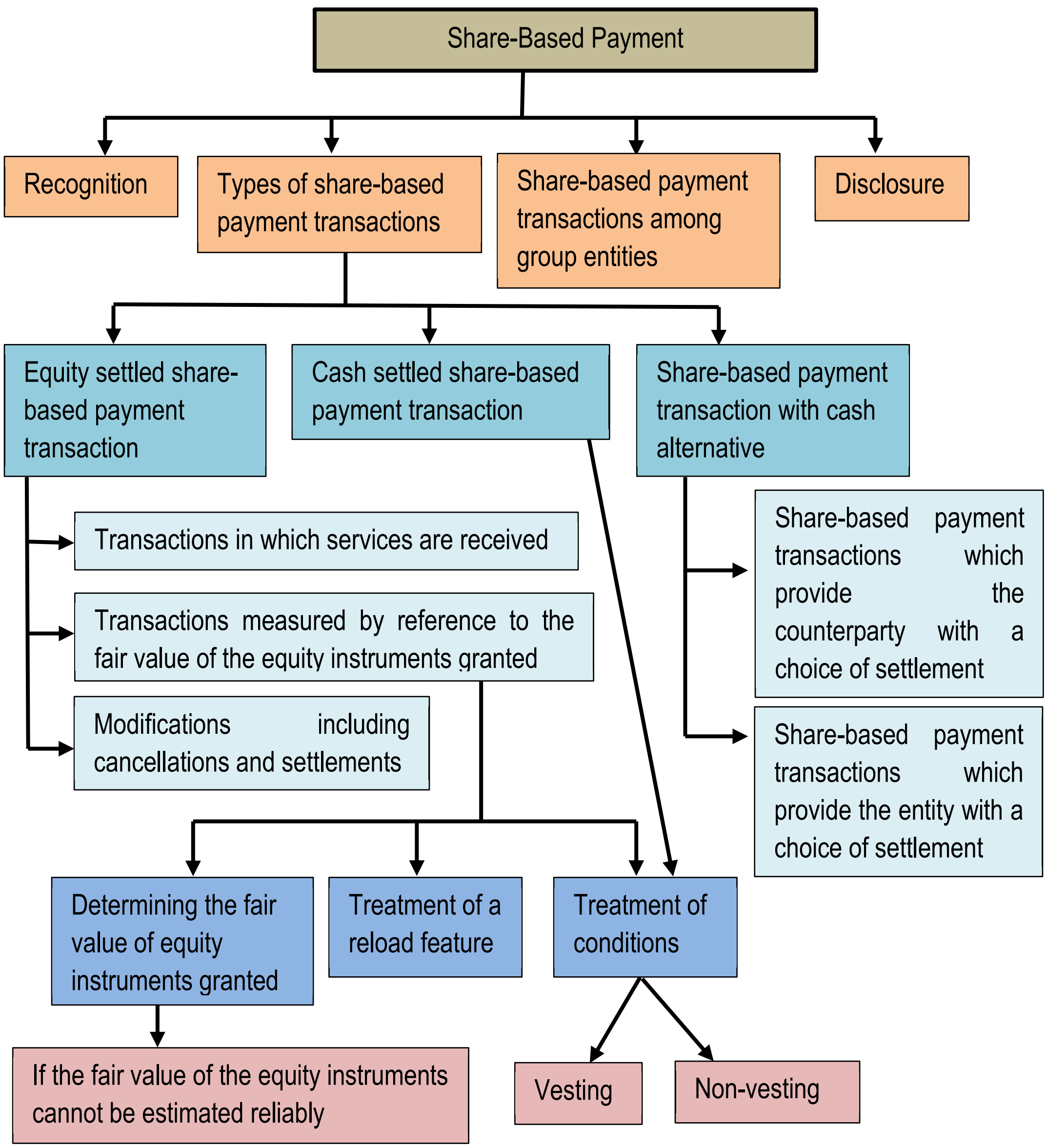
UNIT 3 : INDIAN ACCOUNTING STANDARD 102 : SHARE-BASED PAYMENT

LEARNING OUTCOMES

After studying this unit, you would be able to:

- Examine the transactions as share-based payment transactions
- Study the various types of share-based payments
- Recognize and measure the share-based payment transactions in the books
- Deal with the accounting issues in case of various vesting conditions attached with the share-based payment transactions
- Determine the fair value of share-based payment transactions
- Identify the accounting treatment for modification, cancellation and settlements of such transactions
- Make necessary and significant disclosures with respect to share-based payment transactions in the financial statements.

UNIT OVERVIEW



3.1 INTRODUCTION

As the name suggests, it is a payment based on price or value of shares. Entities often grant shares or share options to employees or other parties. Share plans and share option plans are a common feature of employee remuneration, for directors, senior executives and many other employees. Some entities issue shares or share options to pay suppliers, such as suppliers of professional services.

In India, accounting of share-based payment transactions is done in accordance with SEBI guidelines and Guidance Note on Accounting for Employee Share-Based Payments or on the basis of Ind AS 102 "Share-Based Payment". The corporate entities following Ind AS would not account for share-based payment based on Guidance Note. The Companies Act, 2013 also discusses about it under section 62.

Under Section 62 (1) (b) of the Companies Act 2013, where at any time a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares may be offered to employees under a scheme of employees' stock option, subject to a special resolution passed by the company and subject to such conditions as may be prescribed.

3.2 DEFINITION

Some of the terms used in Ind AS 102 are as follows:

a. **Cash-settled share-based payment transaction:** A share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity.

b. **Employees and others providing similar services:** Individuals who render personal services to the entity and either (a) the individuals are regarded as employees for legal or tax purposes, (b) the individuals work for the entity under its direction in the same way as individuals who are regarded as employees for legal or tax purposes, or (c) the services rendered are similar to those rendered by employees. For example, the term encompasses all management personnel, i.e. those people having authority and responsibility for planning, directing and controlling the activities of the entity, including non-executive directors.

c. **Equity instrument:** A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

d. **Equity instrument granted:** The right (conditional or unconditional) to an equity instrument of the entity conferred by the entity on another party, under a share-based payment arrangement.

e. **Equity-settled share-based payment transaction:** A share-based payment transaction in which the entity

   (a) receives goods or services as consideration for its own equity instruments (including shares or share options), or

   (b) receives goods or services but has no obligation to settle the transaction with the supplier.

f. **Fair value:** The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

g. **Grant date :** The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At the grant date the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.

h. **Intrinsic value:** The difference between the fair value of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares. For example, a share option with an exercise price of ₹ 15, on a share with a fair value of ₹ 20, has an intrinsic value of ₹ 5.

i. **Market condition:** A condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price of the entity's equity instruments, such as attaining a specified share price or a specified amount of intrinsic value of a share option, or achieving a specified target that is based on the market price of the entity's equity instruments relative to an index of market prices of equity instruments of other entities.

j. **Measurement date:** The date at which the fair value of the equity instruments granted is measured for the purposes of this Ind AS. For transactions with employees and others providing similar services, the measurement date is grant date. For transactions with parties other than employees (and those providing similar services), the measurement date is the date the entity obtains the goods or the counterparty renders service.

k. **Performance condition:** A vesting condition that requires:

(a) the counterparty to complete a specified period of service (ie a service condition); the service requirement can be explicit or implicit; and

(b) specified performance target(s) to be met while the counterparty is rendering the service required in (a).

The period of achieving the performance target(s):

(a) shall not extend beyond the end of the service period; and

(b) may start before the service period on the condition that the commencement date of the performance target is not substantially before the commencement of the service period.

A performance target is defined by reference to:

(a) the entity's own operations (or activities) or the operations or activities of another entity in the same group (i.e. a non-market condition); or

(b) the price (or value) of the entity's equity instruments or the equity instruments of another entity in the same group (including shares and share options) (ie a market condition).

A performance target might relate either to the performance of the entity as a whole or to some part of the entity (or part of the group), such as a division or an individual employee.

l. **Reload feature:** A feature that provides for an automatic grant of additional share options whenever the option holder exercises previously granted options using the entity's shares, rather than cash, to satisfy the exercise price.

m. **Reload option**: A new share option granted when a share is used to satisfy the exercise price of a previous share option.

n. **Service condition**: A vesting condition that requires the counterparty to complete a specified period of service during which services are provided to the entity. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, it has failed to satisfy the condition. A service condition does not require a performance target to be met.

o. **Share option:** A contract that gives the holder the right, but not the obligation, to subscribe to the entity's shares at a fixed or determinable price for a specified period of time.

p. **Vest:** To become an entitlement. Under a share-based payment arrangement, a counterparty's right to receive cash, other assets or equity instruments of the entity vests when the counterparty's entitlement is no longer conditional on the satisfaction of any vesting conditions.

q. **Vesting condition:** A condition that determines whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. A vesting condition is either a service condition or a performance condition.

r. **Vesting period:** The period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.

3.2.1 Share-based payment arrangement

It is an agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive -

(a) cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity, Or

(b) **equity instruments** (including shares or **share options**) of the entity or another group entity,

provided the specified **vesting conditions**, if any, are met.

3.2.2 Share-Based Payment Transaction

It is a transaction in which the entity -

(a) receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment arrangement, or

(b) incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.

Analysis of share-based payment (SBP)

1. Share-based payment should be formed with an **agreement** between an entity & a party (includes employees) which essentially means that a communication of the terms and conditions should be in place in order to have share-based payment.

Example 1

A management committee of an entity has initiated a plan to provide some stock options to its employees but there are some terms which are yet to be finalized and the plan is not yet communicated to the employee. Since, there is no formal communication stating the terms or conditions of the agreement, it will not attract Ind AS 102 provisions. The standard will be attracted when there will be a binding arrangement.

2. Share-based payments should be made for goods/ services and should be with an external person e.g. supplier including employee.

Examples 2 & 3

2. Goods/services have been received by an entity for which it has issued its own equity shares to the counterparty (who has supplied the goods) at discount/ premium. The value of the goods received has been paid by using its own equity shares but if the fair value of the goods received are more / less than the value of share issued by an entity, then some un-identified goods / services will be received / or have been received. Hence, Ind AS 102 will still be applicable for such unidentified goods/ services.

3. An entity issuing its own shares to a charity without any consideration will be covered under Ind AS 102. This is a share-based payment arrangement, covered under Ind AS 102 (not a share-based payment transaction).

3. Goods/services that are being received by an entity should be from a supplier which will include an employee of the entity. The goods/services received from a counterparty who act in the capacity of shareholder will not be covered under Ind AS 102.

Example 4

Service Maintenance Agreement has been entered by an entity with one of the supplier, outside the entity which requires to pay for these services by issuing equity shares of the entity. Such an agreement will be covered under Ind AS 102.

4. A transaction with an employee (or other party) in his/her capacity as a holder of equity instruments of the entity is not a share-based payment transaction.

Example 5

An entity issued right shares to all its shareholders which include employees of the company. Since the employees who have received such shares are acting in the capacity of shareholders and not as employees, this transaction will **not** be covered under Ind AS 102.

5. For receiving goods / services, an entity needs to settle the transaction either by issuing its own equity shares / or group entity's shares (which is called as "equity settled") or by paying cash amount equivalent against such shares (which is called as "cash settled") or a combination of these two where settlement option rests either with an entity or with the counterparty.

6. Equity instruments, which means a residual interest in asset & liability of the company will include –

   a) Ordinary shares

   b) Redeemable preference shares

   c) Written call option or warrants over such ordinary shares.

7. Share-based payment transaction may be settled by an entity through its own equity shares or one of group's entity shares which means that a parent of the reporting entity might issue shares on behalf of its subsidiary for providing goods/services to its subsidiary and the same transaction will be covered under Ind AS 102.

