the if-converted method to the debt instrument dilutes EPS to $4.96 (Diluted EPS computed using the if-converted method = [IACS + Interest (1-tax rate)] ÷ (SO + Potential common shares) = ($10,000 + $26) ÷ (2,000 + 20) shares = $4.96 per share.)

260-10-55-**83** Paragraph not used.

Case B: Contingently Convertible Debt with a Market Price Trigger, Issuer Must Settle Principal in Cash, but May Settle Conversion Premium in either Cash or Stock

260-10-55-**84** The issuer of the contingently convertible debt must settle the principal amount of the debt in cash upon conversion and it may settle any conversion premium in either cash or stock. The holder of the instrument is only entitled to the conversion premium if the share price exceeds the market price trigger. The contingently convertible instrument is issued on January 1, 200X, income available to common shareholders for the year ended December 31, 200X is $9,980, and the average share price for the year is $64.

260-10-55-**84A** The if-converted method should not be used to determine the earnings-per-share implications of convertible debt with the characteristics described in this Case. There would be no adjustment to the numerator in the diluted earnings-per-share computation for the cash-settled portion of the instrument because that portion will always be settled in cash. The conversion premium should be included in diluted earnings per share based on the provisions of paragraphs 260-10-45-45 through 45-46 and 260-10-55-32 through 55-36. The convertible debt instrument in this Case is subject to other applicable guidance in Subtopic 260-10 as well, including the antidilution provisions of that Subtopic.

PENDING CONTENT

Transition Date: December 16, 2021; December 16, 2023 **- Transition Guidance :** 815-40-65-1 The if-converted method should be used to determine the earnings-per-share implications of convertible debt with the characteristics described in this Case. There would be no adjustment to the numerator in the diluted earnings-per-share computation for the cash-settled portion of the instrument (the principal amount of the debt) because that portion will always be settled in cash (see paragraph 260-10-45-40). The conversion premium should be included in diluted earnings per share based on the provisions of paragraphs 260-10-45-45 through 45-46 and 260-10-55-32 through 55-36A. The convertible debt instrument in this Case is subject to other applicable guidance in Subtopic 260-10 as well, including the antidilution provisions of that Subtopic.

260-10-55-**84B** In this Example, basic EPS is $4.99, and diluted earnings per share is $4.98. Basic EPS = IACS ÷ SO = $9,980 ÷ 2,000 shares = $4.99 per share. Diluted EPS = IACS ÷ (SO + Potential common shares) = ($9,980) ÷ (2,000 + 4.38) shares = $4.98 per share. Potential common shares = (Conversion spread value) ÷ (Average share price) = $14 × 20 shares ÷ $64 = 4.38 shares.

PENDING CONTENT

Transition Date: December 16, 2021; December 16, 2023 **- Transition Guidance :** 815-40-65-1 In this Example, basic EPS is $4.99, and diluted earnings per share is $4.98. Basic EPS = IACS ÷ SO = $9,980 ÷ 2,000 shares = $4.99 per share. Diluted EPS would be calculated using the if-converted method by determining the number of shares needed to settle the conversion premium and adding that amount to shares outstanding to calculate the diluted EPS denominator. The average market price is used to determine the dilution in accordance with paragraph 260-10-45-21A. The effect would be dilutive in this case because the average market price of the shares exceeds the conversion price. However, if the average market price of the shares was less than the conversion price, then the conversion premium would be zero and there would be no dilutive effect. Diluted EPS = IACS ÷ (SO + Potential common shares) = ($9,980) ÷ (2,000 + 4.38) shares = $4.98 per share. Potential common shares = (Conversion spread value) ÷ (Average share price) = $14 × 20 shares ÷ $64 = 4.38 shares.

Case C: Convertible Debt That the Principal and Conversion Premium Can Be Settled in Any Combination of Shares or Cash

260-10-55-**84C**

PENDING CONTENT

Transition Date: December 16, 2021; December 16, 2023 **- Transition Guidance :** 815-40-65-1

The issuer of the convertible debt can settle the principal and the conversion premium in any combination of cash or shares (the issuer has the option). Consistent with the facts in Case B, the convertible instrument is issued on January 1, 200X, income available to common shareholders for the year ended December 31, 200X, is $9,980, and the average share price for the year is $64.

