

# IND AS 102: SHARE BASED PAYMENT (SBP)

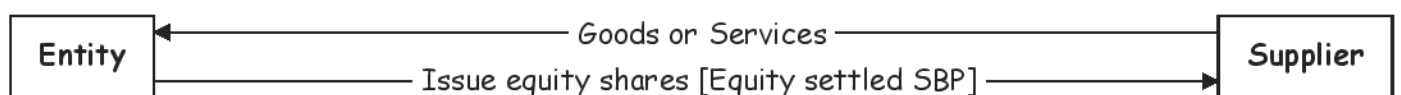
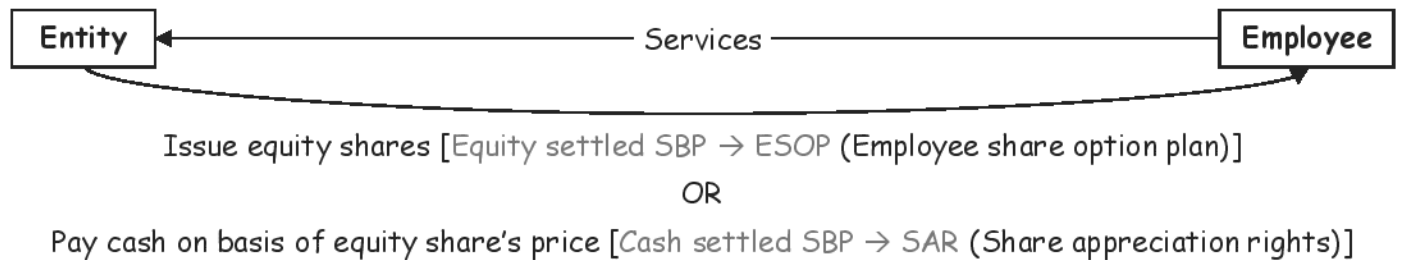


## Topics Covered

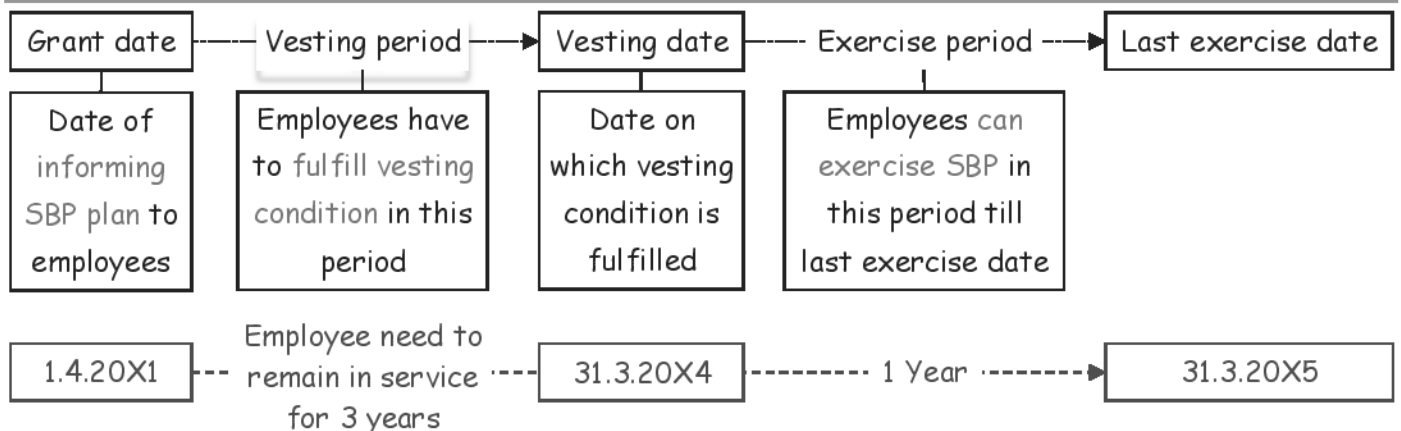
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<ul style="list-style-type: none"> <li>• Meaning</li> <li>• General terms used in SBP to employees</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting of ESOP</li> <li>• Modification of ESOP</li> <li>• Cancellation of ESOP</li> <li>• Group companies ESOP</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting of SAR</li> </ul>	<ul style="list-style-type: none"> <li>• If employees have choice</li> <li>• If entity has choice</li> </ul>	<ul style="list-style-type: none"> <li>• Purchase of Goods or PPE</li> <li>• Purchase of services</li> </ul>

