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VIRTUAL COACHING CLASSES
ORGANIZED BY BOARD OF STUDIES, ICAI

Final Level – 2nd batch May-2021 Exams
PAPER 1: FINANCIAL REPORTING

TOPIC: IND AS 102 - SHARE BASED PAYMENT

Faculty: CA. Aditya Kulkarni

Topics to be Covered

Need for Ind AS 102

Objectives of Ind AS 102 (Para 1)

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Specify Financial Reporting for an entity undertaking a share-based payment transaction

What is a share-based payment transaction?

=> Payment based on price or value of shares

=> e.g. employee stock options, payments to suppliers of goods or services

Ind AS 102: Share Based Payment

Guidance Note on Accounting for Employee Share based Payments

Appendix A: Defined Terms

Share-based Payment Transaction (SBPT)

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Entity

Receives goods or services from the supplier of those goods or services (including an Employee) in a share-based payment arrangement (SBPA)

e.g. A Ltd. issues stock options to its employees / issues shares to a supplier of PPE

OR

Incurs an **obligation to settle** the transaction with the supplier in a **SBPA**, when **another** Group Entity receives those goods or services

e.g. H Ltd. issues stock options to employees of S Ltd. / issues shares to a S Ltd.'s supplier of PPE

Appendix A: Defined Terms

Share-based Payment Arrangement (SBPA)

an agreement between

Party 1:
(a) An entity: e.g. A Ltd.
(b) Another group entity: e.g. H Ltd.
(c) Any shareholder of any Group Entity

AND

Party 2:
Another party (i.e. counterparty)
e.g. employee or supplier of PPE

By virtue of agreement

Provided specified vesting conditions, if any are met

Entitled to receive

Cash or other assets of the entity, for amounts based on the Price (or Value) of Equity Instruments (including shares or share options) of the Entity / another Group Entity

OR

Equity Instruments (including shares or share options) of the Entity / another Group Entity

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Analysis of share based payments (SBP)

1. There must be an **agreement** between the entity & a party (includes employees) => essentially means that a communication of the terms and conditions should be in place in order to have share based payment.

Example

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 employees. 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**.

Study Module: Analysis

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Analysis of share based payments (SBP)

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

Example

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.

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.

Example

An entity issuing its own shares for a charity without any consideration will be covered under Ind AS 102.

Study Module: Analysis

Page 5.24

Analysis of share based payments (SBP)

3. The goods / services received from a counterparty who **acts in the capacity of shareholder** will not 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

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.

Example

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 a capacity of shareholders and not as employees, this transaction will not be covered under Ind AS 102.

Study Module: Analysis

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Analysis of share based payments (SBP)

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

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. 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.

Study Module: Analysis

Appendix A: Defined Terms

Who is a counterparty in an SBPA?

Employees and others providing similar services

Measurement date is considered differently for these two categories of counterparties!!

Parties other than Employees (and those 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.

Includes **all management personnel**, i.e. those persons having authority and responsibility for planning, directing and controlling the activities of the entity, **including non-executive directors**.

Substance over form!!

Appendix A: Defined Terms

Vest

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To become an entitlement

⇩

Under a SBPA, 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 => vesting conditions are fulfilled by the counterparty

Vesting Period

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The period during which all the specified vesting conditions of a SBPA are to be satisfied.

Appendix A: Defined Terms

Vesting Condition

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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 SBPA.

Types of Vesting Condition

- Service Condition
- Performance Condition
  - Non-market Condition
  - Market Condition

Condition not satisfying the above is a **non-vesting condition** e.g. (a) target based on a commodity index; (b) continuation of the Plan by the Entity

Appendix A: Defined Terms

Vesting Condition

Service Condition

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

Performance Condition

A vesting condition that requires –
(a) the counterparty to complete a specified period of service (i.e. 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).

Thus, Performance Condition = Service Condition + Performance Target(s)

Appendix A: Defined Terms

Service Condition v/s Performance Condition

Aspect	Service Condition	Performance Condition
Counterparty should	complete a **specified period of service**, during which services are provided to the Entity.	(a) complete a specified **period** of service, and (b) achieve specified **performance targets** during that period.
Performance Target	Only service to be completed, no performance target.	Achievement of performance target is a must in this condition.
Nature	Service condition is **explicit**.	Service requirement could be **explicit or implicit**.
Period	Service period is **specified** e.g. a requirement to be employed for 3 years.	Target should be achieved **within** the service period. Period of achieving performance targets may start before (but not substantially before) the commencement of the service period.

