

# U.S. GAAP vs. IFRS: Earnings per share

## Prepared by:

Richard Stuart, Partner, National Professional Standards Group, RSM US LLP  
richard.stuart@rsmus.com, +1 203 905 5027

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## Introduction

Currently, more than 120 countries require or permit the use of International Financial Reporting Standards (IFRS), with a significant number of countries requiring IFRS (or some form of IFRS) by public entities (as defined by those specific countries). Of those countries that do not require use of IFRS by public entities, perhaps the most significant is the U.S. The U.S. Securities and Exchange Commission (SEC) requires domestic registrants to apply U.S. generally accepted accounting principles (GAAP), while foreign private issuers are allowed to use IFRS. While the SEC continues to discuss the possibility of allowing domestic registrants to provide supplemental financial information based on IFRS (with a reconciliation to U.S. GAAP), there does not appear to be a specified timeline for moving forward with that possibility.

Although the SEC currently has no plans to permit the use of IFRS by domestic registrants, IFRS remains relevant to these entities, as well as private companies in the U.S., given the continued expansion of IFRS use across the globe. For example, many U.S. companies are part of multinational entities for which financial statements are prepared in accordance with IFRS, or may wish to compare themselves to such entities. Alternatively, a U.S. company's business goals might include international expansion through organic growth or acquisitions. For these and other reasons, it is critical to gain an understanding of the effects of IFRS on a company's financial statements. To start this process, we have prepared [a series of comparisons](#) dedicated to highlighting significant differences between U.S. GAAP and IFRS. This particular comparison focuses on the significant differences between U.S. GAAP and IFRS when calculating earnings per share.

The guidance related to earnings per share in U.S. GAAP is included in Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 260, *Earnings Per Share*. In IFRS, the guidance related to earnings per share is included in International Accounting Standard (IAS) 33, *Earnings per Share*.

## Comparison

The significant differences between U.S. GAAP and IFRS related to earnings per share are summarized in the following table. It should be noted that differences between U.S. GAAP and IFRS in other topics will likely result in differences in the numerator for the earnings-per-share calculation.

	U.S. GAAP	IFRS
<b>Relevant guidance</b>	ASC 260	IAS 33
<b>Contracts that may be settled in common shares or cash at issuer's election</b>	A presumption exists that contracts that may be settled in common shares or cash at the issuer's election will be settled in shares unless past experience or a stated policy provides a reasonable basis to believe it is probable that the contracts will be settled in cash.	Contracts that may be settled in common shares or cash at the issuer's election are always presumed to be settled in shares, and are included in the diluted earnings per share computation if dilutive.
<b>Year-to-date calculation of diluted earnings per share</b>	<p>The treasury stock method is applied to certain instruments, such as options and warrants.</p> <p>The number of incremental shares is computed using a year-to-date weighted-average number of incremental shares by using the incremental shares from each quarterly diluted earnings-per-share computation.</p>	The number of incremental shares is computed independently for each period presented rather than computing a weighted average of the dilutive potential common shares included in each interim computation. In other words, if an annual reporting period is presented, then the number of incremental shares is computed for that annual period and does not reference the quarterly computations of incremental shares.
<b>Treatment of certain contingent features included in convertible debt securities</b>	<p>The potentially issuable shares from convertible debt securities that contain conversion features that are triggered upon an entity's stock price reaching a predetermined price should always be included in the diluted earnings-per-share calculation if dilutive, regardless of whether the market price trigger has been attained.</p> <p>Similarly, if an issue of common shares is contingent on attaining a specified level of earnings at a future date, the number of shares included in diluted earnings per share is based on actual earnings to date, assuming no future earnings at the reporting period.</p>	<p>Potentially issuable shares from convertible debt securities that contain conversion features that are triggered upon an entity's stock price reaching a predetermined price are included in the dilutive earnings-per-share calculation only if the market-price trigger has been attained as of the reporting date.</p> <p>If the entity is required to maintain the level of earnings for an additional period after the reporting date, shares are considered only in the calculation of diluted earnings per share. The number of additional shares included in diluted earnings per share is based on the number of ordinary shares that would be</p>

	U.S. GAAP	IFRS
		issuable if the reporting date were the end of the contingency period.
<b>Applicability of the two-class method</b>	The two-class method applies to participating securities that are debt or equity instruments.	The two-class method applies solely to participating securities that are equity instruments.

These are the significant differences between U.S. GAAP and IFRS related to calculating earnings per share. Refer to ASC 260 and IAS 33 for all of the specific requirements applicable to earnings per share. In addition, refer to our [U.S. GAAP vs. IFRS comparisons series](#) for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

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**+1 800 274 3978**  
**rsmus.com**

*U.S. GAAP vs. IFRS: Earnings per share* resulted from the efforts and ideas of various RSM US LLP professionals, including members of the National Professional Standards Group, as well as contributions from RSM UK and RSM Canada professionals.

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