## Part I: Basics

### Meaning of Share Based Payment



### General Terms Used in SBP to Employees



**Part II: Equity Settled SBP to Employees [ESOP]**

**Accounting of ESOP**

ESOP expense is recognised over the vesting period (VP) using FV of option at grant date [FV is calculated as per Binomial Model or Black Scholes Model].

**Step 1: Calculate ESOP Expense of Each Year [During VP]**

Particulars	Total VP		
	Year 1	Year 2	Year 3
Expense to be recognised till date $\left( \frac{\text{Expected employees at each year end} \times \text{Options per employee} \times \text{FV of option at grant date}}{\text{Total VP estimated at each year end}} \right) \times \text{VP completed till date}$	XX	XX	XX
(-) Expense already recognised upto previous year	-	(XX)	(XX)
Expense recognised/(reversed) in current year	XX	XX/(XX)	XX/(XX)

**Note:**

<b>Expected Employees at Each Year End [Round off]</b>	= Total employees - Employees left till date - Employees expected to leave in future  OR = Total employees x Expected % of employees to whom options will vest
<b>Total VP</b>	<ul style="list-style-type: none"> <li>▪ <b>Service Condition</b> Total VP = Service years</li> <li>▪ <b>Performance Condition [Target of Earnings, Cost, etc.]</b> Total VP = Expected years in which target will be achieved</li> </ul> [At each year end, if there is change in service years or expected years of target achievement, then consider Revised Total VP from such year]

**Step 2: Pass Journal Entries [If Required]**

Timing	Particulars	Debit	Credit
Each Year End [During VP]	<b>Recognise ESOP Expense</b> Employee Benefits Expense A/c (P&L) Dr. To SBP Reserve A/c (Equity)		Step 1
	<b>Reversal of ESOP Expense [If Any]</b> SBP Reserve A/c (Equity) Dr. To Employee Benefits Expense A/c (P&L)		Step 1

Exercise Date	<u>Issue of Shares</u>			If any CV XX If any If any
	Bank A/c	Dr.		
	SBP Reserve A/c (Equity)	Dr.		
	To Equity Share Capital A/c			
	To Securities Premium A/c			
To Retained Earnings A/c				

**Note:**

(i) Calculation of amounts of exercise date journal entry

$$\text{Bank} = \text{Employees exercising ESOP} \times \text{Options per employee} \times \text{Exercise price per share}$$

$$\text{Equity Share Capital} = \text{Employees exercising ESOP} \times \text{Options per employee} \times \text{Face value per share}$$

$$\text{Securities Premium} = \text{Employees exercising ESOP} \times \text{Options per employee} \times \left( \text{FV of option at grant date} + \text{Exercise price per share} - \text{Face value per share} \right)$$

$$\text{Retained Earnings} = \text{Employees not exercising ESOP} \times \text{Options per employee} \times \text{FV of option at grant date}$$

(ii) Following items will come in 'Issue of shares' journal entry only if

- Bank A/c → If exercise price per share is given
- Retained Earnings A/c → If some employees not exercising ESOP is given
- Securities Premium A/c → If both Face value per share and No. of shares are given

**Example 1**

A Ltd. grants share options to its 500 employees with service condition of 3 years. Calculate expected employees at each year end in following cases:

Case (i) Year 1 end: 40 employees left & further 60 employees are expected to leave  
 Year 2 end: 30 employees left & further 20 employees are expected to leave  
 Year 3 end: 35 employees left

Case (ii) Year 1 end: 42 employees left & estimated that 2% employees will leave annually  
 Year 2 end: 58 employees left & estimated that 3% employees will leave annually  
 Year 3 end: 11 employees left

Case (iii) Year 1 end: Expects only 90% of employees will remain in employment  
 Year 2 end: Expects only 84% of employees will remain in employment  
 Year 3 end: Only 81% of employees remained