Appendix A: Defined Terms

Classification of Performance Conditions

Market Condition

A performance condition, upon which:

- the Exercise Price,
- Vesting or exercisability of an equity instrument

⇩ depends upon the

Market Price (or Value) of –

- the Entity's Equity Instruments, or
- the Equity Instruments of another Entity in the same Group

Non-Market Condition

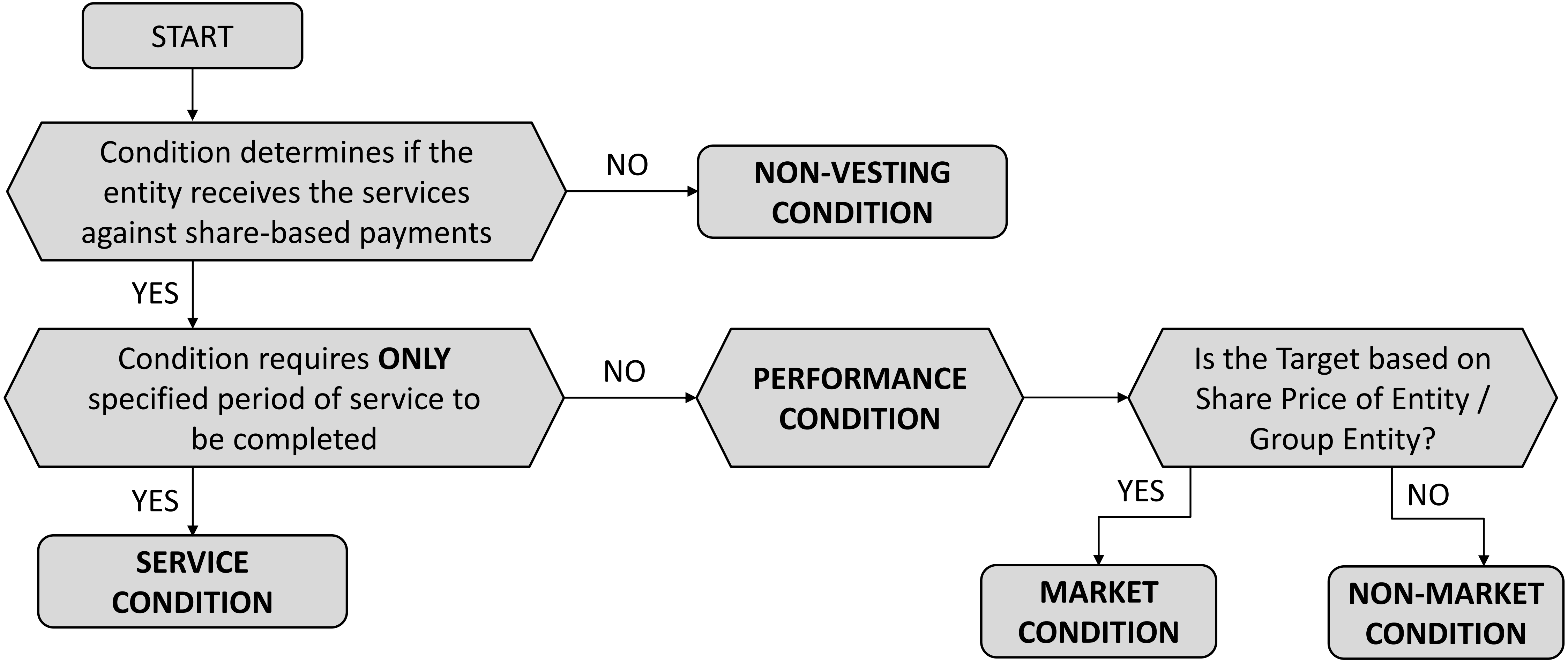
- The condition is not market driven but linked with some internal performance/ operations or activities of the entity.
- Non-market related conditions **do not** have any impact on market price of the shares of the entity issuing such share based payments

Appendix A: Defined Terms

Non-Market Condition v/s Market Condition

Aspect	Non-Market Condition	Market Condition
Meaning	Target is based on the entity's own operations (or activities) or the operations or activities of another entity in the same group.	Target is based on the price (or value) of the equity instruments of the entity / another group entity. (including shares and share options)
Examples	(a) 8% decrease in Employee Turnover of this entity (or subsidiary / parent) (b) 20% increase in parent entity's revenue (c) 11.5% increase in parent's market share	(a) Increase in share price by 10% (b) Increase in shareholders' returns by 15% (c) Increase in parent's share price from 500 to 850.

