Date: 28th October 2023

BOS LIVE LEARNING CLASSES

BOARD OF STUDIES(A), ICAI

CA FINAL

TOPIC NAME – IND AS 102

PAPER 1 : “FINANCIAL REPORTING”

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Scope

Share-based payment transactions include:

- Grants to employees (and others providing similar services, e.g. non-executive directors)
- Grants to non-employees, e.g. consultants, suppliers
- Employee share purchase plans
- Certain share-based payments settled by an entity in, or an external shareholder of, the same group

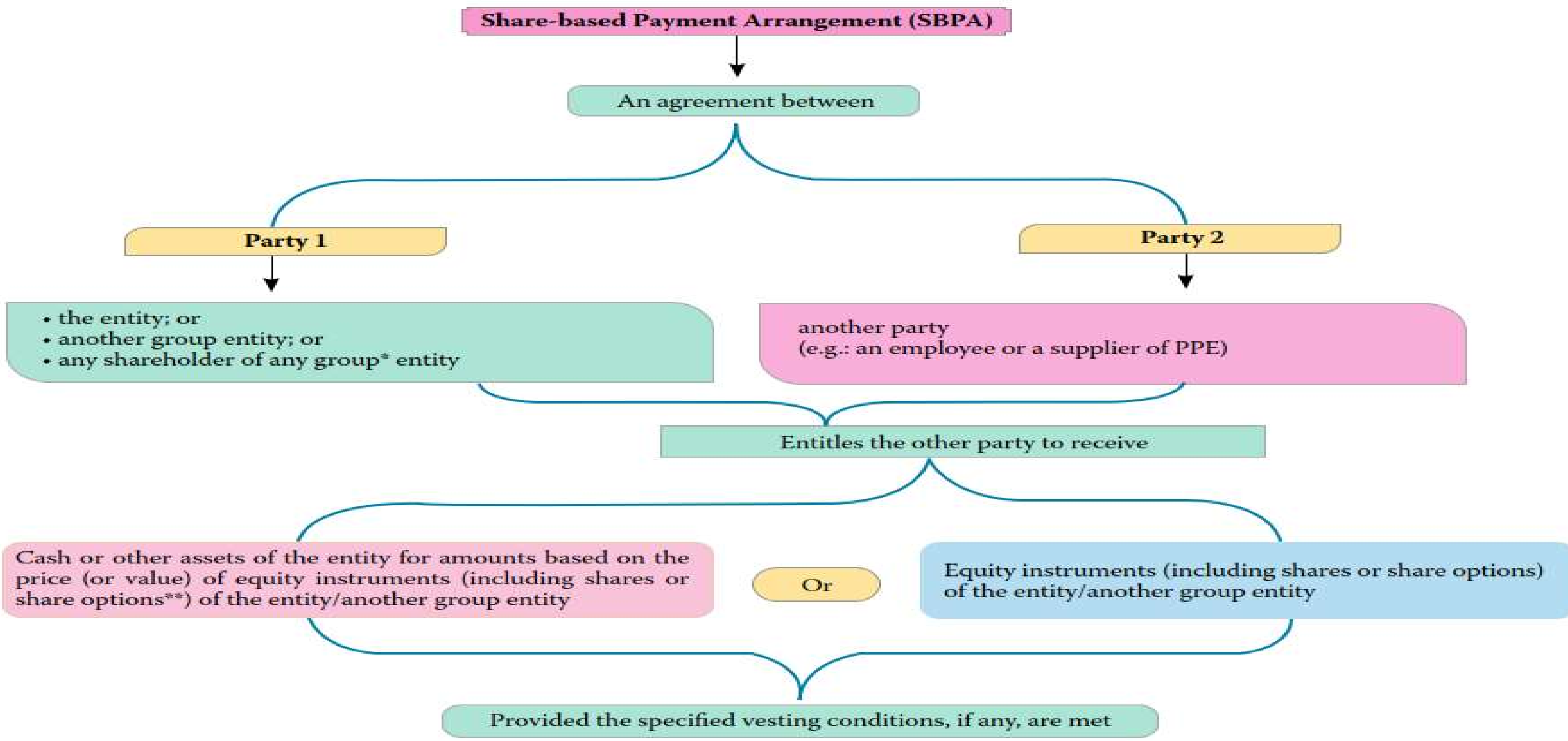
Does not apply to:

- Transactions with shareholders in their capacity as such
- Shares issued in business combinations
- Transactions in scope of IND AS 32 / IND AS 109

Key terms

Term	Definition	Points to remember
Exercise period	The period during which options can be exercised and shares can be purchased.	An employee who leaves the company during exercise period will still be entitled to the options.
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.	This Standard uses the term 'fair value' in a way that differs in some respects from the definition of fair value in Ind AS 113. Therefore, when applying Ind AS 102 an entity measures fair value in accordance with this Standard, not Ind AS 113.
Intrinsic value	The difference between the fair value of the shares and the price required to pay for those shares. For eg: A share option with an exercise price of ₹15, on a share with a fair value of ₹20, has an intrinsic value of ₹5.	Intrinsic value is not permitted for accounting of SBP.
Vest	To become an entitlement.	Under SBPA, a counterparty's right to receive cash / other assets / equity instruments of the entity vests when the counterparty's entitlement is no longer conditional on the satisfaction of any vesting conditions.
Vesting period	The period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.	
Vesting condition	It determines whether the entity receives the services that entitle the counterparty to receive cash / other assets/ equity instruments of the entity, under SBPA.	Under SBPA, a counterparty's right to receive vests when the counterparty's entitlement is no longer conditional on the satisfaction of any vesting conditions.

Share Based Payment Arrangement



Analysis of SBP

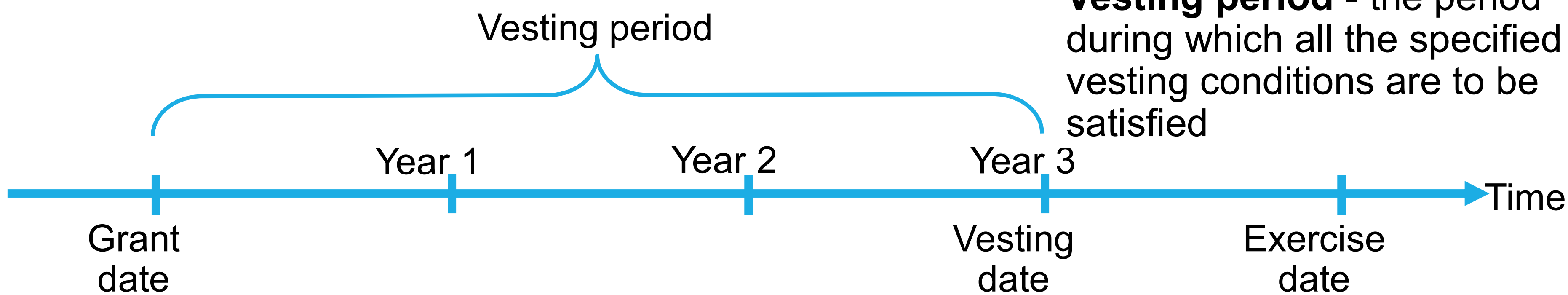
Share-based payment should be formed with an **agreement** between an entity & a party (includes employees) which essentially means that a communication of the terms and conditions should be in place in order to have share-based payment.

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.