260-10-55-**84D**

PENDING CONTENT

Transition Date: December 16, 2021; December 16, 2023 **- Transition Guidance :** 815-40-65-1

The if-converted method should be used to determine the earnings-per-share implications of convertible debt. The effect of settling the principal and conversion premium in shares is included for purposes of calculating diluted earnings per share in accordance with the guidance in paragraph 260-10-45-45.

260-10-55-**84E**

PENDING CONTENT

Transition Date: December 16, 2021; December 16, 2023 **- Transition Guidance :** 815-40-65-1

In this case, basic EPS is $4.99 (the same calculation in paragraph 260-10-55-84B), and diluted earnings per share is $4.95. Diluted EPS is calculated using the if-converted method = [IACS + Interest (1-tax rate)] ÷ (SO + Potential common shares) = (9,980 + 26) ÷ (2,000 + 20). See paragraph 260-10-55-82 for interest expense amount.

Example 12: Computing Year-to-Date Weighted-Average Shares Outstanding

260-10-55-**85** The following Cases illustrate the guidance in paragraphs 260-10-55-3A through 55-3B for the quarterly and annual computations of basic and diluted EPS for a company with options outstanding (equal to 20,000 incremental shares) that were in the money for the entire year (for simplicity purposes, this Example assumes that the stock price never changed). Case A addresses year-to-date loss, and Case B addresses year-to-date income. Note that in Case A, due to a loss for the period, zero incremental shares are included because the effect would be antidilutive. Note that in Case B, zero shares included due to loss in the period.

Case A: Year-to-Date Loss

260-10-55-**86** The following tables illustrate the computation of quarterly and year-to-date EPS.

Quarterly	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Income from continuing operations	$50,000	$(150,000)	$50,000	$(200,000)
Common shares	100,000	100,000	100,000	100,000
Incremental shares	20,000	0 (a)	20,000	0 (a)
Basic EPS	$ 0.50	$ (1.50)	$ 0.50	$ (2.00)
Diluted EPS	$ 0.42	$ (1.50)	$ 0.42	$ (2.00)

(a) Due to a loss for the period, zero incremental shares are included because the effect would be antidilutive.

Year-to-Date	Three Months	Six Months	Nine Months	Full Year
Income from continuing operations	$50,000	$(100,000)	$(50,000)	$ (250,000)
Common shares	100,000	100,000	100,000	100,000
Incremental shares	20,000	0 (a)	0 (a)	0 (a)
Basic EPS	$ 0.50	$ (1.00)	$ (0.50)	$ (2.50)
Diluted EPS	$ 0.42	$ (1.00)	$ (0.50)	$ (2.50)

(a) Due to a loss for the period, zero incremental shares are included because the effect would be antidilutive.

Case B: Year-to-Date Income

260-10-55-**87** The following tables illustrate the computation of quarterly and year-to-date EPS.

Quarterly	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Income from continuing operations	$ (5,000)	$ (5,000)	$110,000	$200,000
Common shares	100,000	100,000	100,000	100,000
Incremental shares	0 (a)	0 (a)	20,000	20,000
Basic EPS	$ (0.05)	$ (0.05)	$ 1.10	$ 2.00
Diluted EPS	$ (0.05)	$ (0.05)	$ 0.92	$ 1.67

(a) Zero shares included due to loss in the period.

Year-to-Date	Three Months	Six Months	Nine Months	Full Year
Income from continuing operations	$ (5,000)	$(10,000)	$ 100,000	$ 300,000
Common shares	100,000	100,000	100,000	100,000
Incremental shares	0 [(a)]	0 [(a)]	20,000 [(b)]	20,000 [(c)]
Basic EPS	$ (0.05)	$ (0.10)	$ 1.00	$ 3.00
Diluted EPS	$ (0.05)	$ (0.10)	$ 0.83	$ 2.50

(a) Zero shares included due to loss in the period.
(b) Nine-month computation: (20 + 20 + 20) ÷ 3
(c) Full-year computation: (20 + 20 + 20 + 20) ÷ 4

Note that if the options had been out of the money in any quarter, zero incremental shares would have been included for that quarter in the year-to-date averaging.

Example 13: Accelerated Share Repurchase Programs

260-10-55-**88** Example 1 in Subtopic 505-30 (see paragraph 505-30-55-1) illustrates the accounting for what is sometimes described as an accelerated share repurchase program. In that Example, separate transactions involving a treasury stock purchase and a forward contract are addressed. This Example addresses the EPS consequences of those transactions.