DECISION TREE



Appendix A: Defined Terms

Grant Date

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Meaning	(a) The date at which the entity and another party (including an employee) agree to a SBPA, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. (b) Grant date occurs only on **agreement** (i.e. offer by the entity, and acceptance by the counterparty). Acceptance may be explicit or implicit. (c) If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.
Importance	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.

Appendix A: Defined Terms

Measurement Date

The date at which the **fair value** of the **equity instruments granted** is measured for the purposes of Ind AS 102.

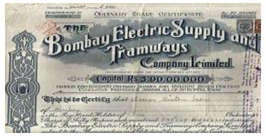
Measurement date is considered differently for these two categories of counterparties!!

For transactions with **Employees and others providing similar services**	For transactions with **Parties other than** Employees (and those providing similar services)
Measurement Date = Grant Date	Measurement Date = Date on which the Entity obtains the goods, or counterparty renders service

What is covered in Ind AS 102?

Scope of Ind AS 102 (Paras 2-6)

- **Applicability (Para 2)**
  all share based transactions
  - Equity-settled SBPTs
  - Cash-settled SBPTs
  - Share-based Payments with Cash Alternatives
- **Exclusions (Paras 3A-6)**
  - Certain Group SBPTs → Para 3A
  - Transaction with Equity Holders → Para 4
  - Transaction covered by other Ind ASs → Paras 5 & 6



Equity

Liability

Compound

Recognition

Recognition of SBPTs (Journal Entry) [Paras 7-8]

Debit

[Assets or Expenses]

Credit

[Equity or Liability]

Goods or Services **received** in an Equity-settled SBPT

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Recognize increase in Equity

Goods or Services **acquired** in Cash-settled SBPT

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Recognize increase in Liability

Recognition

Provides goods or services

Counterparty

Situations listed in Para 9:

- Services consumed immediately
- Goods used or consumed immediately
- Goods consumed over a period of time or, in case of inventories, sold at a later date
- Acquiring goods as part of the Research Phase of a Project to develop a new product

Entity

Recognize Expense or Assets, as applicable

Settles in Cash or Equity: Recognize liability or Equity accordingly

TREATMENT OF EQUITY-SETTLED SBPTs

Basic Principles in Measurement

Measurement of Goods and Services in an Equity-settled SBPT

Entity shall measure goods or services received and corresponding increase in Equity as under:

Rule 1: **Directly**, at the Fair Value of the Goods or Services received

→ If FV of Goods or services cannot be estimated reliably, then **use Rule 2** (Para 10)

Rule 2: **Indirectly**, by reference to the Fair Value of the Equity Instruments granted

→ If FV of the Equity Instruments granted cannot be estimated reliably, then **use Rule 3** (Para 10)

Rule 3: Initial Measurement at **Intrinsic Value**, adjusted for changes at the end of each reporting period

→ Mentioned only in Para 24(a), not in Para 10

TREATMENT OF EQUITY-SETTLED SBPTs

Basic Principles in Measurement

Measurement in Transactions with Employees and Others providing similar services

Employees Remuneration Package = Cash Salary + Other Employment Benefits + Shares, Share Options, Other Equity Instruments

Practical difficulties in case of Services by Employees:

- Cannot measure directly services received for particular components
- Where ESOPs are given as bonus, additional remuneration is given to obtain additional benefits. FV of such benefits cannot be easily estimated.

Employees

Provide services

Measure FV of Services received by employees by reference to FV of Equity Instruments granted!!