**Solution**

Expected employees at each year end

Case	Year 1	Year 2	Year 3
(i)	500 - 40 - 60 = 400	500 - 40 - 30 - 20 = 410	500 - 40 - 30 - 35 = 395
(ii)	(500 - 42) - 2% - 2% = 440	(500 - 42 - 58) - 3% = 388	500 - 42 - 58 - 11 = 389
(iii)	500 × 90% = 450	500 × 84% = 420	500 × 81% = 405

**Example 2**

A Ltd. grants 100 share options to each of its 500 employees on 1.4.20X1 with service condition of 3 years. FV of option at grant date is ₹ 20. Exercise price is ₹ 5 per share. Face value is ₹ 10 per share. On 31.3.20X2, it expects only 90% of employees will remain in employment. On 31.3.20X3, it expects only 84% of employees will remain in employment. On 31.3.20X4, only 405 employees remained in company and out of it only 350 employees exercised their options. Pass journal entries.

**Solution**

ESOP expense of each year [During VP]

Particulars	31.3.20X2 (₹)	31.3.20X3 (₹)	31.3.20X4 (₹)
Till date	3,00,000 $\left[ \frac{500 \times 90\% \times 100 \times ₹ 20}{3} \times 1 \right]$	5,60,000 $\left[ \frac{500 \times 84\% \times 100 \times ₹ 20}{3} \times 2 \right]$	8,10,000 $\left[ \frac{405 \times 100 \times ₹ 20}{3} \times 3 \right]$
(-) Already	-	(3,00,000)	(5,60,000)
Recognise	3,00,000	2,60,000	2,50,000

Journal entries

Date	Particulars	Debit (₹)	Credit (₹)
31.3.20X2	Employee Benefits Expense A/c (P&L) <span style="float: right;">Dr.</span> To SBP Reserve A/c (Equity)	3,00,000	3,00,000
31.3.20X3	Employee Benefits Expense A/c (P&L) <span style="float: right;">Dr.</span> To SBP Reserve A/c (Equity)	2,60,000	2,60,000
31.3.20X4	Employee Benefits Expense A/c (P&L) <span style="float: right;">Dr.</span> To SBP Reserve A/c (Equity)	2,50,000	2,50,000
31.3.20X4	Bank A/c [350 × 100 × ₹ 5] <span style="float: right;">Dr.</span> SBP Reserve A/c (Equity) <span style="float: right;">Dr.</span> To Equity Share Capital A/c [350 × 100 × ₹ 10] To Securities Premium A/c [350 × 100 × ₹ (20 + 5 - 10)] To Retained Earnings A/c [(405 - 350) × 100 × ₹ 20]	1,75,000 8,10,000	3,50,000 5,25,000 1,10,000

**Modification/Repricing of ESOP**

<p><b>If Entity Decreases Exercise Price of ESOP</b></p>	<ul style="list-style-type: none"> <li>▪ It is increase in employee benefits, i.e., increasing FV of option.</li> <li>▪ Hence, Incremental FV of option is recognised as additional ESOP expense over the remaining VP in addition to original ESOP expense.</li> </ul> $\text{Incremental FV of option on modification date} = \text{FV of repriced option on modification date} - \text{FV of original option on modification date}$
<p><b>If Entity Increases Exercise Price</b></p>	<ul style="list-style-type: none"> <li>▪ It is decrease in employee benefits, i.e., decreasing FV of option.</li> <li>▪ No accounting treatment [Ignore this modification].</li> </ul>

**Example 3**

A Ltd. grants share options to its 500 employees on 1.4.20X1. Options are due to vest on 31.3.20X4. FV of option is repriced on 30.9.20X1.

So, Incremental FV of option is recognised as additional ESOP expense in remaining VP of 2.5 years [6 months in 20X1-X2, Full year 20X2-X3 and 20X3-X4].

**Example 4**

A Ltd. grants 100 share options to each of its 500 employees on 1.4.20X1 with service condition of 3 years. FV of option at grant date is ₹ 20.

On 31.3.20X2, it expects only 90% of employees will remain in employment. FV of option fell to ₹ 15. So, A Ltd. has repriced the option to increase its FV to ₹ 18.