260-10-55-**89** The treasury stock transaction would result in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for both basic and diluted EPS. The effect of the forward contract on diluted EPS would be calculated in accordance with this Subtopic.

Example 14: Antidilutive Securities

260-10-55-**90** This Example illustrates the guidance in paragraph 260-10-45-18.

260-10-55-**91** Assume that Entity A has income from continuing operations of $2,400, a loss from discontinued operations of $(3,600), a net loss of $(1,200), and 1,000 common shares and 200 potential common shares outstanding. Entity A's basic per-share amounts would be $2.40 for continuing operations, $(3.60) for the discontinued operation, and $(1.20) for the net loss. Entity A would include the 200 potential common shares in the denominator of its diluted per-share computation for continuing operations because the resulting $2.00 per share is dilutive. (For illustrative purposes, assume no numerator impact of those 200 potential common shares.) Because income from continuing operations is the control number, Entity A also must include those 200 potential common shares in the denominator for the other per-share amounts, even though the resulting per-share amounts [$(3.00) per share for the loss from discontinued operation and $(1.00) per share for the net loss] are antidilutive to their comparable basic per-share amounts; that is, the loss per-share amounts are less.

Example 15: Options, Warrants, and Their Equivalents

260-10-55-**92** This Example illustrates the guidance in paragraphs 260-10-45-22 through 45-23.

260-10-55-**93** Consider Entity A that has 10,000 warrants outstanding exercisable at $54 per share; the average market price of the common stock during the reporting period is $60. Exercise of the warrants and issuance of 10,000 shares of common stock would be assumed. The $540,000 that would be realized from exercise of the warrants ($54 × 10,000) would be an amount sufficient to acquire 9,000 shares ($540,000/$60). Thus, 1,000 incremental shares (10,000 - 9,000) would be added to the outstanding common shares in computing diluted EPS for the period.

260-10-55-**94** The following is a shortcut formula for that computation (note that this formula may not be appropriate for share-based compensation awards [see paragraph 260-10-45-29]):

Incremental shares = [(market price - exercise price)/market price] x shares assumed issued under option; thus, [($60 - $54)/$60] x10,000 = 1,000 incremental shares.

Example 16: Equity-Classified Freestanding Financial Instruments That Include a Down Round Feature

260-10-55-**95** Assume Entity A issues warrants that permit the holder to buy 100 shares of its common stock for $10 per share and that Entity A presents EPS in accordance with the guidance in this Topic. The warrants have a 10-year term, are exercisable at any time, and contain a down round feature. The warrants are classified as equity by Entity A because they are indexed to the entity's own stock and meet the additional conditions necessary for equity classification in accordance with the guidance in Subtopic 815-40 on derivatives and hedging-contracts in entity's own equity (see paragraphs 815-40-55-33 through 55-34A for an illustration of the guidance in Subtopic 815-40 applied to a warrant with a down round feature). Because the warrants are an equity-classified freestanding financial instrument, they are within the scope of the recognition and measurement guidance in this Topic. The terms of the down round feature specify that if Entity A issues additional shares of its common stock for an amount less than $10 per share or issues an equity-classified financial instrument with a strike price below $10 per share, the strike price of the warrants would be reduced to the most recent issuance price or strike price, but the terms of the down round feature are such that the strike price cannot be reduced below $8 per share. After issuing the warrants, Entity A issues shares of its common stock at $7 per share. Because of the subsequent round of financing occurring at a share price below the strike price of the warrants, the down round feature in the warrants is triggered and the strike price of the warrants is reduced to $8 per share.

260-10-55-**96** In accordance with the measurement guidance in paragraphs 260-10-30-1 through 30-2, Entity A determines that the fair value of the warrants (without the down round feature) with a strike price of $10 per share immediately after the down round feature is triggered is $600 and that the fair value of the warrants (without the down round feature) with a strike price of $8 per share immediately after the down round feature is triggered is $750. The increase in the value of $150 is the value of the effect of the triggering of the down round feature.

260-10-55-**97** The $150 increase is the value of the effect of the down round feature to be recognized in equity in accordance with paragraph 260-10-25-1, as follows:

Retained earnings	$150	
Additional paid-in capital		$150

Retained earnings	$150	
Additional paid-in capital		$150

Additionally, Entity A reduces income available to common stockholders in its basic EPS calculation by $150 in accordance with the guidance in paragraph 260-10-45-12B. Entity A applies the treasury stock method in accordance with paragraphs 260-10-45-23 through 45-27 to calculate diluted EPS. Accordingly, the $150 is added back to income available to common stockholders when calculating diluted EPS. However, the treasury stock method would not be applied if the effect were to be antidilutive.