TREATMENT OF EQUITY-SETTLED SBPTs

Basic Principles in Measurement

Measurement Principles for Transactions with (1) Employees and Others providing similar services and (2) Parties other than Employees

Transactions with	Employees and Others providing similar services	Parties other than Employees (and those providing similar services)
	Para 11	Para 13
Measurement Principle	By reference to the Fair Value of the Equity Instruments granted	At Fair Value of Goods or Services * received, if it can be measured reliably
Relevant Date	FV as on Grant Date	FV as on the Date on which the Entity obtains the goods, or the counterparty renders the service

* Rebuttable Presumption

TREATMENT OF EQUITY-SETTLED SBPTs

Transactions in which Services are received

Recognition of Services received, in different situations/conditions

If the Equity Instruments granted –	vest immediately ⇩ Para 14	do not vest until the counterparty completes specified period of service ⇩ Para 15
Entity shall presume that –	Services rendered by Counterparty as consideration for Equity Instruments have been received	Services to be rendered by the counterparty as consideration for those Equity Instruments will be received in future, during the vesting period
Recognition Principle –	On the grant date, entity shall recognise the services received in full, with corresponding credit to Equity	Entity shall account for those services as they are rendered by the Counterparty during the vesting period, with corresponding credit to Equity

TREATMENT OF EQUITY-SETTLED SBPTs

Transactions in which Services are received

If Employee is granted share options based on certain vesting conditions

Effect of Service Condition ONLY
[i.e. remaining in employment for a specified service period, e.g. 3 years]

Entity shall presume that services to be rendered by the Employee as consideration for share options will be received in the future, over that 3-year vesting period.

SA 540: Be alert for indicators of management bias!!

Effect of Performance Condition
[i.e. achievement of a performance condition and remaining in the entity's employment until that performance condition is satisfied]

The length of the vesting period varies depending on when that performance condition is satisfied

Entity shall –

(a) presume that the services to be rendered by employee as consideration for the share options will be received in the future, over the expected vesting period

(b) estimate the length of the vesting period at the grant date, based on the most likely outcome of the Performance Condition

TREATMENT OF EQUITY-SETTLED SBPTs

Transactions in which Services are received

If performance condition is

Not a market condition

⇩

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

A market condition

⇩

The estimate of the length of the expected vesting period –

(a) Shall be **consistent** with the assumptions used in estimating the FV of the Options granted, and

(b) Shall **not be subsequently revised**

SA 540: Be alert for indicators of management bias!!

TREATMENT OF EQUITY-SETTLED SBPTs

Transactions measured by reference to FV of Equity Instruments granted

Determination of Fair Value of Equity Instruments granted

If Market Prices are available	Scenario	If Market Prices are not available
measure the fair value of equity instruments granted at the measurement date, based on **market prices**, ***taking into account the terms and conditions*** upon which those equity instruments were granted	The Entity shall	**estimate** the fair value of the equity instruments granted **using a valuation technique** to estimate what the price of those equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties.

SA 500: Valuation could be done using a management's expert

SA 620: Consider using Auditor's Expert

SA 540: Be alert for indicators of management bias!!

TREATMENT OF EQUITY-SETTLED SBPTs

Effect of Vesting and Non-Vesting Conditions in determining FV of Equity Instruments

Conditions having an impact on

FV of Equity Instruments granted

Para 21-21A

1. Vesting Conditions, being Market Conditions
2. All Non-Vesting Conditions

No. of Equity Instruments expected to vest

Para 19-20

Vesting Conditions, not being Market Conditions

SA 540: Be alert for indicators of management bias!!

TREATMENT OF EQUITY-SETTLED SBPTs

Treatment of a "Reload" Feature

Reload Option and Reload Feature

Meaning of Terms

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

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.

Treatment

Para 22:

(a) 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.

(b) Instead, a reload option shall be accounted for as a **new option grant**, if and when a reload option is subsequently granted.

TREATMENT OF EQUITY-SETTLED SBPTs

Adjustment to "Equity" after vesting date

Journal Entry on recognition during vesting period:

Employee Benefits Expenses A/c	Dr.	xxx	
To Share Based Payment Reserve			xxx

Principle:
Having recognised the goods or services received in accordance with paragraphs 10–22, and a corresponding increase in equity, the entity shall make **no subsequent adjustment** to total equity after vesting date.

Exception:
The above principle does not preclude the entity from recognising a **transfer within equity**, i.e. a transfer from one component of equity to another.