Example 6

1. A parent issues share options to the employee of its subsidiary company or a subsidiary company issues share options to its employees based on the price of equity shares of its parent company or the subsidiary company respectively. Both the plans will be covered under Ind AS 102.

2. An entity issues certain benefits to its employees by taking a reference of earnings of next year. Since the benefit is **not** based on share price of the entity, hence this transaction will not be covered under Ind AS 102. However, it may be treated as employee benefits under Ind AS 19.

8. Vesting conditions means the criteria which is to be fulfilled (if it is required as per the share-based agreement) in order to get such Shared based payment.

Example 7

A stock option has been issued by an entity to its employees those who remain in service for next 4 years. Those who leave before 4 years will not get the share-based payments. Staying with the organization for 4 years is a vesting condition in order to get the shared based payment.

3.3 SCOPE

3.3.1 What is covered within Ind AS 102?

Based on the analysis of the definitions, the scope of the standard are as follows:

- Covers settlement in equity or in cash or alternative settlement option i.e. to issue shares or by paying cash.
- Even if an entity is not able to identify all goods/ services that are being received by settling the transaction, either by issuing its own equity / group's equity or by paying a cash value equivalent to the equity prices, still it will be covered under Ind AS 102.
- Un-identified goods/ services that are being received will be covered in the standard.
- Share-based payment can be settled by another group entity or by using equity shares of group's entity.
- Employee of a company, working as a service provider to an entity and receiving share-based payments (e.g. stock options, warrants etc.) will be covered under this standard.
- Goods will include inventories, consumables, property, plant & equipment and other non-financial items.

Examples 8 - 11

8. An entity grants 10 shares to its employees who will remain in service for next 2 years - this will be covered within the standard as equity settled share-based payment.
9. An entity grants ₹ 1,000 to each employee which is same as the current equity price. This will not be covered under Ind AS 102 as the amount of ₹ 1,000 is fixed now and it will be paid to the employees even if the market rate of its share goes up/down from the current level.
10. An entity received services from a party who is acting as shareholder will not be covered under the standard. However, an employee who received additional payment from the entity for providing services other than its normal employment will be covered under this standard.

11. An entity has agreed to provide bonus to its employees purely based on the share price of the entity. Since the benefit is with reference to the share price of the entity, hence it will be covered under Ind AS 102.

3.3.2 What is not covered in Ind AS 102?

Transactions with shareholders as a whole, i.e., when the shareholders act solely in their capacity as shareholders.

Example 12

If an entity grants all holders of a particular class of its equity instruments the right to acquire additional equity instruments of the entity at a price that is less than the fair value of those equity instruments, and an employee receives such a right because he/she is a holder of equity instruments of that particular class, the granting or exercise of that right is not subject to the requirements of Ind AS 102.

- Entity shall not apply this standard to transactions in which the entity acquires goods as part of net assets acquired in business combinations as defined by Ind AS 103 'Business Combinations', or contribution for Joint ventures as per Ind AS 111 'Joint Arrangements'.

Examples 13 and 14

13. An entity has issued equity instruments in exchange for control of the acquiree is not within the scope of this standard. However, if the equity instruments are being issued to acquiree's employees in their capacity as employee, then it will be covered under Ind AS 102.
14. An entity buys a business from an individual to whom equity instruments are being issued. The individual will be working as an employee in the combined new entity. The instruments that are being issued as part of business purchase consideration under Ind AS 103 'Business Combination' will not be covered under Ind AS 102. However, if the equity instrument is being issued in the capacity of accepting employment in a new company, then it will be covered within Ind AS 102.

- Financial instruments issued to buy/sell non-financial items which can be settled at net will be outside Ind AS 102.

Example 15

Contracts for purchase and sale of goods/ services which are entered for settling in net amounts/ or keep it for speculation purposes will be covered under Ind AS 109- Financial Instruments and hence will not be covered under Ind AS 102.

3.4 RECOGNITION

An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognise a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

Analysis of recognition of SBP (Share-based payments)

- All such goods / services which are being received in share-based payment will be recognized when such goods are received or services are obtained.
- An entity would recognize an expense or an asset if the goods and/or services received meet the criteria for recognition as an asset.
- A corresponding increase in equity for equity settled transactions or in liabilities for cash-settled transactions would be recognized.
- The recognition will depend on vesting conditions, if any (in certain cases there will not be any vesting condition). It means, if there are certain conditions either service related or performance related which needs to be completed in order to be eligible for such share-based payments, then recognition will be based on the best estimate of the expected vesting value of such share-based payments.

Examples 16 and 17

16. An entity purchases some inventory from a supplier for which the entity will issue 100 shares as payment. The fair value of the inventory was ₹ 15,000. On purchase of inventory, the transaction will be recorded by a debit to the inventory and a credit to equity with an amount of ₹ 15,000 i.e. taking fair value of goods / services so transacted (except in case of transactions with an employee). However, if the fair value of goods / services is not reliably measurable, then fair value of shares can be considered.

17. An entity has given 100 stock options to each of its 1,000 employees for those who will remain in service for next 4 years. The grant date was 1st January, 20X1. The condition to remain in service shows that the stock option has been given for the

services to be provided in the next 4 years; hence at the end of each year, the entity will estimate the expected number of employees who will remain in service and accordingly will recognize the cost over 4 years.

Timing	• Goods: when received • Services: When obtained
Recognition (debit entry)	• Expenses • Asset (if goods/services qualify as asset)
Recognition (credit entry)	• Increase in equity (for equity—settled SBP) • Liability (for cash—settled SBP)

3.5 TYPES OF SHARE-BASED PAYMENTS

3.5.1 Equity Settled- Share-Based Payments

For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Analysis of the Equity Settled Share-based payments

- As per Ind AS 102, all goods or services which are received by an entity should be fair valued in order to arrive at the transaction price to recognize the share-based payment.
- In the absence of reliable information to arrive at the fair value of goods & services received, the fair value of equity instrument issued will be used.
- In the case of EMPLOYEES, it is required by the standard to use fair value of equity granted because it is practically not possible to identify the fair value of the services rendered by the employees.

- In the case of awards to non-employees, there is a rebuttable presumption that the fair value of goods/services received from any external supplier can be estimated. However, if this is not feasible, then an indirect reference can be used by taking fair value of instruments issued.
- There might be some cases where the transaction is other than with employee, where goods / services received are less than the fair value of equity share issued then some un-identified goods / services are recognized by taking a difference between fair value of equity instruments issued and fair value of goods / services received.

Examples 18 and 19

18. An entity has agreed to issue 100 shares to each of its 500 employees if they remain in service for the next 3 years. In this case 3 years is a service period, on completion of which shares will be issued by the entity. Since this is a share-based payment plan with employees of the entity, the fair value of equity instruments issued will be used for calculating transaction value of the share-based payments.
19. An entity agreed to issue 100 shares to a supplier to provide some consultancy services for next 2 years. There is a similar contract in the market which has a value of ₹ 20,000. The similar value of the contract will be used as fair value of this share-based payment transaction unless there is no reliable fair value is available.

Measurement principle for equity—settled awards:

Counterparty	Measurement basis	Measurement date	Recognition date
Employee	Fair value of equity instruments awarded	Grant date	Date goods or services received
Non-employee	Fair value of goods or services received	Date goods or services received	Date goods or services received

Illustration 1-Equity Settled Shared Based Payment- Service conditions

ABC Limited granted to its employees, share options with a fair value of ₹ 5,00,000 on 1st April, 20X0, if they remain in the organization upto 31st March, 20X3. The exercise price if the share option is NIL. On 31st March, 20X1, ABC Limited expects only 91% of the employees to remain in the employment. On 31st March, 20X2, company expects only 89% of the employees to remain in the employment. However, only 82% of the employees remained in the organization at the end of March, 20X3 and all of them exercised their options. Share options will be settled in 5,000 shares of ₹ 100 each.

Pass the Journal entries?

Solution

Period	Proportion	Fair value	To be vested	Cumulative expenses	Expenses
	a	b	c	d= b x c x a	e = d-previous period d
Period 1	1/3	5,00,000	91%	1,51,667	1,51,667
Period 2	2/3	5,00,000	89%	2,96,667	1,45,000
Period 3	3/3	5,00,000	82%	4,10,000	1,13,333
					4,10,000

Journal Entries

31st March, 20X1			
Employee benefits expenses (transferred to P/L)	Dr.	1,51,667	
To Share-based payment reserve (equity)			1,51,667
(1/3 of expected vested equity instruments value)			
31st March, 20X2			
Employee benefits expenses (transferred to P/L)	Dr.	1,45,000	
To Share-based payment reserve (equity)			1,45,000
(2/3 of expected vested equity instruments value)			
31st March, 20X3			
Employee benefits expenses (transferred to P/L)	Dr.	1,13,333	
To Share-based payment reserve (equity)			1,13,333
(Final vested equity instruments value)			
Share-based payment reserve (equity)	Dr.	4,10,000	
To Share Capital/ Securities Premium			4,10,000
(re-allocated and issued shares)			

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3.5.2 Cash Settled- Share-Based Payments

For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

Analysis of the Cash Settled Share-Based Payments

- It is a plan where entity issues rights to its employees/ suppliers where employees/ suppliers will be entitled for a cash payment in future based on equity share prices of the entity / or equity prices of the Group (group means parent company of the entity). In some cases, right to increase in equity prices is also provided which is known as Share Appreciation Rights (SAR).
- The goods/ services received against share-based payment plan to be settled in cash are measured at fair value of the liability and the liability continues to re-measured at every reporting date until it is actually paid off.
- There could be vesting conditions attached to the share-based payment plans e.g. to remain in service for next 3 years etc. The recognition of such share-based payment plans should be done by recognizing fair value of the liability at the time of goods/ services received and not at the date of grant. The liability so recognized will be fair valued at each reporting date and difference in fair value will be charged to profit or loss for the period.
- There could be some cases where no vesting period / condition is required to be fulfilled, in those cases, cash settled share-based payment can be recognized in full at initial recognition itself.

Examples 20 and 21

20. An entity issued share appreciation rights to its existing employees who remains in service for next 3 years and the benefit will then be settled in cash of an equivalent amount of share price.
21. Management of an entity decides to issue bonus amount to certain key employees for their past services based on share price of the entity. The amount equivalent to the shares will be recognized immediately as cost of employees because there are no conditions which are to be vested upon.

Illustration 2 - Cash Settled Shared-Based Payment - Service conditions

XYZ issued 10,000 Share Appreciation Rights (SARs) that vest immediately to its employees on 1st April, 20X0. The SARs will be settled in cash. Using an option pricing model, at that date it is estimated that the fair value of a SAR is ₹ 95. SAR can be exercised any time upto 31st March, 20X3. At the end of period on 31st March, 20X1 it is expected that 95% of total employees will exercise the option, 92% of total employees will exercise the option at the end of next year and finally 89% were exercised at the end of the 3rd year. Fair values at the end of each period have been given below:

Fair value of SAR		₹
31st March, 20X1		*112*
31st March, 20X2		*109*
31st March, 20X3		*114*

Pass the Journal entries?