Timeline

Vesting period - the period during which all the specified vesting conditions are to be satisfied



Grant date - the date at which the entity and the counter party have a **shared understanding of the terms and conditions of the arrangement**

Vesting date – the date when the vesting conditions for entitlement are satisfied

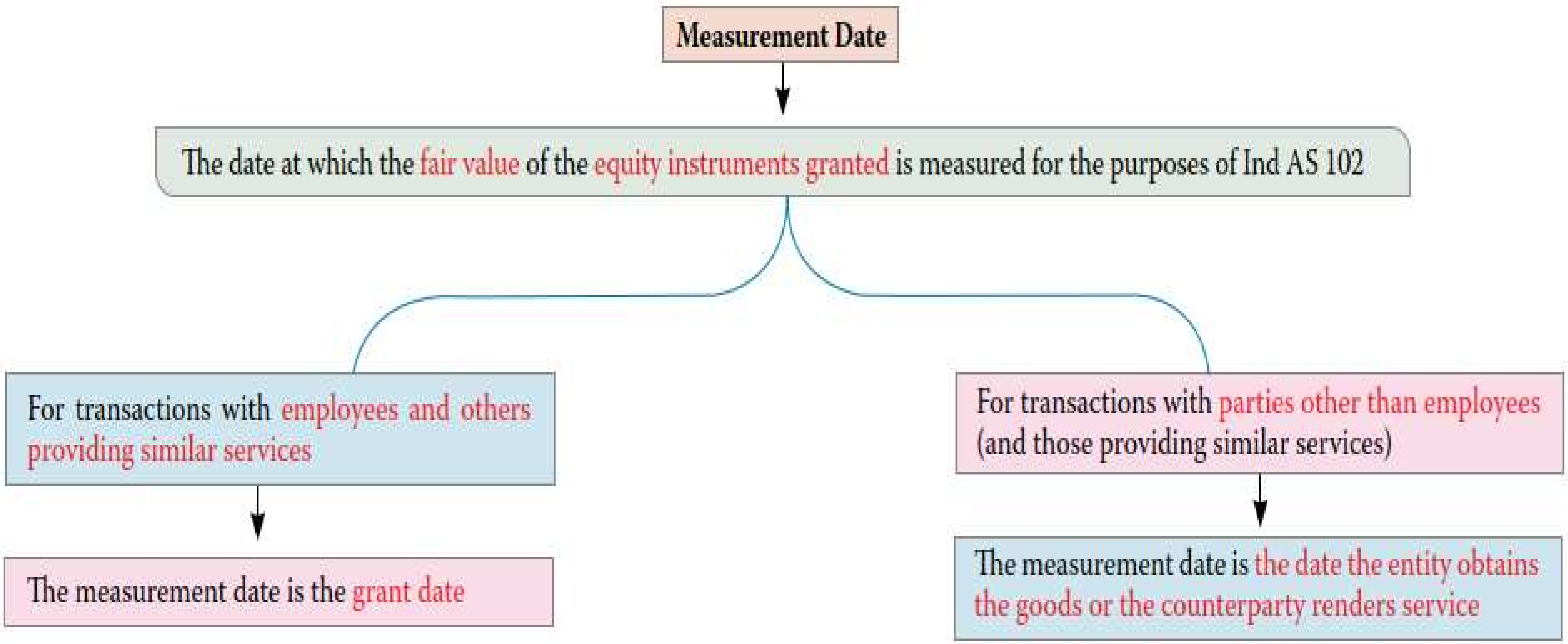
Exercise date is the date when awards (e.g. options) are exercised.

Grant Date

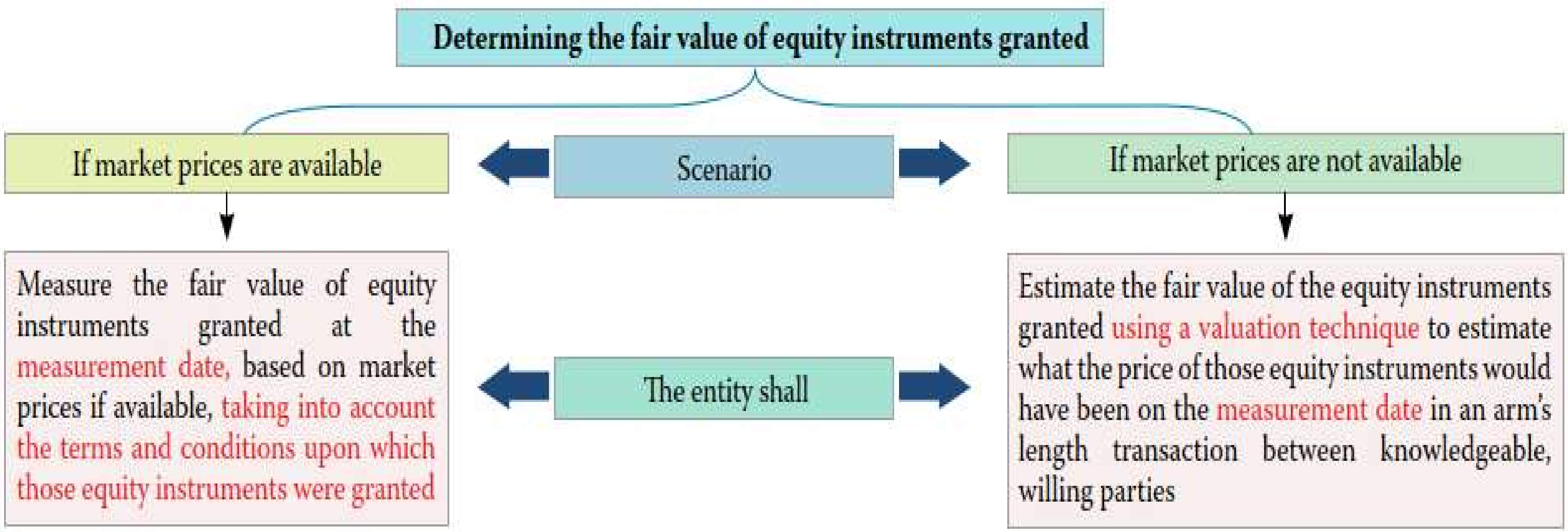
Grant Date

- The date at which the entity and another party (including an employee) agree to SBPA, being when both 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/equity instruments of the entity, on meeting of **vesting conditions**
- If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained

Measurement Date



Determining the fair value of equity instruments granted



If fair value is not measurable reliably (only in very rare cases), then services are measured at the intrinsic value of the equity instruments

CONDITIONS AND THEIR IMPACT

What are vesting conditions?

Conditions that determine 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.

Vesting period is the period during which all the vesting conditions are to be satisfied

Conditions

- **Vesting condition**
  - Explanation: Conditions determining whether the entity is entitled to receive the services that entitle the counterparty to receive cash / other assets/ equity instruments of the entity, under SBPA
  - **Type of vesting conditions**
    - **Service condition**
      - It 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.
      - It does not require a performance target to be met
    - **Performance condition**
      - It 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) above
      - In other words;
        Performance condition = Service condition + Performance targets
      - **Types of Performance conditions**
        - **Market-related condition**
          - In it, the exercise price, vesting or exercisability of an equity instrument depends upon the market price of equity instruments of
            - the entity; or
            - another entity in the same group
        - **Non-market-related condition**
          - It is not market driven but linked with some internal performance / operations / activities of the entity
          - It does not have any impact on market price of the shares of the entity issuing such SBP
- **Non-vesting conditions**
  - Conditions not satisfying the service or performance conditions

Market and non market conditions

A market condition is a performance condition linked to the market price of the equity instrument.

These conditions are only taken into account when estimating the fair value of the award at the grant date e.g.

- Share price must increase by 15%
- TSR (total shareholder return) must increase by 10%

Non market condition is performance condition that is not linked to the market price of the equity instrument

These vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so as to reflect the number of awards that are expected to vest. e.g.

- Revenue must increase by 10%
- Market share should increase by 5%

What if conditions are not satisfied

Vetting condition not satisfied ?

- **No amount is recognised** for goods or services received, if the equity instruments granted do not vest because vesting conditions are not satisfied.