November 2012

Goodluck Ltd. grants 180 Share Options to each of its 690 employees. Each grant containing condition on the employees working for Goodluck Ltd. over the next 4 years. Goodluck Ltd. has estimated that the Fair Value of the option is ₹ 15. Goodluck Ltd. also estimated that 30% of the employees will leave during the four year period and hence forfeit their rights to the Share Options. If the above expectations are correct, what amount of Expenses to be recognized during vesting period?

ICAI Exam

ICAI Illustrations

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Illustration 1

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 up to 31st March, 20X3. 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 organisation at the end of March, 20X3 and all of them exercised their options. Pass the Journal entries.

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Question 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 expense for the year 1 & 2?

Question 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.

ICAI Test Your Knowledge

Old Syllabus Module: Page 7.8

Illustration 3: Modified

The following particulars in respect of stock options granted by a company are available:

No. of employees covered	525	Vesting period	3 years
No. of options per employee	100	Exercise Period	1 year
Vesting condition: continuous employment for 3 years		Fair value of options per share on Grant date	₹ 30
Nominal value per share	₹ 100	Exercise price per share	₹ 125

Position as at end of Year 1	▪ Estimated annual rate of departure = 2% ▪ No. of Employees left = 15
Position as at end of Year 2	▪ Estimated annual rate of departure = 3% ▪ No. of Employees left = 10
Position as at end of Year 3	▪ No. of Employees left = 8 ▪ No. of Employees entitled to exercise the option = 492
Position as at end of Year 4	▪ No. of Employees exercising the Option = 480 ▪ No. of Employees not exercising the Option = 12

Compute expenses to be recognized in each year, and also show the journal entries.

ICAI Illustrations

Old Syllabus Module: Page 7.16

Illustration 6: Modified

The following particulars in respect of stock options granted by a company are available:

No. of employees covered	400	Nominal value per share	₹ 100
No. of options per employee	60	Exercise price per share	₹ 125

Shares offered were put in three groups. Group 1 was for 20% of shares offered with vesting period one-year. Group II was for 40% of shares offered with vesting period two-years. Group III was for 40% of shares offered with vesting period three-years. Fair value of option per share on grant date was ₹ 10 for Group I, ₹ 12.50 for Group II and ₹ 14 for Group III.

Position on 1st Year	Position on 2nd Year	Position on 3rd Year
▪ No. of employees left = 40 ▪ Estimate of employees to leave in Year 2 = 36 ▪ Estimate of employees to leave in Year 3 = 34 ▪ Employees exercising Options in Group I = 350	▪ Employees left = 35 ▪ Estimate of employees to leave in Year 3 = 30 ▪ Employees exercising Options in Group II = 319	▪ Employees left = 28 ▪ Employees at the end of last vesting period = 297 ▪ Employees exercising Options in Group III = 295

Options not exercised immediately on vesting, were forfeited. Compute expenses to recognise in each year and show important accounts in the books of the company.

ICAI Illustrations

Page 5.45-46

Illustration 7: [Similar to November 2018 Q. No. 3(b) for 8 marks and May 2019 Q. No. 5(b) for 8 marks]

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.

ICAI Illustrations

Page 5.47-48

Illustration 8

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?

ICAI Illustrations

ICAI Test Your Knowledge

Page 5.59

Question 7

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

Additional Questions for Practice

Question 1:

Compute the expense to be recognized in the following case:

Share options granted	25,000 Share Options
Vesting Conditions	Vesting occurs if Product X's Market Share exceeds 25% at the end of four years
Estimated and Actual Forfeiture Rate	8% in four years
Probability assessment at Grant Date	Condition is deemed not to be probable based on current projections
Grant-date Fair Value	₹ 8 per Share Option
Change in Probability Assessment	During Year 3, Product X's Market Share is projected to be 30% at the end of four years. Hence, Performance Condition is now deemed to be probable of achievement.

Page 5.48

Illustration 9

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?

ICAI Illustrations

Page 5.59

Question 6

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.