260-10-55-**98** Paragraph not used.

260-10-55-**99** Paragraph not used.

260-10-55-**100** Paragraph not used.

260-10-55-**101** Paragraph not used.

Master Limited Partnerships

260-10-55-**102** This Subsection, which is an integral part of the requirements of this Subtopic, provides general guidance used to compute earnings per unit for master limited partnerships.

Implementation Guidance

Incentive Distribution Rights That Are a Separate Class of Limited Partner Interest

Distributions

260-10-55-**103** When calculating earnings per unit under the two-class method for a master limited partnership, net income (or loss) for the current reporting period shall be reduced (or increased) by the amount of available cash that has been or will be distributed to the general partner, limited partners, and incentive distribution right holder for that reporting period. For example, assume a partnership agreement requires the general partner to distribute available cash within 60 days following the end of each fiscal quarter. The master limited partnership is required to file financial statements with a regulatory agency within 45 days following the end of each fiscal quarter. In order to compute earnings per unit for the first quarter, the general partner determines the amount of available cash that will be distributed to the general partner, limited partners, and incentive distribution right holder for that first quarter. The master limited partnership would reduce (or increase) net income (or loss) by that amount in computing undistributed earnings that are allocated to the general partner, limited partners, and incentive distribution right holder in calculating earnings per unit for the first quarter.

Earnings in Excess of Cash Distributions

260-10-55-**104** Undistributed earnings shall be allocated to the general partner, limited partners, and incentive distribution right holder utilizing the contractual terms of the partnership agreement. The distribution waterfall (that is, a schedule that prescribes distributions to the various interest holders at each threshold) for available cash specified in the partnership agreement contractually mandates the way in which earnings are distributed for the period presented. The undistributed earnings shall be allocated to the incentive distribution right holder based on the contractual participation rights of the incentive distribution right to share in current period earnings. Therefore, if the partnership agreement includes a specified threshold as described in paragraph 260-10-55-30, a master limited partnership shall not allocate undistributed earnings to the incentive distribution right holder once the specified threshold has been met.

260-10-55-**105** In determining whether a specified threshold exists, a master limited partnership shall evaluate whether distributions to the incentive distribution right holder would be contractually limited to available cash as defined in the partnership agreement if all earnings for the period were distributed. For example, if the partnership agreement contractually limits distributions to the incentive distribution right holder to the holder's share of available cash as defined in the partnership agreement, then the specified threshold for the current reporting period would be the holder's share of available cash that has been or will be distributed for that reporting period. The master limited partnership would not allocate undistributed earnings to the incentive distribution right holder because the holder's share of available cash is the maximum amount that the incentive distribution right holder would be contractually entitled to receive if all earnings for the current reporting period were distributed. However, if the partnership agreement is silent or does not explicitly limit distributions to the incentive distribution right holder to available cash, then the master limited partnership would allocate undistributed earnings to the incentive distribution right holder utilizing the distribution waterfall for available cash specified in the partnership agreement.

Cash Distributions in Excess of Earnings

260-10-55-**106** Any excess of distributions over earnings shall be allocated to the general partner and limited partners based on their respective sharing of losses specified in the partnership agreement (that is, the provisions for allocation of losses to the partners' capital accounts for the period presented). If the incentive distribution right holders do not share in losses, the excess of distribution over earnings amount would not be allocated to the incentive distribution right holders. However, if the incentive distribution right holders have a contractual obligation to share in the losses of the master limited partnership on a basis that is objectively determinable (as described in paragraph 260-10-45-68), the excess of distributions over earnings shall be allocated to the general partner, limited partners, and incentive distribution right holders based on their respective sharing of losses specified in the partnership agreement for the period presented.

Incentive Distribution Rights That Are Embedded in the General Partner Interest

Distributions

260-10-55-**107** When calculating earnings per unit under the two-class method for a master limited partnership, net income (or loss) for the current reporting period shall be reduced (or increased) by the amount of available cash that has been or will be distributed to the general partner (including the distribution rights of the embedded incentive distribution rights) and limited partners for that reporting period. For example, assume that a partnership agreement requires the general partner to distribute available cash within 60 days following the end of each fiscal quarter. The master limited partnership is required to file financial statements with a regulatory agency within 45 days following the end of each fiscal quarter. In order to compute earnings per unit for the first quarter, the general partner determines the amount of available cash that will be distributed to the general partner and limited partners for that first quarter. The master limited partnership would reduce (or increase) net income (or loss) by that amount in computing undistributed earnings that are allocated to the general partner (including the distribution rights of the embedded incentive distribution rights) and limited partners in calculating earnings per unit for the first quarter.