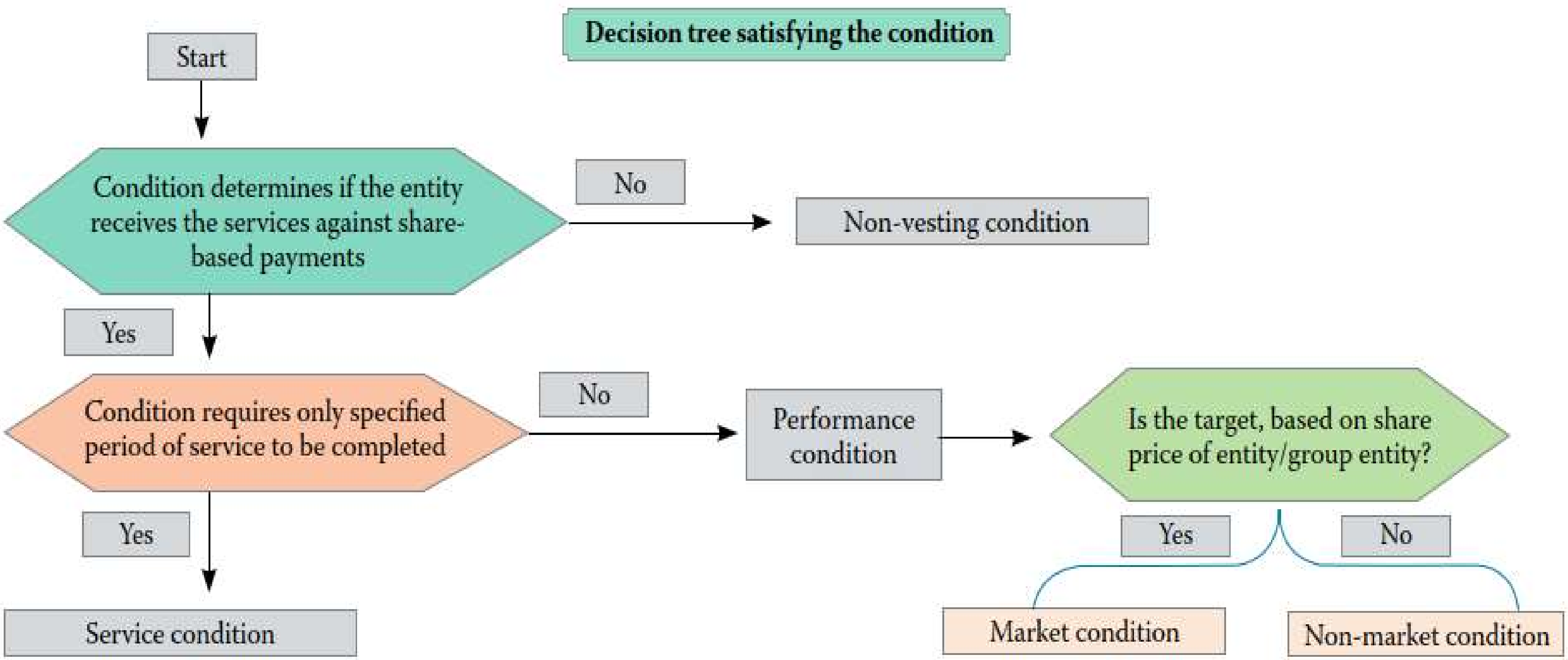
Market conditions not satisfied?

- When all other vesting conditions are satisfied, **irrespective of whether that market condition is satisfied or not**, recognition of goods or services received shall be done.

Examples

	Condition	Type of condition
1	Employees will get 100 shares each if they remain in employment for next 3 years	Service condition
2	Employees will get 100 shares each if Company's share price reaches INR 1000 per share on NSE in next two years	Market condition
3	Employees will get 100 shares each if they remain in employment for next 2 years and Company's EBITDA rise to INR 10 crore.	Service condition and Non-market performance condition
4	Company announces 100 shares to each employee as gift on 10th Anniversary of the Company	No vesting conditions
5	Company gives 1000 shares to director for non-competing with the Company for next 3 years.	No vesting conditions

Decision tree satisfying the condition



Summary of recognising expense 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

Reload feature and Reload 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.

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

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.

TYPES OF

SHARE BASED PAYMENT TRANSACTIONS

Types of SBPTs

Types of Share-based Payment Transactions (SBPTs)

Equity Settled Share-based Payment Transaction

In this, 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

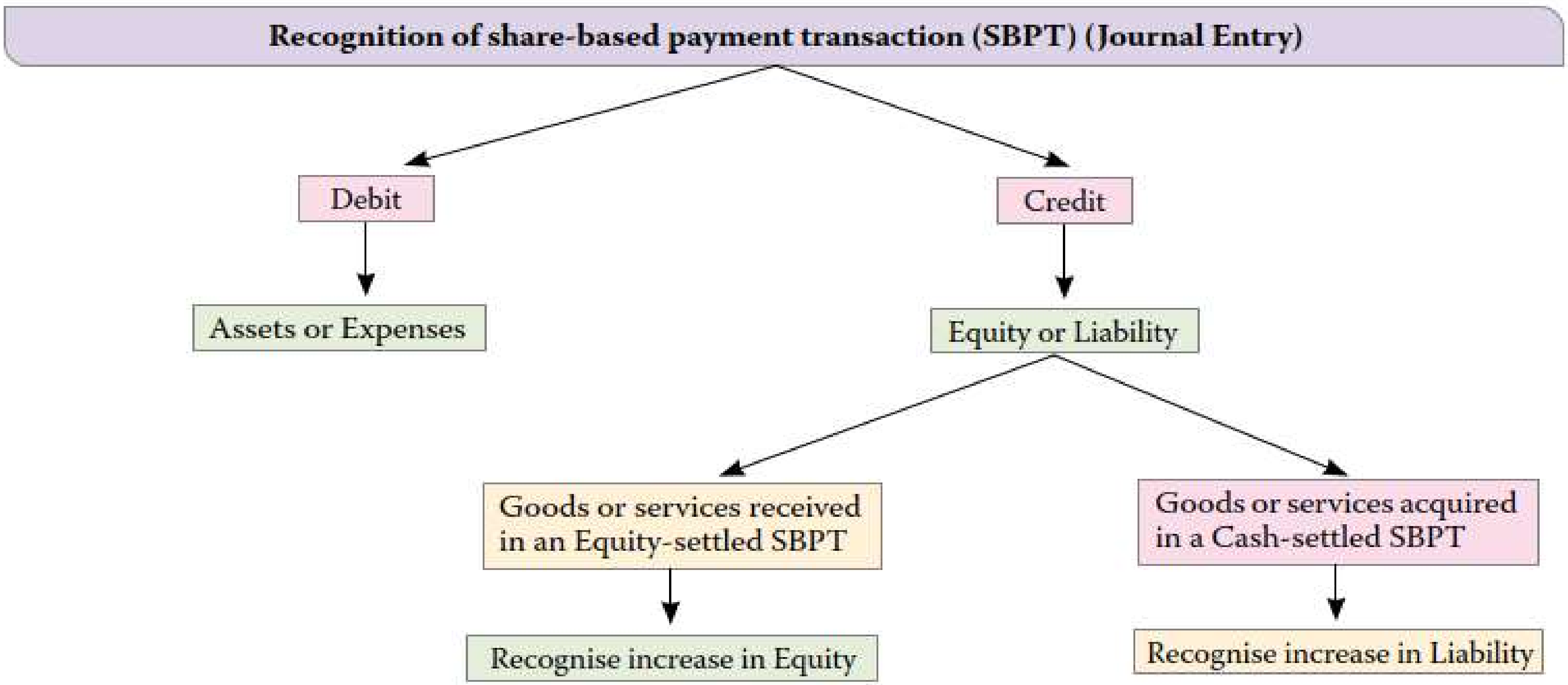
Cash Settled Share-based Payment Transaction

In it, 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 / another group entity