ICAI Test Your Knowledge

FAQ 38

An entity has a number of equity settled share-based payment schemes for its employee across different categories. During last financial year i.e. 2018-19, the entity had granted equity shares to senior management which will vest on April 30, 2021, and one of the conditions for final eligibility of equity shares is based on target market price of the entity's share by the end of the financial year 2020-21 i.e. March 31, 2021. Considering the current scenario affected by global pandemic, the entity expects to experience a severe depressed economic environment in its business sector and substantial decline in its financial performance and cash flows over next two years and, therefore, consequential decline in the market price of its equity shares. As of March 31, 2020, the share price of the entity's equity share is much below the target price required under the employees' share-based payment scheme. How should the entity consider this development in the accounting for its equity settled share-based payments for the current financial year 2019-20?

ICAI COVID-19 FAQs

TREATMENT OF EQUITY-SETTLED SBPTs

Modifications to the Terms and Conditions of the Plan

Basic Principle = Recognize services received measured at Grant Date Fair Value of Equity Instruments granted + Recognize effects of modification that **increase** the Total Fair Value of the SBPA or are otherwise **beneficial** to the Employee

Types of Modification to SBPA

Beneficial to Employee

A. Increase in fair value of Equity Instruments granted
B. Increase in number of Equity Instruments granted
C. Modification of Vesting Conditions to the benefit of the Employees

⇩

Account prospectively

Not beneficial to Employees

A. Decrease in fair value of Equity Instruments granted – **ignore**
B. Decrease in number of Equity Instruments granted – **treat as cancellation of that portion of the Grant**
C. Modification of Vesting Conditions to the detriment of the Employees – **ignore**

TREATMENT OF EQUITY-SETTLED SBPTs

Cancellation/Settlement of the Grant

Not applicable to forfeiture due to vesting conditions not satisfied

Aspects of Cancellation/Settlement

Cancellation/ Settlement

Account as an **acceleration** of vesting and recognize immediately the amount that would be recognized over remainder of the vesting period

Payment to Employee

1. Payment on cancellation / settlement treated as re-purchase of Equity interest i.e. deduction from equity.
2. If payment > FV of Equity Instruments granted, excess is expensed.
3. If SBPA includes liability components, remeasure liability to FV on settlement/cancellation date and then account as extinguishment of liability

Choice as to Compliance

Repurchase of vested Equity Instruments

(a) Payment made to employee shall be accounted as deduction from equity

(b) If payment > FV of Equity Instruments purchase, excess is expensed

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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?

ICAI Illustrations

Page 5.52-53

Illustration 11 – Cancellation – Equity Settled Share based payment

Anara Fertilisers Limited issued 2,000 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.

How the cancellation would be recorded?

ICAI Illustrations

Old Syllabus Module: Page 7.20

Illustration 8: Modified

The following particulars in respect of stock options granted by a company are available:

No. of employees covered	600	Vesting period	3 years
No. of options per employee	60	Exercise Period	1 year
Vesting condition: continuous employment for 3 years		Fair value of options per share on Grant date	₹ 14
Nominal value per share	₹ 100	Exercise price per share	₹ 125

Position as at end of Year 1	▪ No. of Employees left = 30 ▪ Estimate of no. of Employees to leave = 70 ▪ Exercise Price was reduced to ₹ 120 ▪ Fair Value of Original Option = ₹ 13 ▪ Fair Value of Option at reduced exercise price = ₹ 15 ▪ Vesting Date for Modified Option = Same as Original Option
Position as at end of Year 2	▪ No. of Employees left = 35 ▪ Estimate of no. of Employees to leave = 30

ICAI Illustrations

Old Syllabus Module: Page 7.20

Illustration 8: Modified (continued)

Position as at end of Year 3	▪ *No. of Employees left = 28* ▪ *No. of Employees entitled to exercise the option = 507*
Position as at end of Year 4	▪ *No. of Employees exercising the Option = 500* ▪ *No. of Employees not exercising the Option = 7*

Compute expenses to be recognized in each year, and also show the journal entries.

ICAI Illustrations

Additional Questions for Practice

Question 2:

Hinduja Ltd. grants 100 non-vested shares to each of its 1,000 employees that vest after 5 years of service. Grant-date Fair Value of each non-vested share is ₹ 10. Based on historical Employee Turnover Rates, Hinduja Ltd. estimates that 200 employees will terminate service prior to the completion of the 5^{th} year. At the beginning of Year 3, Hinduja Ltd. accelerates the vesting of all of the awards so that vesting occurs after 4 years of service rather than the original 5-year service period. As a result of the acceleration, Hinduja Ltd. now expects that only 150 employees will forfeit their awards.