Earnings in Excess of Cash Distributions

260-10-55-**108** Undistributed earnings shall be allocated to the general partner (including the distribution rights of the embedded incentive distribution rights) and limited partners utilizing the contractual terms of the partnership agreement. The distribution waterfall for available cash specified in the partnership agreement contractually mandates the way in which earnings are distributed for the period presented. The undistributed earnings shall be allocated to the general partner (with respect to the distribution rights of an embedded incentive distribution right) based on the contractual participation rights of the incentive distribution right to share in current period earnings. Therefore, if the partnership agreement includes a specified threshold as described in paragraph 260-10-55-30, a master limited partnership shall not allocate undistributed earnings to the general partner (with respect to the distribution rights of an embedded incentive distribution right) once the specified threshold has been met.

260-10-55-**109** In determining whether a specified threshold exists, a master limited partnership shall evaluate whether distributions to the general partner (with respect to the distribution rights of an embedded incentive distribution right) would be contractually limited to available cash as defined in the partnership agreement if all earnings for the period were distributed. For example, if the partnership agreement contractually limits distributions to the general partner (with respect to the distribution rights of an embedded incentive distribution right) to the holder's share of available cash as defined in the partnership agreement, then the specified threshold for the current reporting period would be the general partner's share (with respect to the distribution rights of an embedded incentive distribution right) of available cash that has been or will be distributed for that reporting period. The master limited partnership would not allocate undistributed earnings to the general partner (with respect to the distribution rights of an embedded incentive distribution right) because the general partner's share (with respect to the distribution rights of an embedded incentive distribution right) of available cash is the maximum amount that the general partner (with respect to the distribution rights of an embedded incentive distribution right) would be contractually entitled to receive if all earnings for the current reporting period were distributed. However, if the partnership agreement is silent or does not explicitly limit distributions to the general partner (with respect to the distribution rights of an embedded incentive distribution right) to available cash, then the master limited partnership would allocate undistributed earnings to the general partner (with respect to the distribution rights of an embedded incentive distribution right) utilizing the distribution waterfall for available cash specified in the partnership agreement.

Cash Distributions in Excess of Earnings

260-10-55-**110** Any excess of distributions over earnings shall be allocated to the general partner and limited partners based on their respective sharing of losses specified in the partnership agreement for the period presented.

Presentation of Historical Earnings per Unit after a Dropdown Transaction Accounted for as a Transaction between Entities under Common Control

260-10-55-**111** A general partner may transfer net assets to a master limited partnership as part of a dropdown transaction that occurs after formation of the master limited partnership. If the master limited partnership accounts for the dropdown transaction under the Transactions Between Entities Under Common Control Subsections of Subtopic 805-50, in calculating the historical earnings per unit under the two-class method, the earnings (losses) of the transferred net assets before the date of the dropdown transaction should be allocated entirely to the general partner. In that circumstance, the previously reported earnings per unit of the limited partners for periods before the date of the dropdown transaction should not change as a result of the dropdown transaction.

260-10-**60 - Relationships**

General Note: The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

Compensation-General

260-10-60-**1** For the effects of employer shares held by a rabbi trust in computing basic and diluted EPS, see Section 710-10-45.

Compensation-Stock Compensation

260-10-60-**1A** For the effects of equity share options granted in share-based payment arrangements, nonvested shares, and similar equity instruments in computing diluted EPS, see Section 718-10-45.

260-10-60-**2** For the effects of issues resulting from the existence of employee stock ownership plans in computing basic and diluted EPS and the related disclosure requirements, see Sections 718-40-45 and 718-40-50.

260-10-**65 - Transition and Open Effective Date Information**

General Note: The Transition Section contains a description of the required transition provisions and a list of the related paragraphs that have been modified. This Section will retain the transition content during the transition period. After the transition period, the transition content will be removed yet will be available in archived versions of the Section.

General

260-10-65-**1** Paragraph superseded on 07/01/2010 after the end of the transition period stated in EITF Issue No. 07-4, "Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships."