Share-based Payment Transaction with Cash Alternative

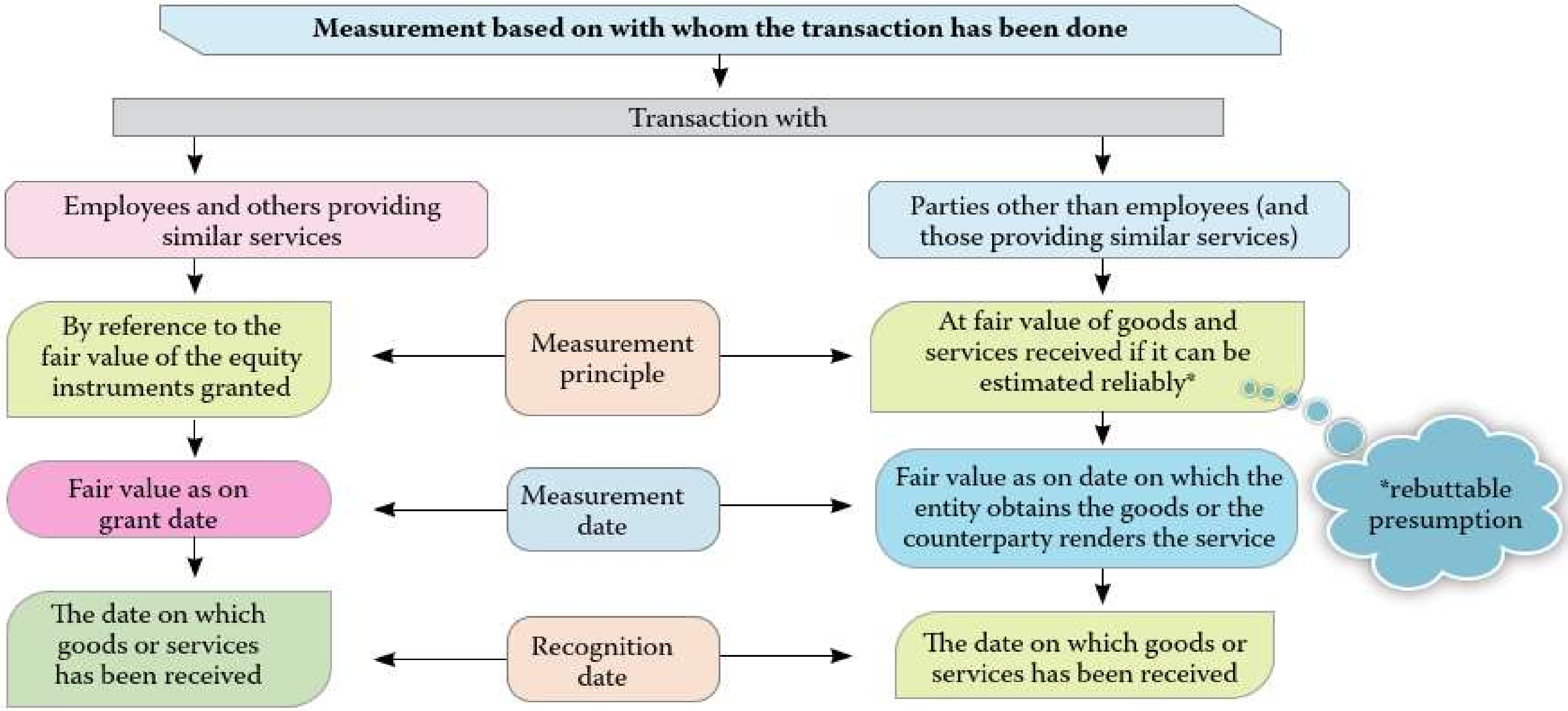
- Share-based payment transactions which provide the counterparty with a choice of settlement
- Share-based payment transactions which provide the entity with a choice of settlement

Recognition of share-based payments



1. EQUITY SETTLED SHARE BASED PAYMENT TRANSACTIONS

Equity-settled transactions



Equity-settled transactions

Transactions in which services are received and equity instruments granted

If vest immediately, then

The counterparty is not required to complete a specified period of service for entitlement of equity instruments

In other words, it is presumed that services rendered by the counterparty as consideration for the equity instruments have been received

On grant date the entity shall recognise the services received in full, with a corresponding increase in equity

If do not vest immediately, then

Services to be rendered by the counterparty will be received in the future, during the *vesting period*

The entity shall account for those services during the vesting period, with a corresponding increase in equity

Question - Equity settled scheme

Borealis Ltd offers 400 shares to each of its 1000 staff if they stay with them for 3 years. The FV of the shares on that date was 50

At the end of year 1, 20 employees leave and the entity estimates that total 25% will leave at the end of the vesting period

During the second year, a further 20 employees leave and the entity further revises its estimate of total departures over the vesting period from 25% to 28%

During the third year, a further 20 employees leave the entity

Determine the amounts to be recognised in the income statement.

Solution

Step 1–Fair value on grant date: 400 x 1,000 x 50 = 20,000,000

Step 2 – Cumulative charge:

Year 1 – 20,000,000 x 75% x (1/3) = 5,000,000

Year 2 – 20,000,000 x 72% x (2/3) = 9,600,000

Year 3 – 940 x 50 x 400 = 18,800,000

Step 3 – Expense for the period

Year 1 = 5,000,000

Year 2 = 4,600,000 (9,600,000 – 5,000,000)

Year 3 = 9,200,000 (18,800,000 – 9,600,000)

Question

Omega grants 120 share options to each of its 460 employees. Each grant is conditional on the employee working for Omega over the next three years. Omega has estimated that the fair value of each share option is INR 12.

Omega estimates that 25% of employees will leave during the three-year period and so forfeit their rights to the share options.

Everything turns out exactly as expected.

Calculate the amounts to be recognised for services received as consideration for the share options during the vesting period.

Solution

Year	Calculation	Expense for period	Cumulative expense
1	55,200 options × 75% × 12 × 1/3 years	165,600	165,600
2	(55,200 options × 75% × 12 × 2/3 years) = (3,31,200 - 165,600)	165,600	331,200
3	(55,200 options × 75% × 12 × 3/3 years) = (4,96,800 - 331,200)	165,600	496,800

2. CASH SETTLED SHARE BASED PAYMENT TRANSACTIONS

Cash-settled transactions

Measurement and Recognition

Measurement

Initial Measurement

The entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability

Re-measurement

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
- recognise any changes in fair value in profit or loss for the period

Note:

- These SBPTs result in a liability, as they represent an obligation to pay cash
- Same as equity settled SBPTs
  - ❑ Expenditure to be spread over the vesting period if SARs vest over period of service
  - ❑ Recognised immediately if no criteria for vesting period
  - ❑ Treatment of vesting conditions

Cash-settled transaction - example

Vesting conditions:

- Three year continued employment (service condition)
- Market-based performance condition

Assumptions:

- 100 share appreciation rights granted on 1 January 20X1
- Best estimate is that all employees remain in service over the vesting period
- Grant date fair value of each right is 3.00 (including adjustment for market condition)

Subsequent estimates:	fair value	Intrinsic value
End year 20X1	4.00	1.50
End year 20X2	4.25	3.00
End year 20X3	4.50	4.25
Settlement date	4.00	4.00

Solution

Assume that all service conditions are fulfilled and that the vested benefits are settled at the end of year 20X4

	Current year total	Cumulative
Expense recognised:		
Year 20X1	133	133
Year 20X2	150	283
Year 20X3 (vesting date)	167	450
Year 20X4 (settlement)	-50	400
Total	400	