Solution

Period	Fair value a	To be vested b	Cumulative c= a x b x 10,000	Expense d= c-prev. period c
Start	95	100%	9,50,000	9,50,000
Period 1	112	95%	10,64,000	1,14,000
Period 2	109	92%	10,02,800	(61,200)
Period 3	114	89%	10,14,600	11,800
				10,14,600

Journal Entries

1st April, 20X0		
Employee benefits expenses (transfer to P/L) Dr.	9,50,000	
To Share-based payment liability		9,50,000
(Fair value of the SAR recognized)		
31st March, 20X1		
Employee benefits expenses (transfer to P/L) Dr.	1,14,000	
To Share-based payment liability		1,14,000
(Fair value of the SAR re-measured)		

31st March, 20X2		
Share-based payment liability Dr. To Employee benefits expenses (transfer to P/L) (Fair value of the SAR re-measured & reversed)	61,200	61,200
31st March, 20X3		
Employee benefits expenses (transfer to P/L) Dr. To Share-based payment liability (Fair value of the SAR recognized)	11,800	11,800
Share-based payment liability Dr. To Cash (Settlement of SAR)	10,14,600	10,14,600

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3.5.3 Share-Based Payment Transactions with Cash Alternatives

For share-based payment transactions in which the terms of the arrangement provide either the entity or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the entity shall account for that transaction, or the components of that transaction, as a cash settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

Analysis of Share-Based Payment Transactions with Cash Alternatives

- The choice either to settle in cash or equity may be with the entity or its counterparty which will define the way of recognizing such alternatives either equity-settled or cash-settled. The choice to select the cash or equity alternatives can be segregated in two parts –

  a) ***When Counterparty has a choice of settlement***

  - When counterparty has a choice of settlement for such share-based payments, then this will be treated as compound instrument which has debt and equity components.
  - When such alternatives are given in case of transactions with parties other than employees where fair value of goods / services is measured directly then the difference between fair value of such goods/ services and the fair value of debt

component, at the date when the goods or services are received, will be considered to be the value of equity component.

- For other transactions, including transactions with employees, a separate fair value of compound financial instruments will be calculated and accordingly the values of goods/services received will be accounted. To apply this requirement, the entity shall first measure the fair value of the debt component, and then measure the fair value of the equity component — taking into account that the counterparty must forfeit the right to receive cash in order to receive the equity instrument. The fair value of the compound financial instrument is the sum of the fair values of the two components. However, share-based payment transactions in which the counterparty has the choice of settlement are often structured so that the fair value of one settlement alternative is the same as the other. For example, the counterparty might have the choice of receiving share options or cash settled share appreciation rights. In such cases, the fair value of the equity component is zero, and hence the fair value of the compound financial instrument is the same as the fair value of the debt component. Conversely, if the fair values of the settlement alternatives differ, the fair value of the equity component usually will be greater than zero, in which case the fair value of the compound financial instrument will be greater than the fair value of the debt component.
- The entity shall account separately for the goods or services received or acquired in respect of each component of the compound financial instrument. For the debt component, the entity shall recognise the goods or services acquired, and a liability to pay for those goods or services, as the counterparty supplies goods or renders service, in accordance with the requirements applying to cash-settled share-based payment transactions. For the equity component (if any), the entity shall recognise the goods or services received, and an increase in equity, as the counterparty supplies goods or renders service, in accordance with the requirements applying to equity-settled share-based payment transactions.
- At the date of settlement, the entity shall remeasure the liability to its fair value. If the entity issues equity instruments on settlement rather than paying cash, the liability shall be transferred direct to equity, as the consideration for the equity instruments issued.
- If the entity pays in cash on settlement rather than issuing equity instruments, that payment shall be applied to settle the liability in full. Any equity component previously recognised shall remain within equity. By electing to receive cash on settlement, the counterparty forfeited the right to receive equity instruments.

However, this requirement does not preclude the entity from recognising a transfer within equity, i.e. a transfer from one component of equity to another.

Example 22

An entity issues stock options to its employees which can be claimed either in cash or equity instrument of an entity. Employees need to be in service for next 2 years. Entity needs to find fair value component of equity to be settled and fair value of cash amount to be settled. Each balance sheet date, these values need to be updated. Upon the exercising of the option, if it is in equity then fair value liability will be transferred to the equity in full.

b) When the entity has a choice of settlement

If the entity can choose the settlement method then the whole award would be treated as either cash-settled or equity-settled, depending on-

- Whether entity has a present obligation to settle in cash in which case accounting of award would be as a liability. The assumption to consider present obligation to settle in cash would be in those cases when there is no commercial substance to issue equity (e.g. restriction to issue new share capital etc.) or there is past practice or stated policy to settle such type of arrangement in cash only or entity has generally settled in cash whenever counterparty asks for cash settlement.
- There is no such obligation to pay in cash then equity settled accounting treatment would be required.

In case, equity settled accounting has been done but the settlement is required to be done in cash then it would be accounted for as repurchase of an equity interest.

Upon settlement, if the entity elects the settlement alternative with the higher fair value, as at the date of settlement, the entity shall recognise an additional expense for the excess value given, i.e. the difference between the cash paid and the fair value of the equity instruments that would otherwise have been issued, or the difference between the fair value of the equity instruments issued and the amount of cash that would otherwise have been paid, whichever is applicable.

Examples 23 and 24

23. An entity issues stock options to its employees which provide entity an option to settle either in cash or by entity's own shares. As per the past practice of the entity, these kind of stock options have been settled in cash only, hence the entity will create a liability assuming present obligation to settle the options in cash.

24. An entity has issued certain stock options to its employees where it has right to settle these options either in cash or by its own equity. Based on the past practices, the entity assumed the settlement will be done in equity only and accordingly the fair value of such options at grant date was credited to equity (based on expected vesting rights). However, the options were actually settled in cash, hence all such equity portion will be debited to the extent it was credited as re-purchasing the equity shares, and the portion above the equity portion so debited will be transferred to Profit and Loss of the period.

Illustration 3 - Share-based payment with cash alternative

On 1st January, 20X1, ABC limited gives options to its key management personnel (employees) to take either cash equivalent to 1,000 shares or 1,500 shares. The minimum service requirement is 2 years and shares being taken must be kept for 3 years.

Fair values of the shares are as follows:	₹
Share alternative fair value (with restrictions)	*102*
Grant date fair value on 1st January, 20X1	*113*
Fair value on 31st December, 20X1	*120*
Fair Value on 31st December, 20X2	*132*

The employees exercise their cash option at the end of 20X2.

Pass the journal entries.

Solution

	1st January, 20X1 ₹	31st December, 20X1 ₹	31st December, 20X2 ₹
Equity alternative (1,500 x 102)	1,53,000		
Cash alternative (1,000 x 113)	1,13,000		
Equity option (1,53,000 – 1,13,000)	40,000		
Cash option (cumulative) (using period end fair value		(1,000x120 x ½) 60,000	1,32,000
Equity option (cumulative)		(40,000 x ½) 20,000	40,000

Expense for the period			
Equity option		20,000	20,000
Cash Option		60,000	72,000
Total		80,000	92,000

Journal Entries

31st December, 20X1			₹
Employee benefits expenses (transfer to P/L)	Dr.	80,000	
To Share-based payment reserve (equity)*			20,000
To Share-based payment liability			60,000
(Recognition of Equity option and cash settlement option)			
31st December, 20X2			
Employee benefits expenses (transfer to P/L)	Dr.	92,000	
To Share-based payment reserve (equity)*			20,000
To Share-based payment liability			72,000
(Recognition of Equity option and cash settlement option)			
Share-based payment liability	Dr.	1,32,000	
To Bank/ Cash			1,32,000
(Settlement in cash)			
Share-based payment reserve (equity)	Dr.	40,000	
To Retained Earnings			40,000

*The equity component recognized (₹ 40,000) shall remain within equity. By electing to receive cash on settlement, the employees forfeited the right to receive equity instruments.

*****

Illustration 4-Share-based payment - Purchase of goods

Indian Inc. issued 995 shares in exchange for purchase of an office building. The title was transferred in the name of Indian Inc. on February, 20X1 and shares were issued. Fair value of the office building was ₹ 2,00,000 and face value of each share of Indian Inc was ₹ 100.

Pass the journal entries?

Solution

1st February, 20X1			₹
Office Building	Dr.	2,00,000	
To Share capital (995 x 100)			99,500
To Securities premium (balance)			1,00,500
(Recognition of equity option and cash settlement option)			

*****

Illustration 5-Share-based payment - Services

Reliance limited hired a maintenance company for its oil fields. The services will be settled by issuing 1,000 shares of Reliance. Period for which the service is to be provided is 1st April, 20X1 to 1st July, 20X1 and fair value of the service was estimated using market value of similar contracts for ₹ 1,00,000. Nominal value per share is ₹ 10.

Record the transactions in a Journal?

Solution

Fair value of services	1,00,000
Number of months	3
Monthly expense	33,333.33

30th April, 20X1			₹
Repair & Maintenance	Dr.	33,333.33	
To Share-based payment reserve (equity)			33,333.33
(Recognition of Equity settled SBP using fair value of services rendered)			
31st May, 20X1			
Repair & Maintenance	Dr.	33,333.33	
To Share-based payment reserve (equity)			33,333.33

(Recognition of Equity settled SBP using fair value of services rendered)			
30th June, 20X1			
Repair & Maintenance	Dr.	33,333.33	
To Share-based payment reserve (equity)			33,333.33
(Recognition of Equity settled SBP using fair value of services rendered)			
1st July, 20X1			
Share-based payment reserve (equity)	Dr.	1,00,000	
To Equity Shares (1000 x 10)			10,0000
To Securities premium (balancing figure)			90,000
(Recognition of Equity settled SBP using fair value of services rendered)			

*****

Illustration 6 - Share-based payment - Cash & equity alternatives

Tata Industries issued share-based option to one of its key management personal which can be exercised either in cash or equity and it has following features:

Option I		***Period***	**₹**
No of cash settled shares			*74,000*
Service condition		*3 years*	
Option II			
No of equity settled shares of face value of ₹ 100 each			*90,000*
Conditions:			
Service		*3 years*	
Restriction to sell		*2 years*	
Fair values			
Equity price with a restriction of sale for 2 years			*115*
Fair value at grant date			*135*
Fair value	*20X0*		*138*
	20X1		*140*
	20X2		*147*

Pass the Journal entries?

Solution

Fair value of Equity option components:		
Fair value of a share with restrictive clause		₹ 115
Number of shares		90,000
Fair value (90,000 x 115)	A	₹ 1,03,50,000
Fair value of a share at the date of grant		₹ 135
Number of cash settled shares		74,000
Fair value (74,000 x 135)	B	₹ 99,90,000
Fair value of equity component in compound instrument (A-B)		₹ 3,60,000

Journal Entries

31/12/20X0		₹
Employee benefit expenses (Transfer to P/L) Dr.	35,24,000	
To Share-based payment reserve (equity) (3,60,000/3)		1,20,000
To Share-based payment liability (138 x 74,000) / 3		34,04,000
(Recognition of equity option and cash settlement option)		
31/12/20X1		
Employee benefits expenses (Transfer to P/L) Dr.	36,22,667	
To Share-based payment reserve (equity) (3,60,000/3)		1,20,000
To Share-based payment liability (140 x 74,000) 2/3 -34,04,000		35,02,667
(Recognition of equity option and cash settlement option)		
31/12/20X2		
Employee benefits expenses (Transfer to P/L) Dr.	40,91,333	
To Share-based payment reserve (equity) (3,60,000/3)		1,20,000
To Share-based payment liability (147 x 74,000) 3/3 - (34,04,000 + 35,02,667)		39,71,333
(Recognition of equity option and cash settlement option)		

Upon cash alternative chosen		
Share-based payment liability (147 x 74,000) Dr.	1,08,78,000	
To Bank/ Cash		1,08,78,000
(Being settlement made in cash)		
Share-based payment reserve (equity) Dr.	3,60,000	
To Retained Earnings		3,60,000
(Being transfer of equity from one account to another one)		
Upon equity alternative chosen		
Share-based payment liability Dr.	1,08,78,000	
To Share Capital		90,00,000
To Securities Premium		18,78,000
(Being settlement made in equity)		
Share-based payment reserve (equity) Dr.	3,60,000	
To Securities Premium		3,60,000
(Being transfer of equity from one account to another one)		

*****

Example 25-Share-based payment arrangements with cash alternatives

An entity grants an employee the right to choose either 2,000 shares, ie, a right to a cash payment equal to the value of 2,000 shares, or 2,400 shares. The grant is conditional upon the completion of three years' service. If the employee chooses the share alternative, the shares must be held for three years after vesting date.