On 31.3.20X3, it expects only 84% of employees will remain in employment. On 31.3.20X4, only 81% of employees remained in company and exercised their options.

Calculate ESOP expense to be recognised in each year.

**Solution**

Incremental FV of option on repricing = ₹ 18 - ₹ 15 = ₹ 3

ESOP expense of each year [During VP]

Particulars	31.3.20X2 (₹)	31.3.20X3 (₹)	31.3.20X4 (₹)
Original expense till date	3,00,000 $\left[ \frac{500 \times 90\% \times 100 \times ₹ 20}{3} \times 1 \right]$	5,60,000 $\left[ \frac{500 \times 84\% \times 100 \times ₹ 20}{3} \times 2 \right]$	8,10,000 $\left[ \frac{500 \times 81\% \times 100 \times ₹ 20}{3} \times 3 \right]$
Additional expense till date	-	63,000 $\left[ \frac{500 \times 84\% \times 100 \times ₹ 3}{2} \times 1 \right]$	1,21,500 $\left[ \frac{500 \times 81\% \times 100 \times ₹ 3}{2} \times 2 \right]$
Total	3,00,000	6,23,000	9,31,500
(-) Already	-	(3,00,000)	(6,23,000)
Recognise	3,00,000	3,23,000	3,08,500

**Cancellation of ESOP****Step 1: Recognise Entire Remaining ESOP Expense on Cancellation Date**

Particulars	Amount
Employees existing on cancellation date × Options per employee × FV of option at grant date	XX
(-) Expense already recognised upto previous year	(XX)
Expense recognised on cancellation date	XX

**Step 2: Calculate Compensation Paid to Employees on Cancellation**

= Employees existing on cancellation date × Options per employee × Compensation per option

**Step 3: Payment of Compensation to Employees**

Out of SBP Reserve	Employees existing on cancellation date × Options per employee × FV of option at cancellation date
Out of P&L	Step 2 - Payment out of SBP reserve

**Group Companies ESOP****(1) Shares Issued by Parent for Subsidiary's ESOP**

<u>Journal Entries in Parent's Books</u>			
Timing	Particulars	Debit	Credit
Each Year End [During VP]	<b><u>Recognise ESOP Expense</u></b>		
	Investment in Subsidiary A/c	Dr.	B/f
	Bank A/c [Reimbursement] To SBP Reserve A/c (Equity)	Dr.	If any XX
Exercise Date	<b><u>Issue of Shares</u></b>		
	Bank A/c	Dr.	If any
	SBP Reserve A/c (Equity)	Dr.	CV
	To Equity Share Capital A/c		XX
	To Securities Premium A/c		If any
	To Retained Earnings A/c		If any
<u>Journal Entry in Subsidiary's Books</u>			
Each Year End [During VP]	<b><u>Recognise ESOP Expense</u></b>		
	Employee Benefits Expense A/c (P&L)	Dr.	XX
	To Bank A/c [Reimbursement] To Capital Contribution from Parent A/c (Equity)		If any B/f

(2) Shares Issued by Subsidiary for Parent's ESOP

<u>Journal Entries in Subsidiary's Books</u>				
Timing	Particulars		Debit	Credit
Each Year End [During VP]	<u>Recognise ESOP Expense</u>			
	Deemed Distribution A/c (Equity)	Dr.	B/f	
	Bank A/c [Reimbursement] To SBP Reserve A/c (Equity)	Dr.	If any	XX
Exercise Date	<u>Issue of Shares</u>			
	Bank A/c	Dr.	If any	
	SBP Reserve A/c (Equity)	Dr.	CV	
	To Equity Share Capital A/c			XX
	To Securities Premium A/c			If any
	To Retained Earnings A/c			If any
<u>Journal Entry in Parent's Books</u>				
Each Year End [During VP]	<u>Recognise ESOP Expense</u>			
	Employee Benefits Expense A/c (P&L)	Dr.	XX	
	To Bank A/c [Reimbursement] To Deemed Income A/c (P&L)			If any B/f

**Part III: Cash Settled SBP to Employees [SAR]**

**Accounting of SAR**

SAR expense is recognised over the vesting period (VP) using FV of SAR at each year end.