Question

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

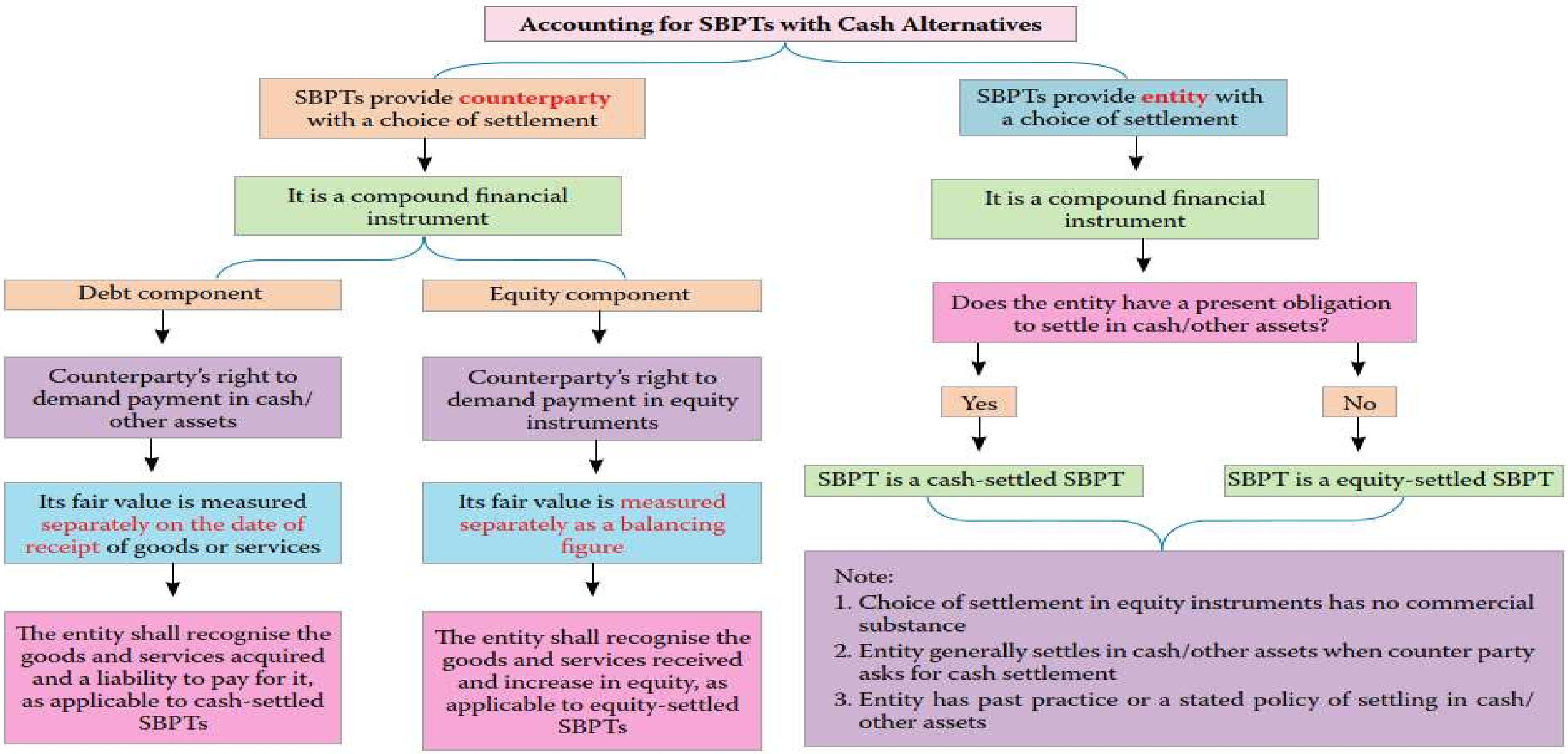
1st April, 20X0			
Employee benefits expenses (transfer to P/L)	Dr.	9,50,000	
To Share-based payment liability			9,50,000
(Fair value of the SAR recognized)			
31st March, 20X1			
Employee benefits expenses (transfer to P/L)	Dr.	1,14,000	
To Share-based payment liability			1,14,000
(Fair value of the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

Solution

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

3. SHARE-BASED PAYMENT TRANSACTIONS WITH CASH ALTERNATIVES

Share-based payment transactions with cash alternatives



Question

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

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.	1,32,0 00	
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.

Question

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

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)		

MODIFICATION

Modification

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 employee

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

Question

On 1 January 20X5, entity A grants an award of 1,000 options to each of its 60 employees, on condition to remain in employment for 3 years. The grant date fair value of each option is 5.

At end of 20X5, entity A's share price dropped; so, on 1 January 20X6, management chose to reduce the exercise price of the options. At the date of the repricing, the fair value of each of the original share options granted was 1; and the fair value of each repriced option was 3. So the incremental fair value of each modified option was 2.

At the date of the award, management estimated that 10% of employees would leave the entity before the end of three years (that is, 54 awards would vest). During 20X6, it became apparent that fewer employees than expected were leaving; so management revised its estimate of the number of leavers to only 5% (that is, 57 awards would vest). At the end of 20X7, awards to 55 employees actually vested.

Solution

Year	Calculation	Cumulative expense	Exp. for the year
31^{st} Dec 2005	54*1000*5*1/3	90,000	90,000
31^{st} Dec 2006	57*1000*5*2/3 + 57*1000*2*1/2	2,47,000	1,57,000
31^{st} Dec 2007	55*1000*5 + 55*1000*2	3,85,000	1,38,000

Question

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)

CANCELLATION AND SETTLEMENTS

Cancellation and settlements

Cancellation/Settlement of the Grant

Aspects of Cancellation/Settlement

Cancellation/Settlement

1. Account as an acceleration of vesting; and
2. Recognise immediately the amount that would be recognised for services received over the remainder of the vesting period

Payment to employee

1. Payment on cancellation/ settlement is treated as repurchase of equity interest, i.e., deduction from equity
2. If payment > fair value of the equity instruments granted, then excess shall be expensed
3. If SBPA includes liability components, then remeasure the liability at fair value on cancellation / settlement and then account for as an extinguishment of the liability

Repurchase of vested equity instruments

1. Payment of employee shall be accounted as deduction from equity
2. If payment > fair value of the equity instruments purchased, then excess shall be expensed

Note: Not applicable to forfeiture due to vesting conditions not satisfied

Cancellation and settlements

- If new equity instruments are granted to the employee and

- entity identifies the new equity instruments granted as replacement equity instruments for the cancelled equity instruments,

- the entity shall account for in the same way as a modification of the original grant of equity instruments.

Question

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

Solution

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

Solution - Journal entries

<u>Year 1</u>	Dr Employee benefits expense	6,93,333	
	Cr Equity		6,93,333

(Being exp. recognised for year 1)