Compute the expense that the company should recognize in each of the years.

November 2019

Question 3

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 the 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 the 31st March, 20X3 the fair value of an option was ₹ 1.25. QA Ltd. decided that the 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.

The Company has requested you to suggest the suitable accounting treatment for these transactions as on 31st March, 20X3.

ICAI RTP

TREATMENT OF CASH-SETTLED SBPTs

Measurement and Recognition

These SBPTs result in a liability, as they represent an obligation to pay cash

Measurement

Initial Measurement

The entity shall measure the goods or services acquired and the liability incurred at the Fair Value of the liability, subject to the requirements of paragraphs 31–33D

Remeasurement

Until the liability is settled, the entity shall:

(a) remeasure the fair value of the liability at the end of each reporting period and at the date of settlement,

(b) recognise any changes in fair value in profit or loss for the period.

Expenditure to be spread over the Vesting Period if SARs vest over period of service / recognised immediately if no criteria for vesting period- same as for Equity-settled SBPTs

Treatment of Vesting Conditions- same as Equity-settled SBPTs

TREATMENT OF CASH-SETTLED SBPTs

Change in Classification of SBPT from Cash-settled to Equity-settled

Transaction is accounted for as such from the date of modification

Equity-settled SBPT is measured by reference to FV of Equity Instruments granted at the modification date.

Liability for cash-settled SBPT as at the modification date is de-recognized.

Difference between Carrying amount of Liability derecognised and amount of Equity recognised on modification date recognised immediately in P&L

Module: Page 5.31

Illustration 2: [similar to May 2018 Q. No. 4(a) for 10 marks]

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 up to 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% will be vested only at the end of the 3rd year. Fair Values at the end of each period have been given below:

Fair Value of SAR	₹
31 March 20X1	*112*
31 March 20X2	*109*
31 March 20X3	*114*

Pass the journal entries.

ICAI Illustrations

Page 5.59-60

Question 9

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 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	**₹**
31 March 20X1	132
31 March 20X2	139
31 March 20X3	141

Pass the journal entries.

ICAI Test Your Knowledge

May 2020

Question 19

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. The 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 Journal entries.

ICAI RTP

November 2019

Question 3(a): 8 marks (modified)

ABC Ltd. granted 500 Stock Appreciations Rights (SARs) each to 80 employees on 1st April, 20X1 with a Fair Value ₹ 100. The terms of the award require the employee to provide service for 4 years in order to earn the award. The SARs are expected to be settled in cash and it is expected that 100% of the employees will exercise the option. The fair value of each SAR at each reporting date is as follows–

(a) 31st March, 20X2 ₹ 110,

(b) 31st March, 20X3 ₹ 120

(c) 31st March, 20X4 ₹ 115

(d) 31st March, 20X5 ₹ 130

Please present the journal entries in the books of ABC Ltd. over the entire life of the grants.

ICAI EXAM

SBPTs WITH CASH ALTERNATIVES

Accounting for SBPTs with Cash Alternatives

SBPTs provides COUNTERPARTY with choice of settlement ⇨ Compound Financial Instrument

Debt component

⇩

counterparty's right to demand payment in cash / other assets

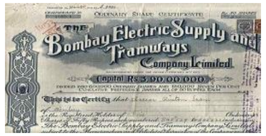
⇩

FV of the Debt Component at the date when Goods or Services are received, is measured separately

⇩

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, as per Para 30-33 applicable for Cash-settled SBPTs

Equity Component



⇩

counterparty's right to demand settlement in equity instruments rather than in cash

⇩

FV of Equity Component is measured separately or as a balancing figure

⇩

The entity shall recognise the goods or services received, and an increase in equity, as the counterparty supplies goods or renders service, as per Para 10-29 applicable for Equity-settled SBPTs.