**Step 1: Calculate SAR Expense of Each Year [During VP]**

Particulars	Total VP		
	Year 1	Year 2	Year 3
Expense to be recognised till date $\left( \frac{\text{Expected employees at each year end} \times \text{Options per employee} \times \text{FV of SAR at each year end}}{\text{Total VP estimated at each year end}} \right) \times \text{VP completed till date}$	XX	XX	XX
(-) Expense already recognised upto previous year	-	(XX)	(XX)
Expense recognised/(reversed) in current year	XX	XX/(XX)	XX/(XX)

**Note:** If SAR is vesting immediately, then recognise entire SAR expense on grant date only [Since grant date is vesting date].

**Step 2: Remeasure SBP Liability at FV on Each Year End [During Exercise Period]**

Particulars	Exercise Period	
	Year 1	Year 2
<u>FV of SBP Liability</u>		
For SAR not exercised yet → $\left( \begin{array}{l} \text{Expected} \\ \text{employees at} \\ \text{each year end} \end{array} \times \begin{array}{l} \text{Options} \\ \text{per} \\ \text{employee} \end{array} \times \begin{array}{l} \text{FV of SAR} \\ \text{at each} \\ \text{year end} \end{array} \right)$	XX	XX
For SAR exercised in current year → $\left( \begin{array}{l} \text{Employees} \\ \text{exercising} \\ \text{SAR} \end{array} \times \begin{array}{l} \text{Options} \\ \text{per} \\ \text{employee} \end{array} \times \begin{array}{l} \text{Intrinsic} \\ \text{value of} \\ \text{SAR} \end{array} \right)$	XX	XX
(-) CV of SBP Liability	(XX)	(XX)
Increase/(Decrease) in SBP Liability	XX/(XX)	XX/(XX)

**Note:** On exercise of SAR, payment is made at Intrinsic value. If Intrinsic value is not given in question, then assume FV of SAR as Intrinsic value.

**Step 3: Pass Journal Entries [If Required]**

Timing	Particulars	Debit	Credit
Each Year End [During VP]	<b><u>Recognise SAR Expense</u></b> Employee Benefits Expense A/c (P&L) Dr. To SBP Liability A/c		Step 1
	<b><u>Reversal of SAR Expense [If Any]</u></b> SBP Liability A/c Dr. To Employee Benefits Expense A/c (P&L)		Step 1
Each Year End [During Exercise Period]	<b><u>If Increase in SBP Liability on Remeasurement</u></b> Employee Benefits Expense A/c (P&L) Dr. To SBP Liability A/c		Step 2
	<b><u>If Decrease in SBP Liability on Remeasurement</u></b> SBP Liability A/c Dr. To Employee Benefits Expense A/c (P&L)		Step 2
Exercise Date	<b><u>Payment of SAR</u></b> SBP Liability A/c Dr. To Bank A/c		CV of SBP Liability

**Example 5**

A Ltd. grants 100 SAR to each of its 500 employees that vest immediately on 1.4.20X1. FV of SAR at grant date is ₹ 20. SAR can be exercised till 31.3.20X3.

On 31.3.20X2, it expects only 90% of employees will exercise. On 31.3.20X3, only 84% of employees remained in company and exercised their SAR.

FV of SAR is ₹ 25 and ₹ 28 respectively on 31.3.20X2 and 31.3.20X3. Pass journal entries.

**Solution**

Step 1: Entire SAR expense is recognised on 1.4.20X1 itself since it is vesting immediately

$$= 500 \times 100 \times ₹ 20 = ₹ 10,00,000$$

Step 2: Remeasurement of SBP Liability at FV on each year end [During exercise period]

Particulars	31.3.20X2 (₹)	31.3.20X3 (₹)
FV of SBP Liability	11,25,000 [500 × 90% × 100 × ₹ 25]	11,76,000 [500 × 84% × 100 × ₹ 28]
(-) CV of SBP Liability	(10,00,000)	(11,25,000)
Increase in SBP Liability	1,25,000	51,000