260-10-65-**2** Paragraph superseded on 07/01/2010 after the end of the transition period stated in FSP EITF 03-6-1.

260-10-65-**3** Paragraph superseded on 07/05/2017 after the end of the transition period stated in Accounting Standards Update No. 2015-06, Earnings Per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions.

Transition Related to Accounting Standards Update No. 2017-11, Earnings Per Share (Topic 260) and Derivatives and Hedging (Topic 815): Part I, Accounting for Certain Financial Instruments with Down Round Features

260-10-65-**4** Accounting Standards Update 2017-11 2020-6-16
The following represents the transition and effective date information related to Accounting Standards Update No. 2017-11, Earnings Per Share (Topic 260) and Derivatives and Hedging (Topic 815): Part I, Accounting for Certain Financial Instruments with Down Round Features:

a. The pending content that links to this paragraph shall be effective as follows:
   1. For public business entities, for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years
   2. For all other entities, for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.
b. For all entities, early adoption of the pending content that links to this paragraph is permitted as of the beginning of an interim period for which financial statements (interim or annual) have not been issued or have not been made available for issuance.
c. An entity shall apply the pending content that links to this paragraph using one of the following methods:
   1. Retrospectively to outstanding financial instruments with a down round feature by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first fiscal year and interim period(s) in which the pending content that links to this paragraph is effective. The cumulative effect of the change shall be recognized as an adjustment of the opening balance of retained earnings in the fiscal year and interim period of adoption.
   2. Retrospectively to outstanding financial instruments with a down round feature for each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10.
d. An entity shall provide the following disclosures consistent with Section 250-10-50 in the period of adoption:
   1. The nature of the change in accounting principle
   2. The method of applying the change
   3. The cumulative effect of the change on retained earnings in the statement of financial position as of the beginning of the earliest period presented in which the pending content that links to this paragraph is effective.
e. If the pending content that links to this paragraph is applied retrospectively in accordance with (c)(2), an entity shall provide both of the following disclosures:
   1. A description of the prior-period information that has been retrospectively adjusted, if any

2. The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted.

f. An entity that issues interim financial statements shall provide the disclosures in (d) through (e) in the financial statements of both the interim period of the change and the fiscal year of the change.

g. See paragraph 815-40-65-1(c) for additional information about the date of adoption and transition for convertible instruments that include a down round feature.

260-10-**S00 - Status**

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

260-10-S00-**1** The following table identifies the changes that have been made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
260-10-S55-2	Amended	Accounting Standards Update No. 2009-08	09/16/2009
260-10-S55-3	Amended	Accounting Standards Update No. 2009-08	09/16/2009
260-10-S55-4	Amended	Accounting Standards Update No. 2009-04	08/26/2009
260-10-S99-1	Amended	Accounting Standards Update No. 2012-03	08/27/2012
260-10-S99-2	Amended	Accounting Standards Update No. 2009-08	09/16/2009
260-10-S99-3	Superseded	Accounting Standards Update No. 2009-08	09/16/2009

260-10-**S55 - Implementation Guidance and Illustrations**

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Effect of Preferred Stock Dividends and Accretion of Carrying Amount of Preferred Stock on Earnings Per Share

260-10-S55-**1** See paragraph 220-10-S99-5, SAB Topic 6.B, for SEC Staff views on this topic.

Effect on Earnings Per Share (EPS) Calculation for a Period That Includes the Redemption or Induced Conversion of Preferred Stock

260-10-S55-**2** See paragraph 260-10-S99-2, SEC Staff Announcement: The Effect on the Calculation of Earnings Per Share for a Period That Includes the Redemption or Induced Conversion of Preferred Stock, for SEC Staff views on this topic.

Redemption or Induced Conversion of a Portion of a Class of Preferred Stock

260-10-S55-**3** See paragraph 260-10-S99-2, SEC Staff Announcement: The Effect on the Calculation of Earnings Per Share for a Period That Includes the Redemption or Induced Conversion of Preferred Stock, for SEC Staff views on this topic.

Effect of Subsequent Increases or Decreases in the Carrying Amount of Redeemable Securities on EPS

260-10-S55-**4** See paragraph 480-10-S99-3A, SEC Staff Announcement: Classification and Measurement of Redeemable Securities, for SEC Staff views on the classification and measurement of securities subject to mandatory redemption requirements or whose redemption is outside control of the issuer.