SBPTs WITH CASH ALTERNATIVES

Accounting for SBPTs with Cash Alternatives

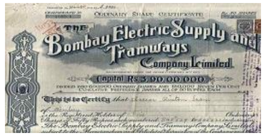
SBPTs provides COUNTERPARTY with choice of settlement ⇨ Compound Financial Instrument

Accounting at the time of Settlement

Cash/Other Assets paid

Entity pays in Cash / Other Assets on settlement, rather than issuing Equity Instruments

(a) Payment applied to settle liability in **full**.
(b) Any equity component recognised shall remain **within equity**. However, there is no restriction on recognising transfer within equity



Equity Instruments issued

Entity issues Equity Instruments on settlement, rather than paying Cash /Other Assets

Liability shall be **transferred directly to equity**, as consideration for equity instruments issued.

SBPTs WITH CASH ALTERNATIVES

Accounting for SBPTs with Cash Alternatives

SBPTs provides ENTITY with choice of settlement ⇨ Compound Financial Instrument

Does the Entity have a present obligation to settle in Cash/Other Assets?

e.g.

- Choice of Settlement in Equity Instruments has **no commercial substance**
- Entity **generally settles** in Cash/Other Assets whenever counterparty asks for Cash Settlement
- Entity has a **past practice** or a **stated policy** of settling in Cash/Other Assets

If YES, treat SBPT as a Cash-settled SBPT.

If NO, treat SBPT as an Equity-settled SBPT.

SBPTs WITH CASH ALTERNATIVES

Accounting for SBPTs with Cash Alternatives

SBPTs provides ENTITY with choice of settlement ⇨ Compound Financial Instrument

Accounting at the time of Settlement

Entity elects to settle in Cash/Other Assets	Entity elects to settle by issuing Equity Instruments	Entity elects to settle alternative with higher FV at settlement date
⇩	⇩	⇩
Cash Payment will be accounted for as repurchase of Equity Interest i.e. as deduction from Equity, except as per third option	No further accounting is required, apart from transfer from one component of Equity to another, if necessary, except as per third option	Recognise additional expense for excess value given i.e. ▪ Difference between Cash / Other Assets paid and FV of Equity Instruments that would otherwise have been issued ▪ Difference between FV of Equity Instruments issued and Cash/Other Assets that would otherwise be paid

Module: Page 5.35

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

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

ICAI Illustrations

Module: Page 5.38

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			
No. of cash-settled shares			*74,000*
Service Condition		*3 years*	
Option II			
No. of equity-settled shares			*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 the Grant Date			*₹ 135*
Fair Value	*20X0*		*₹ 138*
	20X1		*₹ 140*
	20X2		*₹ 147*

Pass the journal entries.

ICAI Illustrations

Page 5.59

Question 8

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 exercises his cash option at the end of 20X2. Pass journal entries.

ICAI Test Your Knowledge

SBPTs AMONG GROUP ENTITIES

Accounting for SBPTs among Group Entities

H Ltd. would treat as an equity-settled share-based payment transaction only if it is settled in H Ltd.'s own equity instruments. Otherwise, the transaction shall be recognised as a cash-settled share-based payment transaction.

Substance over Form

Companies of the same group

Listed Parent Co.
H Ltd.

Unlisted Subsidiary
S Ltd.

H Ltd. issues its equity shares

Provide services

Employees of S Ltd.

Ind AS 102 is *applicable to the recipient* of goods / services; in this case, to S Ltd.: to be treated as cash-settled/ equity-settled

SBPTs AMONG GROUP ENTITIES

Accounting for SBPTs among Group Entities

S Ltd. would treat as an equity-settled share-based payment transaction only if it is settled in S Ltd.'s own equity instruments. Otherwise, the transaction shall be recognised as a cash-settled share-based payment transaction.

Substance over Form

Companies of the same group

Listed Subsidiary
S Ltd.

Unlisted Parent Co.
H Ltd.

S Ltd. issues its equity shares

Provide services

Employees of H Ltd.

Ind AS 102 is *applicable to the recipient* of goods / services; in this case, to H Ltd.: to be treated as cash-settled/ equity-settled

May 2019

Question 6

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% of the employees will complete the two-year vesting 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.

ICAI RTP

Disclosures

- Type and scope of agreement in force
- Terms & Conditions of each type of share-based payment plans
- No. of weighted average price of share options outstanding with movement
- Average share price of exercised options
- Range of exercise prices and weighted average remaining contractual life of options outstanding
- Valuation method used to estimate FV of awards
- Impact on P/L and Balance Sheet

THANK YOU