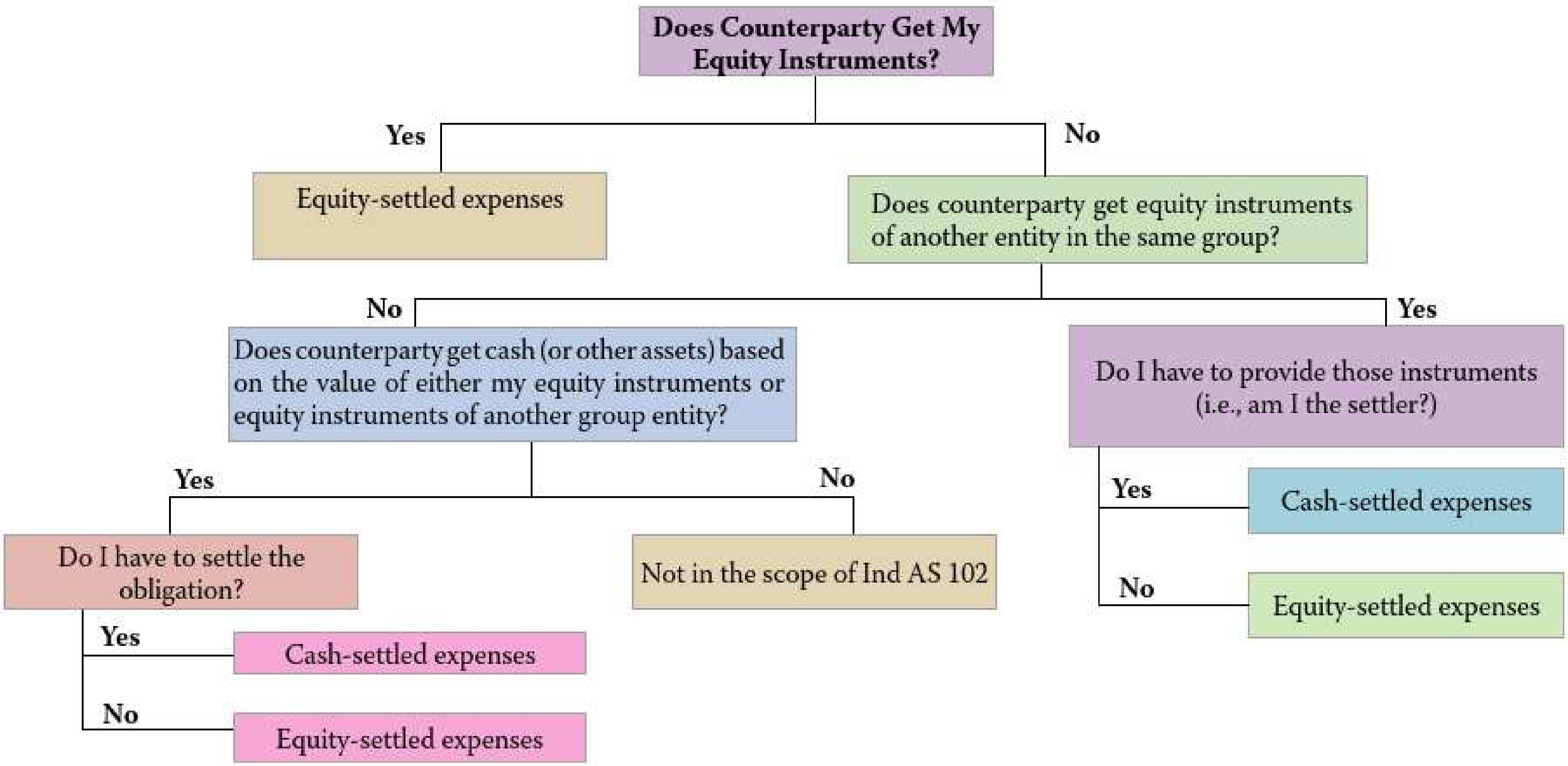
<u>Year 2</u>	Dr Employee benefits expense	16,46,667	
	Cr Equity		16,46,667

(Being remaining exp. recognised immediately on cancellation of the award)

	Dr Employee benefits expense	90,000	
	Dr Equity		16,20,000
	Cr Cash		17,10,000

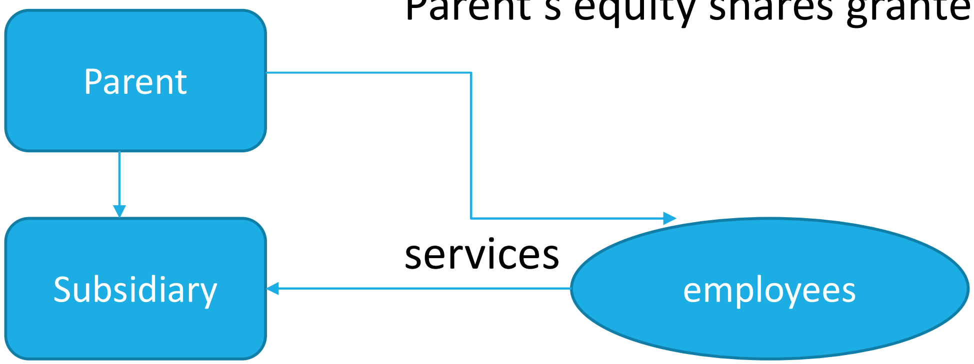
(Being payment is deducted from equity and incremental settlement is recognised as expense)

GROUP SHARE BASED PAYMENT PLANS


Does Counterparty Get My Equity Instruments?
Yes
No
Equity-settled expenses
Does counterparty get equity instruments of another entity in the same group?
No
Yes
Does counterparty get cash (or other assets) based on the value of either my equity instruments or equity instruments of another group entity?
Do I have to provide those instruments (i.e., am I the settler?)
Yes
No
Yes
Cash-settled expenses
Do I have to settle the obligation?
Not in the scope of Ind AS 102
No
Equity-settled expenses
Yes
Cash-settled expenses
No
Equity-settled expenses

Group share based plans when shares are being granted

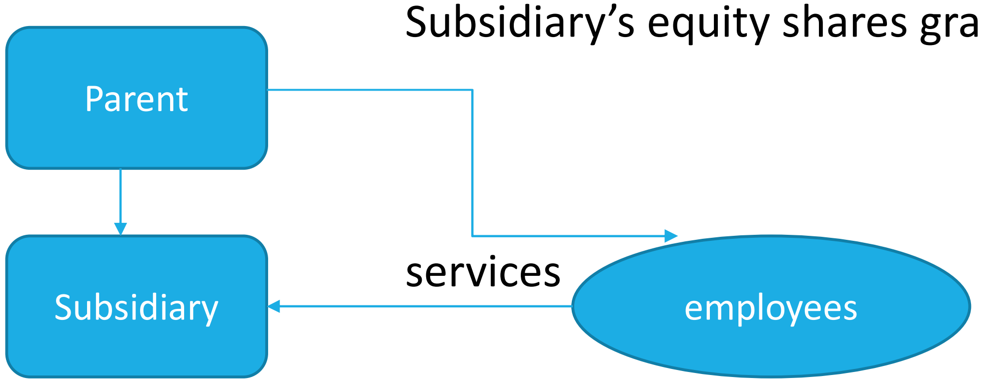
Parent's equity shares granted by Parent



P's Consolidated FS -	equity settled
P's Separate FS -	equity settled
S's Separate FS -	equity settled