260-10-S55-**5** See paragraph 480-10-S99-2, SAB Topic 3.C, Question 2, for SEC Staff views on how periodic increases in the carrying amount of redeemable preferred stock be treated in the calculation of EPS.

Nominal Issuances and Initial Public Offerings

260-10-S55-**6** See paragraph 260-10-S99-1, SAB Topic 4.D, for SEC Staff views on the treatment of "nominal issuances" in the calculation of EPS.

260-10-**S99 - SEC Materials**

General Note: As more fully described in About the Codification, the Codification includes selected SEC and SEC Staff content for reference by public companies. The Codification does not replace or affect how the SEC or SEC Staff issues or updates SEC content. SEC Staff content does not constitute Commission-approved rules or interpretations of the SEC.

General

SEC Staff Guidance

Staff Accounting Bulletins

SAB Topic 4.D, Earnings Per Share Computations in an Initial Public Offering

260-10-S99-**1** The following is the text of SAB Topic 4.D. Earnings Per Share Computations in an Initial Public Offering.

Facts: A registration statement is filed in connection with an initial public offering (IPO) of common stock. During the periods covered by income statements that are included in the registration statement or in the subsequent period prior to the effective date of the IPO, the registrant issued for nominal consideration FN1 common stock, options or warrants to purchase common stock or other potentially dilutive instruments (collectively, referred to hereafter as "nominal issuances").

FN1 Whether a security was issued for nominal consideration should be determined based on facts and circumstances. The consideration the entity receives for the issuance should be compared to the security's fair value to determine whether the consideration is nominal.

Prior to the effective date of FASB ASC Topic 260, Earnings Per Share, the staff believed that certain stock and warrants FN2 should be treated as outstanding for all reporting periods in the same manner as shares issued in a stock split or a recapitalization effected contemporaneously with the IPO. The dilutive effect of such stock and warrants could be measured using the treasury stock method.

FN2 The stock and warrants encompasses by the prior guidance were those issuances of common stock at prices below the IPO price and options or warrants with exercise prices below the IPO price that were issued within a one-year period prior to the initial filing of the registration statement relating to the IPO through the registration statement's effective date.

Question 1: Does the staff continue to believe that such treatment for stock and warrants would be appropriate upon adoption of FASB ASC Topic 260?

Interpretive Response: Generally, no. Historical EPS should be prepared and presented in conformity with FASB ASC Topic 260.

In applying the requirements of FASB ASC Topic 260, the staff believes that nominal issuances are recapitalizations in substance. In computing basic EPS for the periods covered by income statements included in the registration statement and in subsequent filings with the SEC, nominal issuances of common stock should be reflected in a manner similar to a stock split or stock dividend for which retroactive treatment is required by FASB ASC paragraph 260-10-55-12. In computing diluted EPS for such periods, nominal issuances of common stock and potential common stock FN3 should be reflected in a manner similar to a stock split or stock dividend.

FN3 The FASB ASC Master Glossary defines potential common stock as "a security or other contract that may entitle its holder to obtain common stock during the reporting period or after the end of the reporting period."

Registrants are reminded that disclosure about materially dilutive issuances is required outside the financial statements. Item 506 of Regulation S-K requires presentation of the dilutive effects of those issuances on net tangible book value. The effects of dilutive issuances on the registrant's liquidity, capital resources and results of operations should be addressed in Management's Discussion and Analysis.

Question 2: Does reflecting nominal issuances as outstanding for all historical periods in the computation of earnings per share alter the registrant's responsibility to determine whether compensation expense must be recognized for such issuances to employees?

Interpretive Response: No. Registrants must follow GAAP in determining whether the recognition of compensation expense for any issuances of equity instruments to employees is necessary. FN4 Reflecting nominal issuances as outstanding for all historical periods in the computation of earnings per share does not alter that existing responsibility under GAAP.

FN4 As prescribed by FASB ASC Topic 718, Compensation-Stock Compensation.

Announcements Made by SEC Staff at Emerging Issues Task Force (EITF) Meetings

SEC Staff Announcement: The Effect on the Calculation of Earnings Per Share for a Period That Includes the Redemption or Induced Conversion of Preferred Stock

260-10-S99-**2** The following is the text of SEC Staff Announcement: The Effect on Calculation of Earnings Per Share for a Period That Includes the Redemption or Induced Conversion of Preferred Stock.