At the grant date, the entity's share price is ₹ 50 per share. At the end of years 1, 2 and 3, the share price is ₹ 52, ₹ 55 and ₹ 60 respectively. The entity does not expect to pay dividends in the next three years. After taking into account the effects of the post-vesting transfer restrictions, the entity estimates that the grant date fair value of the share alternative is ₹ 48 per share.

At the end of year 3, the employee chooses:

Scenario 1: The cash alternative

Scenario 2: The equity alternative

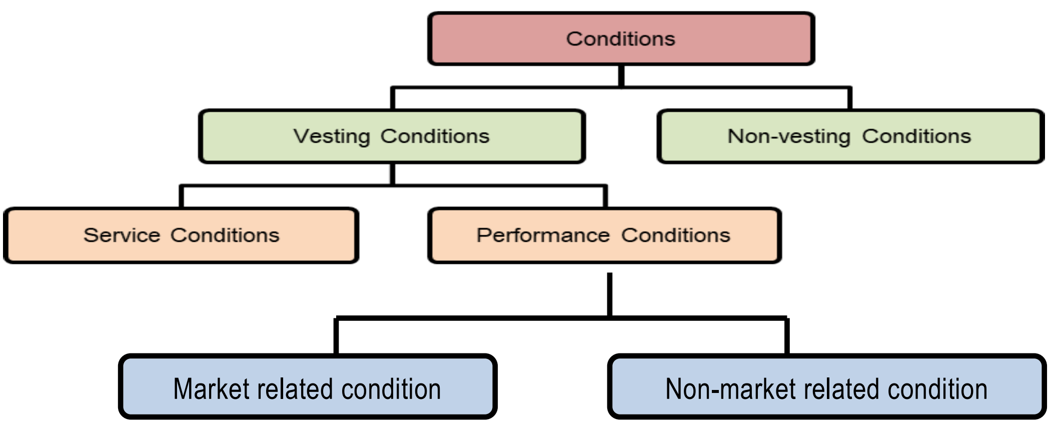
Application of requirements

The fair value of the equity alternative is ₹ 1,15,200 (2,400 shares x ₹ 48). The fair value of the cash alternative is ₹ 1,00,000 (2,000 shares x ₹ 50). Therefore, the fair value of the equity component of the compound instrument is ₹ 15,200 (₹ 1,15,200 - ₹ 1,00,000).

The entity recognizes the following amounts:

Year	Computation	Expense (₹)	Equity (₹)	Liability (₹)
1	Liability component: (2,000 x ₹ 52 x 1/3)	34,667		34,667
	Equity component: (₹ 15,200 x 1/3)	5,067	5,067	
2	Liability component: (2,000 x ₹ 55 x 2/3) — ₹ 34,666	38,666		38,666
	Equity component: (₹ 15,200 x 1/3)	5,067	5,067	
3	Liability component: (2,000 x ₹ 60) — ₹ 73,333	46,667		46,667
	Equity component: (₹ 15,200 x 1/3)	5,066	5,066	
End Year 3	Scenario 1: cash of ₹ 1,20,000 paid			(1,20,000)
	Scenario 1 totals	**1,35,200**	**15,200**	**0**
	Scenario 2: 2,400 shares issued		1,20,000	(1,20,000)
	Scenario 2 totals	**1,35,200**	**1,35,200**	

3.6 DETERMINING TYPES OF CONDITIONS



3.6.1 Vesting conditions

Share-based payment awards generally vest upon meeting specified conditions, such as service conditions (time-based) or performance conditions (eg. achieving a specified EBITDA target). These conditions affect the timing of when the expense is recognized, and in some cases, the measurement of expense. In addition, if a condition is not met, whether or not the entity may reverse previously recognized compensation expense depends on the nature of the condition that was not met. Hence classification of a condition is an important step in accounting of share-based payments.

Following are the classification of various conditions and their accounting requirements.

a) Service condition

When share-based payment is dependent upon the minimum term to be served in order to be eligible for employees share-based payment, it is called service condition.

Examples 26 & 27

26. An entity has issued 100 shares each to its 1,000 employees under share-based payment if they remain in the organization for next 3 years. This would be considered to be a service condition; 3 years being the period over which the employee would be required to be in service as a condition.

27. If an employee remains in service for at least three years from the grant date of the award, the employee can exercise the options at any time between three and ten years from the grant date of the award. The fair value of the award at the grant date, ignoring the effect of vesting condition, is ₹ 6,00,000.

    For this award, the vesting period is three years, the exercise period is seven years, and the life of the option is ten years. The requirement to remain employed is a (vesting) service condition. The entity recognizes an expense of ₹ 2,00,000 per year for three years, with a corresponding increase in equity.

    If the employee leaves at the end of year two, the entity reverses the cumulative expense previously recognized. However, if the employee does not exercise options after the vesting period, expense previously recognized cannot be reversed.

    Consider an alternate scenario. The employee was given an unconditional right to exercise the option at any time between the grant date and ten years from the grant date of the award. For this award, the vesting period is nil, the exercise period and the life of the option are ten years. The entity recognizes an expense of ₹ 6,00,000 immediately, with a corresponding increase in equity. Subsequently, the entity cannot reverse this expense even if the employee does not exercise its options. This is because they are vested from day 1.

b) Performance condition

If an employee is granted share options conditional upon the achievement of a performance condition and remaining in the entity's employment until that performance condition is satisfied, and the length of the vesting period varies depending on when that performance condition is satisfied, the entity shall presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over the expected vesting period. The entity shall estimate the length of the expected vesting period at grant date, based on the most likely outcome of the performance condition.

Performance condition may be

a. Market-related; or

b. Non-market related.

a. Market related condition

In order to be eligible for share-based payment, when one of the conditions is to achieve target price/ value of the share by an entity, it is called as market-related performance condition. If the performance condition is a market condition, the estimate of the length of the expected vesting period shall be consistent with the assumptions used in estimating the fair value of the options granted and shall not be subsequently revised.

Example 28

An entity issues stock options to its employees who will serve the organization for next 2 years and till the time the share price reaches to ₹ 100. The target price to reach ₹ 100 is one of the market-related condition.

b. Non-market related condition

When the parameter is not market driven but linked with some internal performance/ operations or activities of the entity, it will be considered as non-market related conditions. Non- market related conditions do not have any impact on market price of the shares of the entity issuing such share-based payments. If the performance condition is not a market condition, the entity shall revise its estimate of the length of the vesting period, if necessary, if subsequent information indicates that the length of the vesting period differs from previous estimates.

Example 29

An entity issued some stock options to employees with a condition that they have to remain in the organisation for next 2 years and EBITA of the entity should rise to ₹ 10 million. Here, the EBITA target is non-market related condition.

3.6.2 Non-vesting conditions

Such conditions which do not have any impact on eligibility to have share-based payments. It has not been specifically defined by the standard. However, one can understand this as conditions which are other than vesting conditions.

Examples 30 & 31

30. An entity issued some stock options to its employees wherein they are required to serve minimum period of next 2 years and from the end of 2nd year there will further be waiting time till next 1 year within which the entity should achieve revenue of ₹ 100 million. However, if an employee leaves the entity after the end of 2nd year then the employee will not lose the entitlement to get such share-based payments. Hence the condition of achieving revenue target is non-vesting condition.

31. An entity grants share options to a director on the condition that the director does not compete with the reporting entity for a period of at least three years. The fair value of the award at the date of the grant, including the effect of non - compete clause is ₹ 15 million. The 'non-compete' clause is a non-vesting condition because the entity does not receive any services. On the grant date, the entity immediately recognizes a cost of ₹ 15 million because director is not providing any future services. The entity cannot reverse the expense recognised, even if the director goes to work for a competitor and loses the share options.

3.7 DETERMINING IMPACT OF CONDITIONS ON SHARE BASED VALUATION

Once we understood the conditions attached with any share-based payment, next question arises that about the implication of the conditions on accounting / measurement of such share-based payments and why it is crucial to segregate them.

a. A grant of equity instruments might be conditional upon satisfying specified vesting conditions. For example, a grant of shares or share options to an employee is typically conditional on the employee remaining in the entity's employment for a specified period of time. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entity's share price. Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Hence, on a cumulative basis, no amount is recognised for goods or services received if the equity instruments granted do not vest because of failure to satisfy a vesting condition, eg the counterparty fails to complete a specified service period, or a performance condition is not satisfied, subject to the requirements mentioned below in point c.

b. To apply the requirements mentioned in abovementioned point (a), the entity shall recognise an amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and shall revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested, subject to the requirements mentioned below in point c.

c. Market conditions, such as a target share price upon which vesting (or exercisability) is conditioned, shall be taken into account when estimating the fair value of the equity instruments granted. Therefore, for grants of equity instruments with market conditions, the entity shall recognize the goods or services received from a counterparty who satisfies all other vesting conditions (eg services received from an employee who remains in service for the specified period of service), irrespective of whether that market condition is satisfied.

d. Similarly, an entity shall take into account all non-vesting conditions when estimating the fair value of the equity instruments granted. Therefore, for grants of equity instruments with non-vesting conditions, the entity shall recognise the goods or services received from a counterparty that satisfies all vesting conditions that are not market conditions (eg services received from an employee who remains in service for the specified period of service), irrespective of whether those non-vesting conditions are satisfied.,

Treatment of a reload feature

For options with a reload feature, the reload feature shall not be taken into account when estimating the fair value of options granted at the measurement date. Instead, a reload option shall be accounted for as a new option grant, if and when a reload option is subsequently granted.

Below mentioned table summarizes the impact of various conditions –

Conditions	To include in fair value of SBP (refer note-1)	To include expected equity shares which meet conditions (refer note-2)
Service condition	No	Yes
Performance condition - Market related	Yes	No
Performance condition - Non-market related	No	Yes
Non-vesting condition	Yes	No

Note 1 Share-based payment will be measured at fair value on initial recognition which will include the effect of these conditions. Equity settled share-based payment will be measured at fair value on grant date with no subsequent measurement, whereas cash settled share-based payment shall be re-measured at each reporting date till its settlement in full.

Note 2 These conditions will have no impact on fair valuation of share-based payments. However, they will be considered while estimating the expected number of equity shares at the end of each period for recognition of the share-based payment.

Summary of recognising expense for an award with multiple conditions:

Scenario	Service condition met?	Market condition met?	Non-market performance condition met?	Ind AS 102 expense?
1	Yes	Yes	Yes	Yes
2	Yes	No	Yes	Yes
3	Yes	Yes	No	No
4	Yes	No	No	No
5	No	Yes	Yes	No
6	No	No	Yes	No
7	No	Yes	No	No
8	No	No	No	No

Example 32

An entity issued 100 shares each to its 1,000 employees under share-based payment upon the condition to serve the organization for at least next 2-years subject to the below scenarios:

1) EBIDTA of the entity shall be ₹ 10 million in next 2 years.

2) Share price of the entity shall be ₹ 150 in next 2 years.

3) Employees are required to serve additional 4 months from the end of 2 years but will have no impact on vesting rights at the end of 2nd year.

Since 2 years to remain in service is a 'service related condition', it will be considered in the calculation of expected number of shares which will satisfy the conditions attached.