Group share based plans when shares are being granted

Subsidiary's equity shares granted by Parent



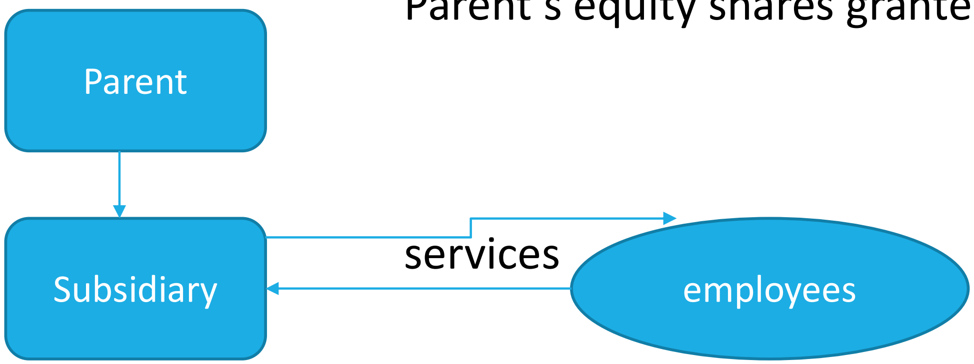
P's Consolidated FS - equity settled

P's Separate FS - cash settled

S's Separate FS - equity settled

Group share based plans when shares are being granted

Parent’s equity shares granted by Subsidiary



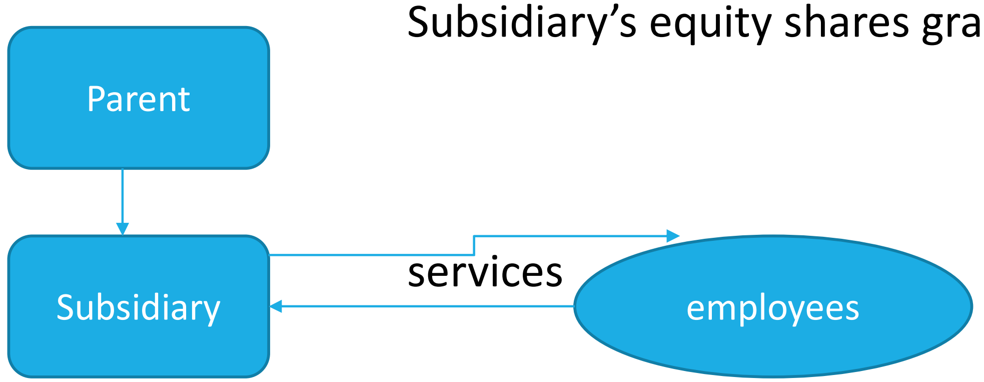
P’s Consolidated FS - equity settled

P’s Separate FS - ----------------

S’s Separate FS - cash settled

Group share based plans when shares are being granted

Subsidiary's equity shares granted by Subsidiary



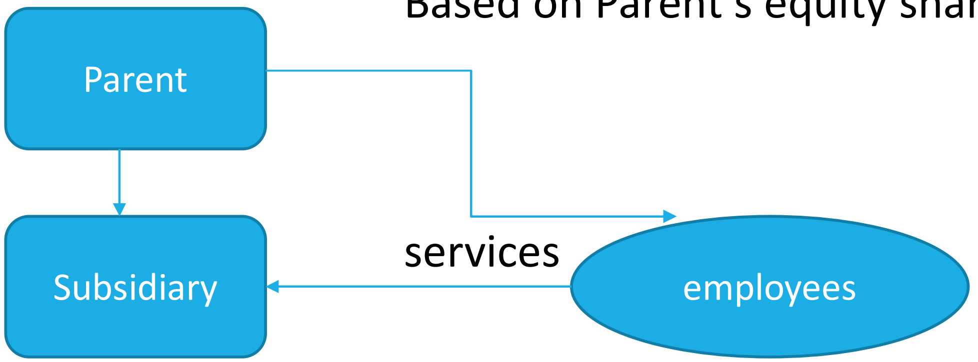
P's Consolidated FS - equity settled

P's Separate FS - ----------------

S's Separate FS - equity settled

Group share based plans when cash is being granted

Based on Parent's equity shares cash granted by Parent



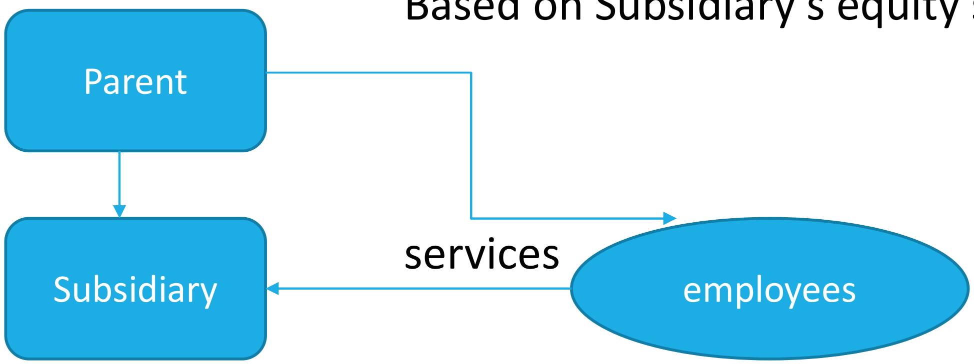
P's Consolidated FS - cash settled

P's Separate FS - cash settled

S's Separate FS - equity settled

Group share based plans when cash is being granted

Based on Subsidiary's equity shares cash granted by Parent



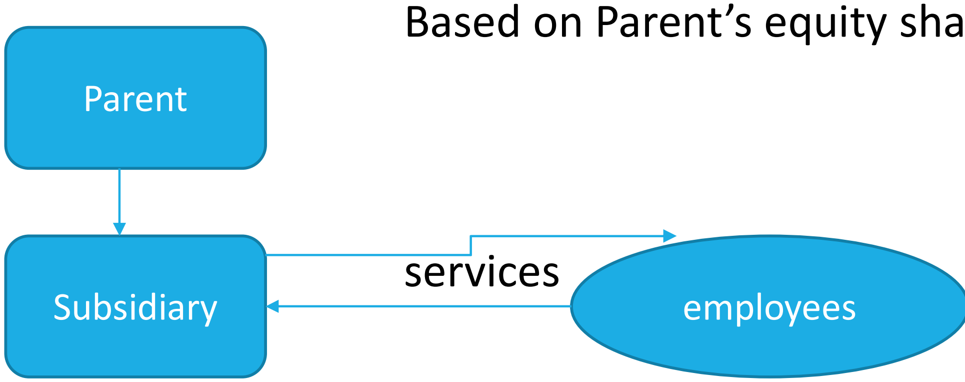
P's Consolidated FS - cash settled

P's Separate FS - cash settled

S's Separate FS - equity settled

Group share based plans when cash is being granted

Based on Parent's equity shares cash granted by Subsidiary



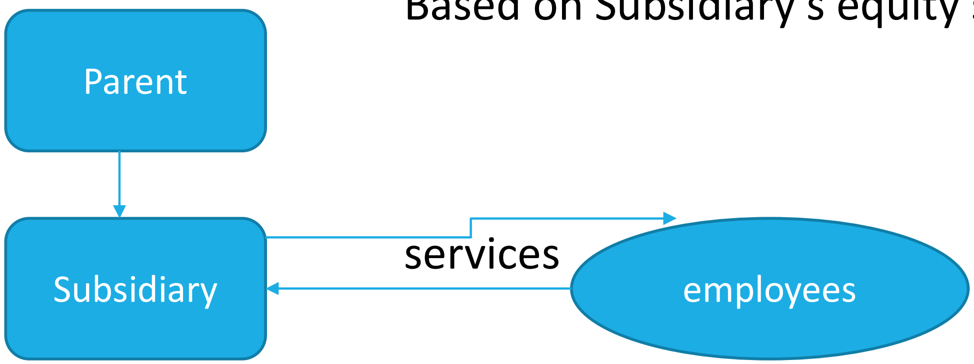
P's Consolidated FS - cash settled

P's Separate FS - ----------------

S's Separate FS - cash settled

Group share based plans when cash is being granted

Based on Subsidiary’s equity shares cash granted by Subsidiary



P’s Consolidated FS - cash settled

P’s Separate FS - -----------------

S’s Separate FS - cash settled

Question

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.

Solution

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

Question

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?

Solution

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.

Solution

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)		

Solution

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)		

Disclosures

- The nature and extent of share-based payment arrangements that existed during the period
  - A description of each type of scheme including general terms and conditions, vesting conditions, method of settlement
  - The number and weighted average exercise prices of share options
    - outstanding at the beginning
    - granted during the period
    - forfeited during the period
    - exercised during the period
    - outstanding at end of the period
    - exercisable at end of the period
  - The weighted average share price at the date of exercise of the options exercised
- The valuation methods used to estimate the fair value of the awards
- The effect of expenses on the entity's profit or loss and financial position i.e. total expense recognised during the period and liability arising at end of the period

Extract of Financial Statements of a Listed Company

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.

Extract of Financial Statements of a Listed Company

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

Extract of Financial Statements of a Listed Company

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

Extract of Financial Statements of a Listed Company

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.