Scope

This SEC staff announcement applies to redemptions and induced conversions of equity-classified preferred stock instruments. For purposes of this announcement:

1. Modifications and exchanges of preferred stock instruments that are accounted for as extinguishments, resulting in a new basis of accounting for the modified or exchanged preferred stock instrument, are considered redemptions.

2. A preferred stock instrument classified within temporary equity pursuant to the guidance in ASR 268 and paragraph 480-10-S99-3A is considered equity-classified, and redemptions and induced conversions of such securities would be subject to this guidance.

3. If an equity-classified security is subsequently required to be reclassified as a liability based on the provisions of other GAAP (for example, because a preferred share becomes mandatorily redeemable pursuant to Subtopic 480-10), the reclassification is considered a redemption of equity by issuance of a debt instrument.

The accounting for conversions of preferred stock instruments into other equity-classified securities pursuant to conversion privileges provided in the terms of the instruments at issuance is not affected by this announcement.

The Effect on Income Available to Common Stockholders of a Redemption or Induced Conversion of Preferred Stock

If a registrant redeems its preferred stock, the SEC staff believes that the difference between (1) the fair value of the consideration transferred to the holders of the preferred stock and (2) the carrying amount of the preferred stock in the registrant's balance sheet (net of issuance costs) should be subtracted from (or added to) net income to arrive at income available to common stockholders in the calculation of earnings per share. The SEC staff believes that the difference between the fair value of the consideration transferred to the holders of the preferred stock and the carrying amount of the preferred stock in the registrant's balance sheet represents a return to (from) the preferred stockholder that should be treated in a manner similar to the treatment of dividends paid on preferred stock. This calculation guidance applies to redemptions of convertible preferred stock regardless of whether the embedded conversion feature is "in-the-money" or "out-of-the-money" at the time of redemption. The fair value of the consideration transferred is reduced by the commitment date intrinsic value of the conversion option if the redemption includes the reacquisition of a previously recognized beneficial conversion feature in a convertible preferred stock instrument.

If convertible preferred stock is converted into other securities issued by the registrant pursuant to an inducement offer, the SEC staff believes that the excess of (1) the fair value of all securities and other consideration transferred in the transaction by the registrant to the holders of the convertible preferred stock over (2) the fair value of securities issuable pursuant to the original conversion terms should be subtracted from net income to arrive at income available to common stockholders in the calculation of earnings per share. Registrants should consider the guidance provided in Subtopic 470-20 to determine whether the conversion of preferred stock is pursuant to an inducement offer.

The Effect on Diluted Earnings per Share of a Redemption or Induced Conversion of Only a Portion of a Class of Preferred Stock

When a registrant effects a redemption or induced conversion of only a portion of the outstanding securities of a class of preferred stock, the SEC staff believes that, for the purpose of determining whether the "if-converted" method is dilutive for the period, the shares redeemed or converted should be considered separately from the other shares of the same class that are not redeemed or converted. The SEC staff does not believe that it is appropriate to aggregate securities with different effective dividend yields when determining whether the "if-converted" method is dilutive, which would be the result if a single, aggregate computation was made for the entire series of preferred stock.

For example, assume a registrant has 100 shares of convertible preferred stock outstanding at the beginning of the period. The convertible preferred stock was issued at fair value, which was equal to its par value of $10 per share, and has a stated dividend of 5 percent, and each share of preferred stock is convertible into 1 share of common stock. During the period, 20 preferred shares were redeemed by the registrant for $12 per share.

In this example, the SEC staff believes that the registrant should determine whether conversion is dilutive (1) for 80 of the preferred shares by applying the "if-converted" method from the beginning of the period to the end of the period using the stated dividend of 5 percent and (2) for 20 of the preferred shares by applying the "if-converted" method from the beginning of the period to the date of redemption using both the stated dividend of 5 percent and the $2 per share redemption premium.

Accordingly, assuming that the dividend for the period for the preferred stock was $0.125 per share, a determination of whether the 20 redeemed shares are dilutive should be made by comparing the $2.125 per-share effect of assuming those shares are not converted to the effect of assuming those 20 shares were converted into 20 shares of common stock, weighted for the period for which they were outstanding. The determination of the "if-converted" effect of the 80 shares not redeemed should be made separately, by comparing the EPS effect of the $0.125 per-share dividend to the effect of assuming conversion into 80 shares of common stock.

260-10-S99-**3** Paragraph superseded by Notice to Constituents.