1) **EBIDTA** is one of the performance conditions which is non-market related, hence will be considered while making an estimation of number of shares which will satisfy the condition attached.

2) **Share price target** is one of the market related conditions and hence it will be considered in the measurement of fair value at initial recognition (equity & cash settled) and at subsequent dates (in case of cash settled).

3) **Additional 4-months** requirement does not have any impact on eligibility to get share-based payment. Therefore, it is a non -vesting condition and will be considered in fair value of the share-based payment.

Illustration 7 - Equity Settled – Non-market conditions

Ankita Holding Inc. grants 100 shares to each of its 500 employees on 1st January, 20X1. The employees should remain in service during the vesting period. The shares will vest at the end of the

First year if the company's earnings increase by 12%;

Second year if the company's earnings increase by more than 20% over the two-year period;

Third year if the entity's earnings increase by more than 22% over the three-year period.

The fair value per share at the grant date is ₹ 122. In 20X1, earnings increased by 10%, and 29 employees left the organisation. The company expects that the shares will vest at the end of the year 20X2. The company also expects that additional 31 employees will leave the organisation in the year 20X2 and that 440 employees will receive their shares at the end of the year 20X2. At the end of 20X2, company's earnings increased by 18%. Therefore, the shares did not vest. Only 29 employees left the organization during 20X2. Company believes that additional 23 employees will leave in 20X3 and earnings will further increase so that the performance target will be achieved in 20X3. At the end of the year 20X3, only 21 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met.

Determine the expense for each year and pass appropriate journal entries?

Solution

Since the earnings of the entity is non-market related, hence it will not be considered in fair value calculation of the shares given. However, the same will be considered while calculating number of shares to be vested.

Workings:

	20X1	20X2	20X3
Total employees	500	500	500
Employees left (Actual)	(29)	(58)	(79)
Employees expected to leave in the next year	(31)	(23)	-
Year end – No of employees	440	419	421
Shares per employee	100	100	100
Fair value of share at grant date	122	122	122
Vesting period	1/2	2/3	3/3
Expenses-20X1 (Note 1)	26,84,000		
Expenses-20X2 (Note 2)		7,23,867	
Expenses-20X3 (Note 3)			17,28,333

Note 1:

Expense for 20X1 = Number of employees x Shares per employee x Fair value of share x Proportionate vesting period

= 440 x 100 x 122 X ½ = 26,84,000

Note 2:

Expense for 20X2 = (Number of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 20X1

= (419 x 100 x 122 x 2/3) – 26,84,000 = 7,23,867

Note 3:

Expense for 20X3 = (No of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 20X1 and 20X2

= (421 x 100 x 122 x 3/3) – (26,84,000 + 7,23,867) = 17,28,333.

Journal Entries

31st December, 20X1		
Employee benefits expenses (transfer to P/L) Dr.	26,84,000	
To Share-based payment reserve (equity)		26,84,000
(Equity settled shared-based payment expected vesting amount)		
31st December, 20X2		
Employee benefits expenses (transfer to P/L) Dr.	7,23,867	
To Share-based payment reserve (equity)		7,23,867
(Equity settled shared based payment expected vesting amount)		
31st December, 20X3		
Employee benefits expenses (transfer to P/L) Dr.	17,28,333	
To Share-based payment reserve (equity)		17,28,333
(Equity settled shared-based payment expected vesting amount)		
Share-based payment reserve (equity) Dr.	51,36,200	
To Share Capital / Securities Premium		51,36,200
(Share capital Issued)		

*****

Illustration 8 - Equity Settled – Non market conditions (Reversals)

ACC limited granted 10,000 share options to one of its managers. In order to get the options, the manager has to work for next 3 years in the organization and reduce the cost of production by 10% over the next 3 years.

Fair value of the option at grant date was	*₹ 95*	
Cost reduction achieved-		
Year 1	*12%*	*Achieved*
Year 2	*8%*	*Not expected to vest in future*
Year 3	*10%*	*Achieved*

How the expenses would be recorded?

Solution

It is a non-market related condition. Hence the target to achieve cost reduction would be taken while estimating the number of options to be vested.

Year	Options	Fair value		FV of the options vested
Year 1	10,000	95	1/3	3,16,667
Year 2	10,000	95	0	(3,16,667)
Year 3	10,000	95	3/3	9,50,000

The condition to achieve 10% cost reduction each was not fulfilled in the year 2 and there was no expectation to vest this non-market condition in future as well and hence earlier expense amount was reversed in year 2. Since in the year 3 the non-market condition was again met, hence all such expense will be charged to Profit and Loss.

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Illustration 9 - Equity Settled – Market based conditions

Apple Limited has granted 10,000 share options to one of its directors for which he must work for next 3 years and the price of the share should increase by 20% over next 3 years.

The share price has moved as per below details -

Year 1	*22%*
Year 2	*19%*
Year 3	*25%*

At the grant date, the fair value of the option was ₹ 120.

How should we recognize the transaction?

Solution

The share price movement is a market-based vesting condition hence its expectations are taken into consideration while calculating the fair value of the option.

Even if the required market condition as required is not fulfilled, there is no requirement to reverse the expense previously booked.

Irrespective of the outcome of the market prices (as it is already taken care of in the fair value of the option), each period an amount of (120 x 10,000)/3 = ₹ 4,00,000 will be charged to profit and loss.

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3.8 GRANT DATE

Definition of Grant date

"The date at which the entity and another party (including an employee) **agrees** to a share-based payment arrangement, being when the entity and the counterparty have a **shared understanding** of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an **approval process** (for example, by shareholders), grant date is the date when that approval is obtained".

Analysis of the definition of the Grant date

- It is crucial to determine grant date correctly for determination of fair value of share-based payment and its accounting.
- There must be an agreement between the employee/ supplier and the entity with clear communication of the terms and conditions of such share-based payment. The date of such agreement will be considered as grant date.
- If the agreement is subject to the approval of appropriate authorities, then the grant date will be the date of approval.

Example 33

Entity initiated a share-based payment agreement in its board meeting and directed the supervisors to communicate the agreement to the employee. Consider the following scenarios to arrive at grant date:

1) Employees have not yet given his/her consent either implicitly or explicitly. However, entity has taken approval of the agreement in its General Meeting.
2) Employees have agreed to the terms implicitly/ explicitly. However, the approval process is under finalization.
3) Certain terms have not been specifically mentioned since they are based on some subjective conditions in future.

Now,

1. Even when the approval has been acquired, no consent has been given by an employee/ counterparty; therefore, grant date cannot be determined.

2. Even when the employee/ counterparty has agreed to the terms but approval process is still not complete, hence the grant date should be the date when approvals are complete.

3. Terms/ conditions mentioned in the agreement must be objectively defined and should not be based on subjective outcome. Mutual understanding is crucial which essentially means that all terms/ clauses and calculation related to the equity prices must be clear and objectively defined.

3.9 SUBSEQUENT MEASUREMENT

3.9.1 Equity settled Share-Based Payment

The entity shall recognise an amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and shall revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested.

Equity will be credited by an additional amount (adjusted with re-estimation of expected vesting equity shares at each reporting period) and there will not be any change in the value credited to the equity.

Example 34

An entity issued 100 shares each to its 2,000 employees subject to service condition of next 3 years. Grant date fair value of the shares is ₹ 200 each. There is an expectation that employee will remain in service at the rate 95% at end of 1st year, however the expectation got revised at the end of 2nd year to 92% and again got revised to 88% at the end of the 3rd year.

Year end	% Vest	Expense (current period)	Cumulative expenses
First	95%	2,000 x 100 x 200 x 95% x 1/3 = 1,26,66,667	1,26,66,667
Second	92%	2,000 x 100 x 200 x 92% x 2/3 – 1,26,66,667 = 1,18,66,667	2,45,33,333
Third	88%	2,000 x 100 x 200 x 88% x 3/3 – 2,45,33,333 = 1,06,66,667	3,52,00,000

3.9.2 Cash-settled share-based payment

After the initial recognition of a liability to settle SBP in cash, at the end of each subsequent period the liability would be fair valued till the time it is settled.

Example 35

An entity issued 100 shares each to its 20 employees subject to service condition of next 3 years. The settlement is to be made in cash. Grant date fair value of the shares is ₹ 200 each. However, the fair value as at end of 1st year, 2nd year & 3rd year were ₹ 180, ₹ 190, ₹ 220 respectively.

Year end	Vest	Expense (current period)	Cumulative expenses
First	1/3	20 x 100 x 180 x 1/3 = 1,20,000	1,20,000
Second	2/3	20 x 100 x 190 x 2/3 – 1,20,000= 1,33,333	2,53,333
Third	3/3	20 x 100 x 220 x 3/3 – 2,53,333 =1,86,667	4,40,000

3.10 MODIFICATION, CANCELLATION AND SETTLEMENTS

An entity might modify the terms and conditions on which the equity instruments were granted. For example, it might reduce the exercise price of options granted to employees (i.e. reprice the options), which increases the fair value of those options.

Analysis of the requirement of Modification, Cancellation and Settlements

- An entity shall recognize, as a minimum, the services measured at the grant date fair value unless vesting conditions are not fulfilled. If an entity modifies as award, it must recognize, at a minimum, cost of the original award as if the award was not modified. If modification increases fair value of the award, the entity must recognize that additional cost. The additional cost is spread over the period from the modification date until the vesting of modified options, which may differ from the vesting date of original award. Whether a modification increases or decreases the fair value of an award is determined at the modification date. If an entity modifies a vested option, it recognizes any additional fair value given on the modification date itself.
- This requirement is applicable irrespective of any modification of terms, cancellation or early settlement, if any.
- If a grant of equity instruments is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied):

  a. the entity shall account for the cancellation or settlement as an acceleration of vesting, and shall therefore recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

b. any payment made to the employee on the cancellation or settlement of the grant shall be accounted for as the repurchase of an equity interest, ie as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date. Any such excess shall be recognised as an expense. However, if the share-based payment arrangement included liability components, the entity shall remeasure the fair value of the liability at the date of cancellation or settlement. Any payment made to settle the liability component shall be accounted for as an extinguishment of the liability.

c. if new equity instruments are granted to the employee and on the date when those new equity instruments are granted, the entity identifies the new equity instruments granted as replacement equity instruments for the cancelled equity instruments, the entity shall account for the granting of replacement equity instruments in the same way as a modification of the original grant of equity instruments, in accordance with paragraph 27 of Ind AS 102 and the guidance in Appendix B of Ind AS 102. The incremental fair value granted is the difference between the fair value of the replacement equity instruments and the net fair value of the cancelled equity instruments, at the date the replacement equity instruments are granted. The net fair value of the cancelled equity instruments is their fair value, immediately before the cancellation, less the amount of any payment made to the employee on cancellation of the equity instruments that is accounted for as a deduction from equity in accordance with (b) above. If the entity does not identify new equity instruments granted as replacement equity instruments for the cancelled equity instruments, the entity shall account for those new equity instruments as a new grant of equity instruments.

- If an entity or counterparty can choose whether to meet a non-vesting condition, the entity shall treat the entity's or counterparty's failure to meet that non-vesting condition during the vesting period as a cancellation.
- If an entity repurchases vested equity instruments, the payment made to the employee shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments repurchased, measured at the repurchase date. Any such excess shall be recognised as an expense.

Illustration 10 – Modifications – Equity-settled share-based payment

Marathon Inc. issued 150 share options to each of its 1,000 employees subject to the service condition of 3 years. Fair value of the option given was calculated at ₹ 129. Below are the details and activities related to the SBP plan-

Year 1: *35 employees left and further 60 employees are expected to leave*

Share options re-priced (as MV of shares has fallen) as the FV fell to ₹ 50.