Step 3: Journal entries

Date	Particulars		Debit (₹)	Credit (₹)
1.4.20X1	Employee Benefits Expense A/c (P&L)	Dr.	10,00,000	
	To SBP Liability A/c			10,00,000
31.3.20X2	Employee Benefits Expense A/c (P&L)	Dr.	1,25,000	
	To SBP Liability A/c			1,25,000
31.3.20X3	Employee Benefits Expense A/c (P&L)	Dr.	51,000	
	To SBP Liability A/c			51,000
31.3.20X3	SBP Liability A/c	Dr.	11,76,000	
	To Bank A/c			11,76,000

**Example 6**

A Ltd. grants 100 SAR to each of its 500 employees on 1.4.20X1. SAR will vest on 31.3.20X3. FV of SAR at grant date is ₹ 20. SAR can be exercised till 31.3.20X5.

On 31.3.20X2, it expects only 90% of employees will exercise. On 31.3.20X3, only 420 employees remained in company. On 31.3.20X4, 60 employees exercised their SAR and remaining employees exercised their SAR at 31.3.20X5.

FV of SAR is ₹ 25, ₹ 28, ₹ 32 and ₹ 31 respectively on 31.3.20X2, 31.3.20X3, 31.3.20X4 and 31.3.20X5. Intrinsic value of SAR is ₹ 30 on 31.3.20X4. Pass journal entries.

**Solution**

Step 1: SAR expense of each year [During VP]

Particulars	31.3.20X2 (₹)	31.3.20X3 (₹)
Till date	5,62,500 $\left[ \frac{500 \times 90\% \times 100 \times ₹ 25}{2} \times 1 \right]$	11,76,000 $\left[ \frac{420 \times 100 \times ₹ 28}{2} \times 2 \right]$
(-) Already	-	(5,62,500)
Recognise	5,62,500	6,13,500

Step 2: Remeasurement of SBP Liability at FV on each year end [During exercise period]

Particulars	31.3.20X4 (₹)	31.3.20X5 (₹)
<u>FV of SBP Liability</u>		-
For SAR not exercised yet	11,52,000 [[420 - 60] × 100 × ₹ 32]	
For SAR exercised in current year	1,80,000 [60 × 100 × ₹ 30]	11,16,000 [360 × 100 × ₹ 31]
Total	13,32,000	11,16,000
(-) CV of SBP Liability	(11,76,000)	(11,52,000)
Increase/(Decrease) in SBP Liability	1,56,000	(36,000)

Step 3: Journal entries

Date	Particulars		Debit (₹)	Credit (₹)
31.3.20X2	Employee Benefits Expense A/c (P&L)	Dr.	5,62,500	
	To SBP Liability A/c			5,62,500
31.3.20X3	Employee Benefits Expense A/c (P&L)	Dr.	6,13,500	
	To SBP Liability A/c			6,13,500
31.3.20X4	Employee Benefits Expense A/c (P&L)	Dr.	1,56,000	
	To SBP Liability A/c			1,56,000
31.3.20X4	SBP Liability A/c	Dr.	1,80,000	
	To Bank A/c			1,80,000
31.3.20X5	SBP Liability A/c	Dr.	36,000	
	To Employee Benefits Expense A/c (P&L)			36,000
31.3.20X5	SBP Liability A/c	Dr.	11,16,000	
	To Bank A/c			11,16,000

## Part IV: Compound SBP to Employees [Choice of Either ESOP or SAR]

### Accounting If Employees have Choice to Exercise Either ESOP or SAR

#### Step 1: Calculate ESOP Component

ESOP value at grant date [Employees on grant date x Options per employee x FV of ESOP at grant date]	XX
(-) SAR value at grant date [Employees on grant date x Options per employee x FV of SAR at grant date]	(XX)
ESOP component	XX

#### Step 2: Calculate ESOP Expense and SAR Expense of Each Year [During VP]

$$\text{ESOP expense of each year} = \frac{\text{Step 1}}{\text{Total VP}}$$

SAR expense of each year = As already discussed in 'Accounting of SAR'

#### Step 3: Calculate Total SBP Expense of Each Year [During VP]

Particulars	Total VP		
	Year 1	Year 2	Year 3
ESOP expense of each year [Step 2]	XX	XX	XX
(+) SAR expense of each year [Step 2]	XX	XX	XX
	XX	XX	XX