Key differences - IND AS and IGAAP

Difference	IND AS 102	Indian GAAP
Measurement	Share-based payment to employees are measured based on the grant-date fair value of the equity instruments issued. Intrinsic value approach is permitted only in rare situations when the fair value of the equity instruments cannot be estimated reliably.	No specific standard, however guidance note is available. Share-based payment to employees have an option to measure based on the grant date fair value or intrinsic value of the equity instruments issued.
Graded vesting	Awards with graded vesting is measured as, in substance, multiple awards.	In case of graded vesting i.e. where share options or other equity instruments granted vest in instalments over the vesting period, entity may choose to measure on a straight-line basis (subject to certain conditions) as a single award or an accelerated basis as though each separately vesting portion of the award is a separate award.

Key differences - IND AS and IFRS

There is no GAAP difference

MCQ - 1

Company B has approved a bonus plan for its employees as per which the amount of the bonus will depend on the share price achieved at the end of the year, as follows:

- if the share price is below Rs. 10, then the bonus amount is zero (level 1);
- if the share price is between Rs. 10 and Rs. 12, then the bonus amount is Rs.1,000 (level 2); and
- if the share price is above Rs. 12, then the bonus amount is Rs. 1,500 (level 3).

Whether the above arrangement will be within the scope of IND AS 102?

(a) Yes, it is an equity-settled share-based payment transaction.

(b) Yes, it is a cash-settled share-based payment transaction.

(c) No, it is not a share-based payment transaction.

(d) The company has an accounting policy choice to consider it as share-based payment transaction under IND AS 102 or employee benefit under IND AS 19.

Answer (C)

MCQ - 2

ABC Ltd. issues its shares to a law firm as payment for legal services. Is this transaction within the scope of IND AS 102?

(a) Yes, it is an equity-settled share-based payment transaction.

(b) Yes, it is a cash-settled share-based payment transaction.

(c) No, it is not a share-based payment transaction; the transaction should be recognised

at par value of shares issued.

(d) No, it is not a share-based payment transaction; the transaction should be recognised at fair value.

Answer (a)

MCQ - 3

A ltd issues stock appreciation rights (SAR) to its employees. The SAR requires the company to pay the employees an amount equal to the appreciation in the value of 1000 shares of its stock over a two year period. Is this transaction within the scope of IND AS 102 ?

(a) Yes it is an equity settled shared based payment transaction

(b) Yes it is a cash settled share based payment transaction

(c) No it is not a share based payment transaction

(d) The company has an accounting policy choice to consider it as a share based payment transaction under IND AS 102 or employee benefit under IND AS19.

Answer (b)

MCQ - 4

ABC ltd issues share options to purchase Company B shares, an unrelated public company, to its employees. Is this transaction within the scope of IND AS 102?

(a) Yes it is an equity settled shared based payment transaction

(b) Yes it is a cash settled share based payment transaction

(c) No it is not a share based payment transaction

(d) The company has an accounting policy choice to consider it as a share based payment transaction under IND AS 102 or employee benefit under IND AS19.

Answer (c)

MCQ - 5

ABC Ltd. enters into a forward contract to buy 1,000 units of a commodity at a price equal to 2,000 of ABC's ordinary shares. ABC can settle the contract net, but does not intend to do so (nor does it have a practice of doing so). Is this transaction within the scope of IND AS 102?

(a) Yes, since ABC does not have a practice of settling these contracts net and does not intend to settle it net.

(b) Yes, all commodity contracts involving issue of shares are covered under IND AS 102.

(c) No, all commodity contracts involving issue of shares are excluded from the scope of IND AS 102.

(d) No, IND AS 102 covers only those commodity contracts for which intention is to settle net.

Answer (a)

MCQ - 6

ABC Ltd. has granted a right to its employees to receive a cash payment equal to excess of share price over Rs. 20 multiplied by 2,000. For example, if the share price is Rs. 30 at the end of year 3, the employee will receive Rs. 20,000. This is subject to the employee continuing in employment for 3 years.

What is the correct classification of the above share-based payment arrangement?

(a) Cash-settled share-based payment arrangement.

(b) Equity-settled share-based payment arrangement.

(c) Compound instrument – equity and debt component to be measured separately.

(d) It is not a share-based payment transaction.

Answer (a)

MCQ - 7

The conditions that determine whether the entity receives the services that entitle the other party to receive cash, other assets or equity instrument of the entity, under share based payment arrangement is known as _______________________.

Answer Vesting Conditions

MCQ - 8

IND AS 102 covers share-based payment transactions among group entities. Which of the following statement(s) is/are TRUE?

(a) Transfers of equity instruments of the undertaking's parent to parties that have supplied goods or services to the undertaking

(b) Transfers of equity instruments of another undertaking in the same group as the undertaking, to parties that have supplied goods or services to the undertaking

(c) Both (a) & (b)

(d) Neither (a) nor (b)

Answer (c)

Question

An entity grants 100 share options to each of its 500 employees. Vesting is conditional upon the employees working for the entity over the next three years. The entity estimates that the fair value of each share option is 15.

On the grant date the entity estimates that 15% of the original 500 employees will leave before the end of the vesting period. However, 20 employees leave during the first year, and the entity's best estimate at the end of year 1 is still that 15% of the original 500 employees will leave before the end of the vesting period.

During the second year, a further 22 employees leave, and the entity revises its estimate of total employee departures over the vesting period from 15% to 12% of the original 500 employees.

During the third year, a further 15 employees leave. **How shall the entity recognise expense?**

Solution

Solution:
57 employees (20 + 22 + 15) forfeit their rights to the share options during the three-year period, and 44,300 share options (443 employees x 100 options per employee) finally vest. The entity recognises the following expense:

	Cumulative Expense	Expense for period
Year 1: 50,000 options x 85% x 15 x 1/3 vesting period	212,500	212,500
Year 2: 50,000 options x 88% x 15 x 2/3 vesting period	440,000	227,500
Year 3: 44,300 options x 100% x 15 x 3/3 vesting period	664,500	224,500

Question

Ryder Ltd is reviewing certain events which have occurred since its year-end 31st October, 2013. The financial statements were authorized for issue on 12th December, 2013. The following events are relevant to the financial statements for the year ended 31st October, 2013. The company granted share appreciation rights (SARs) to its employees on 1st November, 2011 based on 10 million shares. At the date the rights are exercised, the SAR'S provide employees with the right to receive cash equal to the appreciation in the company's share price since the grant date. The rights vested on 31st October, 2013 and payment was made on schedule on 1st December, 2013. The FV of the SAR's per share at 31st October, 2012 was 6, at 31st October, 2013 was 8 and at 1st December, 2013 was 9. The company has recognized a liability for the SAR's as at 31st October, 2012 based upon IND AS 102 Share-based payments but the liability was stated at the same amount at 31st October, 2013.

Required: Discuss the accounting treatment of the above events in the financial statements of the Ryder Group for the year ending 31st October, 2013 taking into account the implications of events occurring after the reporting period.

Solution

IND AS 102 Share-based payments requires a company to re-measure the fair value of a liability to pay cash-settled share-based payments at each reporting date and the settlement date until the liability is settled. Share Appreciation rights fall under this category. Hence the company should recognize a liability of 80 Million (8 x 10 million) at 31 October 2013, the vesting date.

The liability recognised at 31 October 2013 was in fact based on the share price at the previous year-end and would have been shown at 30 million i.e. 6 x ½ x 10 Million shares – half the cost as the SARS vest over 2 years. This liability at 31 October 2013 has not been changed since the previous year-end by the company.

The SARS vest over a two-year period and hence on 31 October 2012 there would be a weighting of the eventual cost by 1-year/2 years. Therefore an additional liability of 50 million should be accounted for in the financial statements at 31 October 2013.

The SARS would be settled on 1 December 2013 at 90 Million (9 X 10 million). The increase (over and above 80 million) in the value of the SARS since the year-end would not be accrued in the financial statements but charged to profit or loss in the year ended 31 October 2014.

THANK YOU