After the re-pricing they are now worth ₹ 80, hence expense is expected to increase by ₹ 30.

Year 2: *30 employees left and further 36 employees are expected to leave*

Year 3: *39 employees left*

How the modification/ re-pricing will be accounted?

Solution

The re-pricing was done at the end of year 1, and hence the increased expense would be spread over next 2 years equally.

Total increased value due to modification is	₹ 30		(1/2 weight each years)
	Year 1	Year 2	Year 3
Number of employees	1,000	1,000	1,000
Employee left	(35)	(65)	104
Expected to leave	(60)	(36)	____
Net employees	905	899	896
Options per employee	150	150	150
Fair value of the option	129	129	129
Period weight	1/3	2/3	3/3
Modification		30	30
Expense (original)	58,37,250	57,59,850	57,40,500
Modification	Nil	20,22,750	20,09,250
		(899x150x30x1/2)	(896x150x30x2/2)- 20,22,750)

*****

Illustration 11 - Cancellation- Equity Settled Share-based payment

Anara Fertilisers Limited issued 2000 share options to its 10 directors for an exercise price of ₹ 100. The directors are required to stay with the company for next 3 years.

Fair value of the option estimated	*₹ 130*
Expected number of directors to vest the option	*8*

During the year 2, there was a crisis in the company and Management decided to cancel the scheme immediately. It was estimated further as below-

Fair value of option at the time of cancellation was	*₹ 90*
Market price of the share at the cancellation date was	*₹ 99*

There was a compensation which was paid to directors and only 9 directors were currently in employment. At the time of cancellation of such scheme, it was agreed to pay an amount of ₹ 95 per option to each of 9 directors.

Suggest how the cancellation will be recorded.

Solution

	Year 1	Year 2	
A)			
Expected directors to vest	8	9	
Fair value of option	130	130	
Number of options	2,000	2,000	
Total	20,80,000	23,40,000	
Expense weightage	1/3		Full, as it is cancelled
Expense for the year	6,93,333	16,46,667	Remaining amount since cancelled

B) Cancellation compensation	
Number of directors	9
Amount agreed to pay	95
Number of options / director	2,000
Compensation amount (9 x 95 x 2,000) Also refer working notes 1 and 2	17,10,000

Working Notes:

1. Amount to be deducted from Equity

Number of directors	9
Fair value of option (at the date of cancellation)	90
Number of options / director	2,000
Total	16,20,000

2. Amount transferred to Profit and Loss

Total cancellation compensation	17,10,000
Less: To deduct from Equity	(16,20,000)
Balance transferred to Profit and Loss	90,000

*****

3.11 FAIR VALUE CALCULATION

All the share-based payment plans are recognized referring fair value at grant date and it is crucial to understand how the fair value is arrived and the specific guidance available in the standard.

Fair value which is required to be used is not just a quoted price of any security. There are some market related conditions and / or non-vesting conditions that would be considered in the determination of fair value. Hence to determine such fair value, one has to use valuation techniques. However, there is nothing specific which has been defined by the standard. Black-scholes pricing model and Binomial pricing model are being used widely and are also generally accepted.

Standard specify minimum inputs to be used while calculating the fair value.

All option pricing models take into account, as a minimum, the following factors:

(a) the exercise price of the option;

(b) the life of the option;

(c) the current price of the underlying shares;

(d) the expected volatility of the share price;

(e) the dividends expected on the shares (if appropriate); and

(f) the risk-free interest rate for the life of the option.

Exercise price, current price and life of the option are observable inputs and relatively easy to understand and value can be easily identified. However, other inputs which are required to be used as minimum can be detailed out as below:

1. **Expected early exercise:** If a share-based payment has service / performance conditions attached, then there is an underlying presumption that the share-based payment plan will vest and it is usually expected to settle / exercise when the current market price crosses exercise price of the plan. Some senior level employees normally tend to exercise options

later than lower-level employees. Since all expected exercise will not happen at the same time and it is difficult to establish a linear function for such behavior, hence Binomial model is generally used in such situations. Alternatively, expected early exercise could be modelled in a similar option pricing model that uses contractual life as an input.

2. **Expected volatility:** Expected volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. Volatility is typically expressed in annualised terms that are comparable regardless of the time period used in the calculation, for example, daily, weekly or monthly price observations.

3. **Expected dividend:** Whether expected dividend should be taken into account when measuring the fair value of shares or options granted depends on whether the counterparty is entitled to dividend or dividend equivalents.

Example 36

If employees were granted options and are entitled to dividend on the underlying shares or dividend equivalents (which might be paid in cash or applied to reduce the exercise price) between grant date and exercise date, the options granted should be valued as if no dividend will be paid on the underlying shares, i.e. the input for expected dividend should be zero.

4. **Risk-free interest rate:** The risk-free interest rate is the implied yield currently available on zero-coupon government issues of the country in whose currency the exercise price is expressed, with a remaining term equal to the expected term of the option being valued (based on the option's remaining contractual life and taking into account the effects of expected early exercise). It may be necessary to use an appropriate substitute, if no such government issues exist or circumstances indicate that the implied yield on zero-coupon government issues is not representative of the risk-free interest rate (for example, in high inflation economies). Also, an appropriate substitute should be used if market participants would typically determine the risk-free interest rate by using that substitute, rather than the implied yield of zero-coupon government issues, when estimating the fair value of an option with a life equal to the expected term of the option being valued.

3.12 GROUP SHARE-BASED PAYMENT PLAN

In practice, we have come across many cases where one member of the group (typically, the parent) has obligation to settle a share-based payment transaction in which services are provided to another member of the group (typically a subsidiary). For example, within a multinational group, shares in the listed parent entity may be granted to the employees of various subsidiary entities located around the world. In some other cases, a listed subsidiary may have obligation to settle a share-based payment transaction in which services are provided to another member of the group (including the parent). These transactions are within the scope of Ind AS 102 for the entity receiving the services. This is despite the fact that it is not a direct party to the arrangement between its group entity and its employee.

For share-based payment transactions among group entities, in its separate or individual financial statements, the entity receiving the goods or services shall measure the goods or services received as either an equity-settled or a cash-settled share-based payment transaction by assessing:

(a) the nature of the awards granted, and

(b) its own rights and obligations.

The amount recognised by the entity receiving the goods or services may differ from the amount recognised by the consolidated group or by another group entity settling the share-based payment transaction.

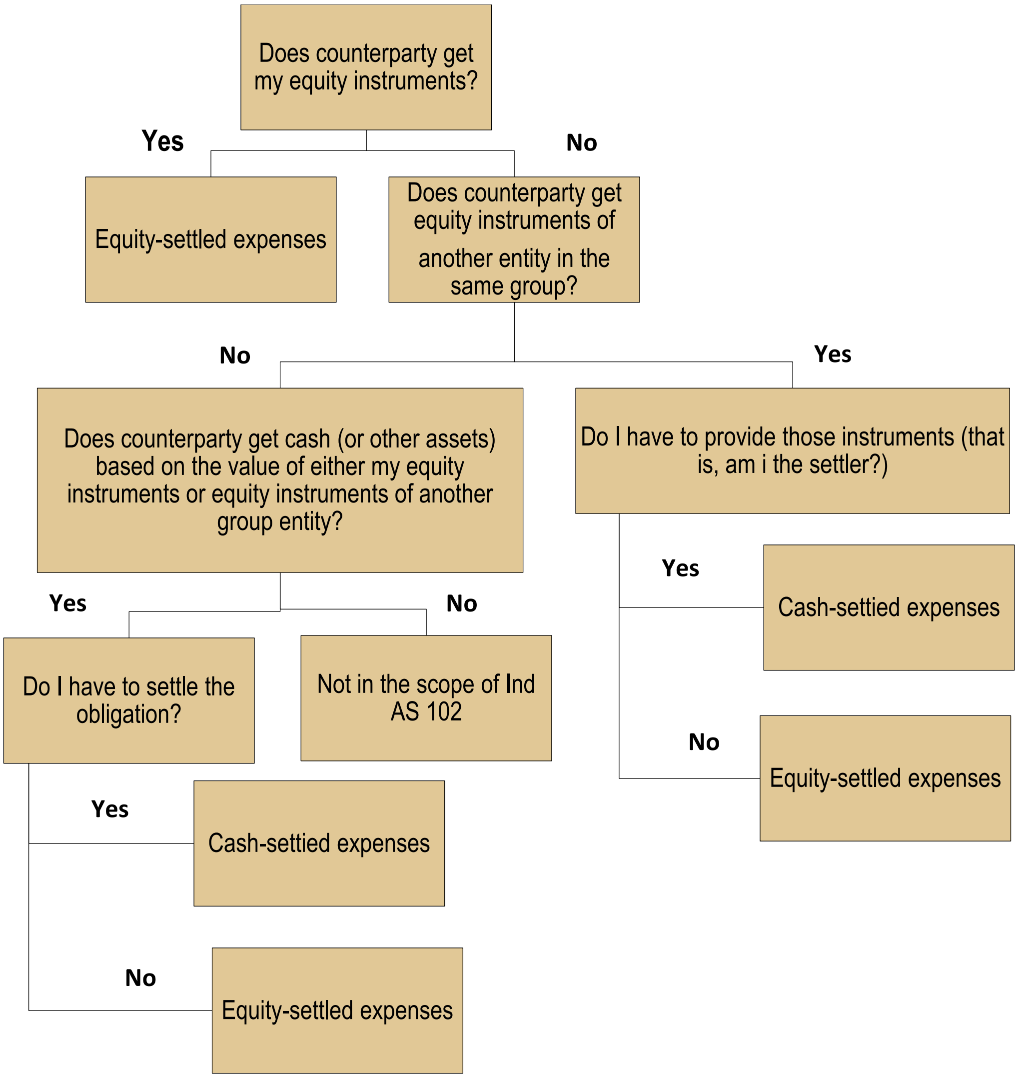
The entity receiving the goods or services shall measure the goods or services received as an equity-settled share-based payment transaction when:

(a) the awards granted are its own equity instruments, or

(b) the entity has no obligation to settle the share-based payment transaction.

The entity shall subsequently remeasure such an equity-settled share-based payment transaction only for changes in non-market vesting conditions. In all other circumstances, the entity receiving the goods or services shall measure the goods or services received as a cash-settled share-based payment transaction.

The entity settling a share-based payment transaction when another entity in the group receives the goods or services shall recognise the transaction as an equity-settled share-based payment transaction only if it is settled in the entity's own equity instruments. Otherwise, the transaction shall be recognised as a cash-settled share-based payment transaction.



Let's understand the basis of determination of the classification of share-based payment transactions in both separate financial statements and consolidated financial statements in various scenarios:

1. Parent issues its own shares for the share-based payment plan issued by its subsidiary

Since the subsidiary company do not have any obligation to settle the services/ goods which are being issued against the plan, hence it will be treated as equity-settled share-based payment (for subsidiary).

- Parent would debit these shares as "Investment in Subsidiary" and credit its equity.

- Subsidiary will treat this as equity-settled share-based payment plan and will debit its expenses (employee related cost) and credit the capital contribution from the Parent.

2. Subsidiary provides rights to its employees to get equity instruments of its parent

Subsidiary will account for this arrangement as cash-settled share-based payment plan since it has an obligation to settle the same in other than its own equity shares.

- Parent would consider the payment/ settlement which is being made by its subsidiary as credit to "Dividend Income" and debit to Expenses (employee related cost).
- Subsidiary would debit its retained earnings as "Dividend distribution" and credit Equity (being share issued).