#### Step 4: Pass Journal Entries [If Required]

Timing	Particulars	Debit	Credit
Each Year End [During VP]	<b><u>Recognise Total SBP Expense</u></b>		
	Employee Benefits Expense A/c (P&L) Dr. To SBP Reserve A/c (Equity) To SBP Liability A/c	Step 3	ESOP expense SAR expense
Exercise Date [If SAR is Exercised]	<b><u>Eliminate SBP Reserve</u></b>		
	SBP Reserve A/c (Equity) Dr. To Retained Earnings A/c	CV of SBP Reserve	
	<b><u>Payment of SAR</u></b>		
	SBP Liability A/c Dr. To Bank A/c	CV of SBP Liability	

<b>Exercise Date</b> [If ESOP is Exercised]	<b><u>Eliminate SBP Liability</u></b>			
	SBP Liability A/c	Dr.	CV of SBP Liability	
	To SBP Reserve A/c (Equity)			
	<b><u>Issue of Shares</u></b>			
	Bank A/c	Dr.	If any	
	SBP Reserve A/c (Equity)	Dr.	CV	
	To Equity Share Capital A/c			XX
	To Securities Premium A/c			If any
	To Retained Earnings A/c			If any

**Example 7**

A Ltd. grants an option to take either 1,000 shares or cash amount equivalent to 800 shares to its CEO on 1.4.20X1 with service condition of 2 years.

FV of share alternative at grant date is ₹ 18

FV of SAR at grant date is ₹ 20

FV of SAR on 31.3.20X2 is ₹ 25

FV of SAR on 31.3.20X3 is ₹ 28

Calculate total SBP expense to be recognised in each year.

**Solution**

Step 1: ESOP component

Particulars	Amount (₹)
ESOP value on 1.4.20X1 [1 employee × 1,000 shares × ₹ 18]	18,000
(-) SAR value on 1.4.20X1 [1 employee × 800 shares × ₹ 20]	(16,000)
ESOP component	2,000

Step 2: ESOP expense of each year [During VP] = ₹ 2,000/2 years = ₹ 1,000

SAR expense of each year [During VP]

Particulars	31.3.20X2 (₹)	31.3.20X3 (₹)
Till date	10,000	22,400
	$\left[ \frac{1 \times 800 \times ₹ 25}{2} \times 1 \right]$	$\left[ \frac{1 \times 800 \times ₹ 28}{2} \times 2 \right]$
(-) Already	-	(10,000)
Recognise	10,000	12,400

Step 3: Total SBP expense of each year [During VP]

## Ind AS 102: Share Based Payment (SBP)

Particulars	31.3.20X2 (₹)	31.3.20X3 (₹)
ESOP expense of each year	1,000	1,000
(+) SAR expense of each year	10,000	12,400
	11,000	13,400

### Accounting If Entity has Choice to Settle Either in ESOP or SAR

- Do either ESOP or SAR accounting as per entity's estimation of settlement in ESOP or SAR.
- If in future, there is change in entity's estimation of settlement in ESOP or SAR, then following process is done:

Change in Entity's Estimation	Transfer of Existing CV	Future Accounting
SAR → ESOP	SBP Liability → SBP Reserve	As per ESOP
ESOP → SAR	SBP Reserve → SBP Liability	As per SAR

### Part V: Equity Settled SBP to Suppliers

#### Accounting for Purchase of Goods or PPE

Timing	Particulars	Debit	Credit
Delivery Date	Purchase A/c <input type="checkbox"/> or PPE A/c      Dr. To Equity Share Capital A/c To Securities Premium A/c	FV of Goods or PPE	No. of shares × Face value B/f

#### Accounting for Purchase of Services

Timing	Particulars	Debit	Credit
Each Month End	<b><u>Recognise Expense of Service</u></b> Expense A/c (P&L)      Dr. To SBP Reserve A/c (Equity)	FV of service ÷ No. of months	
Last Service Date	<b><u>Issue of Shares</u></b> SBP Reserve A/c (Equity)      Dr. To Equity Share Capital A/c To Securities Premium A/c	CV	No. of shares × Face value B/f