3. Parent settles the transaction by paying cash value for share-based payment plan issued by its subsidiary

Irrespective of the cash which is settled either based on Parent's equity or Subsidiary's equity, it will be treated as equity-settled share-based payment plan in case of separate financial statements of subsidiary because the subsidiary does not have any obligation to settle the payments.

Illustration 12

A parent grants 200 share options to each of 100 employees of its subsidiary, conditional upon the completion of two years' service with the subsidiary. The fair value of the share options on grant date is ₹ 30 each. At grant date, the subsidiary estimates that 80 percent of the employees will complete the two-year service period. This estimate does not change during the vesting period. At the end of the vesting period, 81 employees complete the required two years of service. The parent does not require the subsidiary to pay for the shares needed to settle the grant of share options.

Pass the necessary journal entries for giving effect to the above arrangement.

Solution

As required by paragraph B53 of the Ind AS 102, over the two-year vesting period, the subsidiary measures the services received from the employees in accordance, the requirements applicable to equity-settled share-based payment transactions as given in paragraph 43B. Thus, the subsidiary measures the services received from the employees on the basis of the fair value of the share options at grant date. An increase in equity is recognised as a contribution from the parent in the separate or individual financial statements of the subsidiary.

The journal entries recorded by the subsidiary for each of the two years are as follows:

Year 1		₹	₹
Remuneration expense (Transfer to P/L) (200 x 100 employees x Rs. 30 x 80% x ½)	Dr.	2,40,000	
To Equity (Contribution from the parent)			2,40,000
Year 2			
Remuneration expense (Transfer to P/L) [(200 x 81 employees x Rs. 30) – 2,40,000]	Dr.	2,46,000	
To Equity (Contribution from the parent)			2,46,000

3.13 DISCLOSURE

Standard requires an entity to disclose the following-

- Type and scope of agreement existing during the reporting period.
- Describing general terms & conditions of each type of share-based payment plans.
- The number of weighted average price of share option as outstanding with a movement of granted, vested, expired, exercised, cancelled and closing balance of share-based payment plans.
- The average share price of exercised options.
- The range of exercise prices and weighted average remaining contractual life of options outstanding at the end of reporting period.
- The valuation method used to estimate the fair value of the awards.
- The impact on Statement of Profit and Loss and Balance Sheet for such share-based payments.

3.14 EXTRACTS OF FINANCIAL STATEMENTS OF LISTED ENTITY

Following is the extract from the financial statements of the listed entity 'Bharti Airtel Limited' for the financial year 2021-2022 with respect to 'Share-based payment' and its accounting policy thereon.

25.1 Share-based payment plans

The following table provides an overview of all existing share option plans of the Company:

Scheme	Plan	Vesting period (years)	Contractual term (years)
Equity settled Plans			
Scheme I	2006 Plan	1 - 5	7
Scheme 2005	Long Term Incentive (LTI) Plan	1 - 3	7

The stock options vesting are subject to service and certain performance conditions mainly pertaining to certain financial parameters.

The movement in the number of stock options and the related weighted average exercise prices are as follows:

	For the year ended			
	March 31, 2022		March 31, 2021	
	Number of share options ('000)	Weighted average exercise price (₹)	Number of share options ('000)	Weighted average exercise price (₹)
2006 Plan				
Outstanding at beginning of year	113	5.00	30	5.00
Granted	-	-	93	5.00
Exercised	(113)	5.00	(10)	5.00
Outstanding at end of year	-	-	113	5.00
Exercisable at end of year	-	-	20	5.00
LTI Plan				
Outstanding at beginning of year	3,048	5.00	3,195	5.00
Granted	1,956	5.00	1,176	5.00
Exercised	(1,297)	5.00	(1,077)	5.00
Forfeited / expired	(484)	5.00	(246)	5.00
Outstanding at end of year	3,223	5.00	3,048	5.00
Exercisable at end of year	904	5.00	603	5.00

The details of weighted average remaining contractual life, weighted average fair value and weighted average share price for the options are as follows:

	March 31, 2022	March 31, 2021
Weighted average		
Remaining contractual life for the options outstanding as of (years)	0.4 to 6.4	1.4 to 6.7
Fair value for the options granted during the year ended (₹)	347.7 to 595.1	347.7 to 548.7
Share price for the options exercised during the year ended (₹)	581.7 to 716.6	483.3 to 590.2

The fair value of options is measured using Black-Scholes valuation model. The key inputs used in the measurement of the grant date fair valuation of equity settled plans is given in the table below:

	For the year ended March 31, 2022	For the year ended March 31, 2021
Risk free interest rates	5.5% to 5.8%	5.1% to 5.8%
Expected life	48 to 60 months	48 to 78 months
Volatility	32.8%	32.7%
Dividend yield	0.3%	0.4%
Exercise price (₹)	5	5
Share price on the date of grant (₹)	607.80	560.60

The expected life of the stock options is based on the Company's expectations and is not necessarily indicative of exercise patterns that may actually occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the expected life of the options is indicative of future trends, which may not necessarily be the actual outcome. Further, the expected volatility is based on the weighted average volatility of the comparable benchmark companies.

ACCOUNTING POLICY

Share-based payments

The Company operates equity-settled and cash-settled employee share-based compensation plans, under which the Company receives services from employees as consideration for stock options either towards shares of the Company or cash settled units.

In case of equity-settled awards, the fair value of stock options (at grant date) is recognised as an expense in the Statement of Profit and Loss within employee benefits as employee share-based payment expenses over the vesting period, with a corresponding increase in share-based payment reserve (a component of equity).

However, in case of cash-settled awards, the credit is recognised as a liability within other non-financial liabilities over the vesting period. Subsequently, at each reporting period, until the liability is settled, and at the date of settlement, liability is re-measured at fair value through Statement of Profit and Loss.

The total amount so expensed is determined by reference to the grant date fair value of the stock options granted, which includes the impact of any market performance conditions and non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions. However, the non-market performance vesting *and service conditions are considered in the assumption as to the number of options that are expected to vest. The forfeitures are estimated at the time of grant and reduce the said expense rateably over the vesting period.*

The expense so determined is recognised over the requisite vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. As at each reporting date, the Company revises its estimates of the number of options that are expected to vest, if required.

It recognises the impact of any revision to original estimates in the period of change. Accordingly, no expense is recognised for awards that do not ultimately vest, except for which vesting is conditional upon a market performance / non-vesting condition. These are treated as vested irrespective of whether or not the market / non-vesting condition is satisfied, provided that service conditions and all other non-market performance are satisfied.

Where the terms of an award are modified, in addition to the expense pertaining to the original award, an incremental expense is recognised for any modification that results in additional fair value or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled (including due to non-vesting conditions not being met), it is treated as if it is vested thereon, and any un-recognised expense for the award is recognised immediately. In case of cancellation of cash-settled award, change in the value of the liability, if any, is recognised in Statement of Profit and Loss.

(Source: Annual Report 2021-2022 – Bharti Airtel Limited)

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Questions

1. An entity issued 100 shares each to its 1,000 employees subject to service condition of next 2 years. Grant date fair value of the share is ₹ 195 each. There is an expectation 97% of the employees will remain in service at the end of 1st year. However, at the end of 2nd year the expected employees to remain in service would be 91% of the total employees. Calculate the expense for years 1 & 2?

2. An entity issued 50 shares each to its 170 employees subject to service condition of next 2 years. The settlement is to be made in cash. Grant date fair value of the share is ₹ 85 each, however, the fair value as at end of 1st year, 2nd year were ₹ 80 & ₹ 90 respectively. Calculate the expense for years 1 and 2

3. Company P is a holding company for company B. A group share-based payment is being organized in which Parent issues its own equity-shares for the employees of company B. The details are as below –

Number of employees of company B	100
Grant date fair value of share	₹ 87
Number of shares to each employee granted	25
Vesting conditions	Immediately

Pass the journal entry in the books of company P & company B?

4. An entity P issues share-based payment plan to its employees based on the below details:

Number of employees	100
Fair value at grant date	₹ 25
Market condition	Share price to reach at ₹ 30
Service condition	To remain in service until market condition is fulfilled
Expected completion of market condition	4 years

Define expenses related to such share-based payment plan in each year subject to the below scenarios-

a) Market condition if fulfilled in year 3, or

b) Market condition is fulfilled in year 5.

5. Entity X grants 10 shares each to its 1,000 employees on the conditions as mentioned below-

- To remain in service & entity's profit after tax (PAT) shall reach to ₹ 100 million.
- It is expected that PAT should reach to ₹ 100 million by the end of 3 years.
- Fair value at grant date is ₹ 100.
- Employees expected for vesting right by 1st year 97%, then it revises to 95% by 2nd year and finally to 93% by 3rd year.

Calculate the expenses for next 3 years in respect of share-based payment?

6. At 1st January, 20X0, Ambani Limited grants its CEO an option to take either cash amount equivalent to 800 shares or 990 shares. The minimum service requirement is 2 years. There is a condition to keep the shares for 3 years if shares are opted.

Fair values of the shares	₹
Share alternative fair value (with restrictions)	212
Grant date fair value on 1st January, 20X0	213
Fair value on 31st December, 20X0	220
Fair value on 31st December, 20X1	232

The key management personnel exercises his cash option at the end of 20X2.

Pass the journal entries.

7. MINDA issued 11,000 share appreciation rights (SARs) that vest immediately to its employees on 1st April, 20X0. The SARs will be settled in cash. Using an option pricing model, at that date it is estimated that the fair value of a SAR is ₹ 100. SAR can be exercised any time until 31st March, 20X3. It is expected that out of the total employees, 94% at the end of the period on 31st March, 20X1, 91% at the end of next year will exercise the option. Finally, when these were vested i.e. at the end of the 3rd year, only 85% of the total employees exercised the option.

Fair value of SAR	₹
31st March, 20X1	132
31st March, 20X2	139
31st March, 20X3	141

Pass the Journal entries?

8. P Ltd. granted 400 stock appreciation rights (SAR) each to 75 employees on 1st April 20X1 with a fair value ₹ 200. The terms of the award require the employee to provide service for four years in order to earn the award. The fair value of each SAR at each reporting date is as follows:

31st March 20X2	₹ 210
31st March 20X3	₹ 220
31st March 20X4	₹ 215
31st March 20X5	₹ 218

What would be the difference if at the end of the second year of service (i.e. at 31st March 20X3), P Ltd. modifies the terms of the award to require only three years of service?

9. QA Ltd. had on 1st April, 20X1 granted 1,000 share options each to 2,000 employees. The options are due to vest on 31st March, 20X4 provided the employee remains in employment till 31st March, 20X4.

On 1st April, 20X1, the Directors of Company estimated that 1,800 employees would qualify for the option on 31st March, 20X4. This estimate was amended to 1,850 employees on 31st March, 20X2 and further amended to 1,840 employees on 31st March, 20X3.

On 1st April, 20X1, the fair value of an option was ₹ 1.20. The fair value increased to ₹ 1.30 as on 31st March, 20X2 but due to challenging business conditions, the fair value declined thereafter. In September, 20X2, when the fair value of an option was ₹ 0.90, the Directors repriced the option and this caused the fair value to increase to ₹ 1.05. Trading conditions improved in the second half of the year and by 31st March, 20X3 the fair value of an option was ₹ 1.25. QA Ltd. decided that additional cost incurred due to repricing of the options on 30th September, 20X2 should be spread over the remaining vesting period from 30th September, 20X2 to 31st March, 20X4.

Suggest the suitable accounting treatment for these transaction as on 31st March, 20X3.

10. A parent, Company P, grants 30 shares to 100 employees each of its subsidiary, Company S, on condition that the employees remain employed by Company S for three years. Assume that at the outset, and at the end of Years 1 and 2, it is expected that all the employees will remain employed for all the three years. At the end of Year 3, none of the employees has left. The fair value of the shares on grant date is ₹ 5 per share. Company S agrees to reimburse Company P over the term of the arrangement for 75 percent of the final expense recognised by Company S.

What would be the accounting treatment in the books of Company P and Company S?

11. An entity which follows its financial year as per the calendar year grants 1,000 share appreciation rights (SARs) to each of its 40 management employees as on 1st January 20X5. SARs provide the employees with the right to receive (at the date when the rights are exercised) cash equal to the appreciation in the entity's share price since the grant date. All of the rights vest on 31st December 20X6; and they can be exercised during 20X7 and 20X8. Management estimates that, at grant date, the fair value of each SAR is ₹ 11; and it estimates that overall 10% of the employees will leave during the two-year period. The fair values of the SARs at each year end are shown below:

Year	Fair value at year end
31 December 20X5	12
31 December 20X6	8
31 December 20X7	13
31 December 20X8	12

10% of employees left before the end of 20X6. On 31st December 20X7 (when the intrinsic value of each SAR was ₹ 10), six employees exercised their options; and the remaining 30 employees exercised their options at the end of 20X8 (when the intrinsic value of each SAR was equal to the fair value of ₹ 12).

How much expense and liability is to be recognized at the end of each year? Pass the Journal entries.

Answers

1.

Year end	% Vest	Expense (current period)
FIRST	97%	100 x 1,000 x 195 x 97% x 1/2 = 94,57,500
SECOND	91%	100 x 1,000 x 195 x 91% x 2/2 – 94,57,500= 82,87,500

2.

Year end	Vest	Expense (current period)
FIRST	1/2	50 x 170 x 80 x 1/2 = 3,40,000
SECOND	2/2	50 x 170 x 90 x 2/2 – 3,40,000 = 4,25,000

- Liability will be re-measured at each reporting date.
- Fair value at the end of the year will be used.

3. **Books of Company P**

Investment in Company B	Dr.	₹ 2,17,500	
To Equity Capital / Securities Premium (Issue of Shares)			₹ 2,17,500

Books of Company B

Expense	Dr.	₹ 2,17,500	
To Capital contribution from Parent P			₹ 2,17,500

4. Market conditions are required to be considered while calculating fair value at the grant date. However, service conditions will be considered as per the expected vesting right to be exercised by the employees and would be re-estimated during vesting period. However, if the market-related condition is fulfilled before it is expected then all remaining expenses would immediately be charged off. If market-related condition takes longer than the expected period, then original expected period will be followed.

a) Market condition is fulfilled in year 3:

Year 1	2,500/4 = 625
Year 2	2,500/4 = 625
Year 3	2,500-625-625=1,250
Year 4	NIL

b) Market condition is fulfilled in year 5:

Year 1	2,500/4 = 625
Year 2	2,500/4 = 625
Year 3	2,500/4 = 625
Year 4	2,500/4 = 625
Year 5	NIL

5. Entity's PAT is one of the non-market related conditions and hence would be included while making an expectation of vesting shares and there is no requirement to make any changes in the non-market condition whether this is fulfilled or not because it has already been considered in the expectation of vesting rights at the end of each year**.**

Year -1	1,000 x 10 x 100 x 97% x1/3 = 3,23,333
Year-2	1,000 x 10 x 100 x 95% x 2/3 - 3,23,333 = 3,10,000
Year -3	1,000 x 10 x 100 x 93% x 3/3 - 6,33,333 = 2,96,667

6.

	1st January, 20X0	**31st December, 20X0**	**31st December, 20X1**
Equity alternative (990 x 212)	2,09,880		
Cash alternative (800 x 213)	1,70,400		
Equity option (2,09,880 – 1,70,400)	39,480		
Cash Option (cumulative) (using period end fair value)		88,000	1,85,600
Equity Option (cumulative)		19,740	39,480
Expense for the period			
Equity option		19,740	19,740
Cash Option		88,000	97,600
Total		1,07,740	1,17,340

Journal Entries

31st December, 20X0			₹
Employee benefits expenses	Dr.	1,07,740	
To Share-based payment reserve (equity)			19,740
To Share-based payment liability			88,000
(Recognition of Equity option and cash settlement option)			
31st December, 20X1			
Employee benefits expenses	Dr.	1,17,340	
To Share-based payment reserve (equity)			19,740
To Share-based payment liability			97,600
(Recognition of Equity option and cash settlement option)			
Share-based payment liability	Dr.	1,85,600	
To Bank/ Cash			1,85,600
(Settlement in cash)			

7.

Period	Fair value	To be vested	Cumulative	Expense
Start	100	100%	11,00,000	11,00,000
Period 1	132	94%	13,64,880	2,64,880
Period 2	139	91%	13,91,390	26,510
Period 3	141	85%	13,18,350	(73,040)
				13,18,350

Journal Entries

1st April, 20X0			
Employee benefits expenses	Dr.	11,00,000	
To Share-based payment liability			11,00,000
(Fair value of the SAR recognised)			
31st March, 20X1			
Employee benefits expenses	Dr.	2,64,880	

To Share-based payment liability (Fair value of the SAR re-measured)		2,64,880
31st March, 20X2		
Employee benefits expenses Dr. To Share-based payment liability (Fair value of the SAR re-measured)	26,510	26,510
31st March, 20X3		
Share-based payment liability Dr. To Employee benefits expenses (Fair value of the SAR reversed)	73,040	73,040
Share-based payment liability Dr. To Cash (Settlement of SAR)	13,18,350	13,18,350

8. **Journal entries in the books of P Ltd (without modification of service period of stock appreciation rights)** **(₹ in lakhs)**

Date	Particulars	Debit	Credit
31.03.20X2	Profit and Loss account Dr. To Liability against SARs (Being expenses liability for stock appreciation rights recognised)	15.75	15.75
31.03.20X3	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	17.25	17.25
31.03.20X4	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	15.38	15.38
31.03.20X5	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	17.02	17.02

Journal entries in the books of P Ltd (with modification of service period of stock appreciation rights) **(₹ in lakhs)**

Date	Particulars	Debit	Credit
31.03.20X2	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	15.75	15.75
31.03.20X3	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	28.25	28.25
31.03.20X4	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	20.50	20.50

Working Notes:

Calculation of expenses for issue of stock appreciation rights without modification of service period

For the year ended 31st March 20X2

= ₹ 210 x 400 awards x 75 employees x 1 year /4 years of service

= ₹ 15,75,000

For the year ended 31st March 20X3

= ₹ 220 x 400 awards x 75 employees x 2 years /4 years of service - ₹ 15,75,000 previous recognised

= ₹ 33,00,000 - ₹ 15,75,000 = ₹ 17,25,000

For the year ended 31st March 20X4

= ₹ 215 x 400 awards x 75 employees x 3 years/4 years of service - ₹ 33,00,000 previously recognised

= ₹ 48,37,500 - ₹ 33,00,000 = ₹ 15,37,500

For the year ended 31st March, 20X5

= ₹ 218 x 400 awards x 75 employees x 4 years / 4 years of service – ₹ 48,37,500 previously recognised

= ₹ 65,40,000 – ₹ 48,37,500 = ₹ 17,02,500

Calculation of expenses for issue of stock appreciation rights with modification of service period

For the year ended 31st March 20X2

= ₹ 210 x 400 awards x 75 employees x 1 year / 4 years of service = ₹ 15,75,000

For the year ended 31st March 20X3

= ₹ 220 x 400 awards x 75 employees x 2 years / 3 years of service - ₹ 15,75,000 previous recognised

= ₹ 44,00,000 - ₹ 15,75,000 = ₹ 28,25,000

For the year ended 31st March 20X4

= ₹ 215 x 400 awards x 75 employees x 3 years/ 3 years of service - ₹ 44,00,000 previous recognised

= ₹ 64,50,000 - ₹ 44,00,000 = ₹ 20,50,000.

9. Paragraph 27 of Ind AS 102 requires the entity to recognise the effects of repricing that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee.

If the repricing increases the fair value of the equity instruments granted paragraph B43(a) of Appendix B requires the entity to include the incremental fair value granted (ie the difference between the fair value of the repriced equity instrument and that of the original equity instrument, both estimated as at the date of the modification) in the measurement of the amount recognised for services received as consideration for the equity instruments granted.

If the repricing occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the repricing date until the date when the repriced equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.

Accordingly, the amounts recognised in years 1 and 2 are as follows:

Year	Calculation	Compensation expense for period	Cumulative compensation expense
		₹	₹
1	[1,850 employees x 1,000 options x ₹ 1.20] x $^{1}/_{3}$	7,40,000	7,40,000
2	(1,840 employees x 1,000 options x [(₹ 1.20 x $^{2}/_{3}$) + {(₹ 1.05 - 0.90) x 0.5/1.5}] – 7,40,000	8,24,000	15,64,000

Note: Year 3 calculations have not been provided as it was not required in the question.

10. Company S expects to recognise an expense totalling ₹ 15,000 (30 shares x 100 employees x ₹ 5 per share) and, therefore, expects the total reimbursement to be ₹ 11,250 (₹ 15,000 x 75%). Company S therefore reimburses Company P ₹ 3,750 (₹ 11,250 x 1/3) each year.

Accounting by Company S

In each of Years 1 to 3, Company S recognises an expense in profit or loss, the cash paid to Company P, and the balance of the capital contribution it has received from Company P.

Journal Entry		₹
Employee benefits expenses Dr.	5,000	
To Cash/Bank		3,750
To Equity (Contribution from the parent)		1,250
(To recognise the share-based payment expense and partial reimbursement to parent)		

Accounting by Company P

In each of Years 1 to 3, Company P recognises an increase in equity for the instruments being granted, the cash reimbursed by Company S, and the balance as investment for the capital contribution it has made to Company S.

Journal Entry			₹
Investment in Company S	Dr.	1,250	
Cash/Bank	Dr.	3,750	
To Equity			5,000
(To recognise the grant of equity instruments to employees of subsidiary less partial reimbursement from subsidiary)			

11. The amount recognized as an expense in each year and as a liability at each year-end) is as follows:

Year	*Expense* ₹	*Liability* ₹	Calculation of Liability
31 December 20X5	2,16,000	2,16,000	= 36 x 1,000 x 12 x ½
31 December 20X6	72,000	2,88,000	= 36 x 1,000 x 8
31 December 20X7	1,62,000*	3,90,000	= 30 x 1,000 x 13
31 December 20X8	(30,000)**	0	Liability extinguished

* Expense comprises an increase in the liability of ₹ 102,000 and cash paid to those exercising their SARs of ₹ 60,000 (6 x 1,000 x 10).

** Difference of opening liability (₹ 3,90,000) and actual liability paid [₹ 3,60,000 (30 x 1,000 x 12)] is recognised to Profit and loss ie ₹ 30,000.

Journal Entries

31 December 20X5			
Employee benefits expenses	Dr.	2,16,000	
To Share-based payment liability			2,16,000
(Fair value of the SAR recognized)			
31 December 20X6			
Employee benefits expenses	Dr.	72,000	
To Share-based payment liability			72,000
(Fair value of the SAR re-measured)			

31 December 20X7			
Employee benefits expenses	Dr.	1,62,000	
To Share-based payment liability			1,62,000
(Fair value of the SAR recognized)			
Share-based payment liability	Dr.	60,000	
To Cash			60,000
(Settlement of SAR)			
31 December 20X8			
Share-based payment liability	Dr.	30,000	
To Employee benefits expenses			30,000
(Fair value of the SAR recognized)			
Share-based payment liability	Dr.	3,60,000	
To Cash			3,60,000
(Settlement of SAR)			

Note: Last two entries can be combined.

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