

CHAPTER 17

ACCOUNTING FOR SHARE BASED PAYMENTS (IND AS 102)

QUESTIONS FROM ICAI STUDY MATERIAL

Equity Settled Shared Based Payment- Service conditions

Q1: ABC limited granted to its employees, share options with a fair value of INR 5,00,000 on 1 April 20X0, if they remain in the organization upto 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? [MTP Nov 22]

Ans:

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

Journal Entries

31st March, 20X1			
Employee benefits expenses	Dr.	1,51,667	
To Share based payment reserve (equity)			1,51,667
(1/3 of expected vested equity instruments value)			
31st March, 20X2			
Employee benefits expenses	Dr.	1,45,000	
To Share based payment reserve (equity)			1,45,000
(2/3 of expected vested equity instruments value)			
31st March, 20X3			
Employee benefits expenses	Dr.	1,13,333	

To Share based payment reserve (equity)			1,13,333
(Final vested equity instruments value)			
Share based payment reserve (equity)	Dr.	4,10,000	
To Share Capital/ Securities Premium			4,10,000
(re-allocated and issued shares)			

Q2: An entity issued 100 shares each to its 1,000 employees subject to service condition of next 2 years. Grant date fair value of the share is ₹ 195 each. There is an expectation 97% of the employees will remain in service at the end of 1st year. However, at the end of 2nd year the expected employees to remain in service would be 91% of the total employees. Calculate the expense for years 1 & 2?

Ans:

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

Cash Settled Shared Based Payment-Service conditions

Q3: An entity issued 50 shares each to its 170 employees subject to service condition of next 2 years. The settlement is to be made in cash. Grant date fair value of the share is ₹ 85 each, however, the fair value as at end of 1st year, 2nd year were ₹ 80 & ₹ 90 respectively. Calculate the expense for years 1 and 2.

Ans:

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

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

Q4: XYZ issued 10,000 Share Appreciation Rights (SAR) that vest immediately to its employees on 1 April 2000. The SAR will be settled in cash. At that date it is estimated, using an option pricing model, that the fair value of a SAR is INR 95. SAR can be exercised any time upto 31 March 20X3. At the end of period on 31 March 2001 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 exercised only at the end of the 3rd year. Fair Values at the end of each period have been given below:

Fair value of SAR

INR

31-Mar-20X1	112
31-Mar-20X2	109
31-Mar-20X3	114

Discuss the applicability of Cash Settled Share based payments under the relevant Ind AS and pass the journal entries.
[May 2018 Exam (10 Marks)]

Ans: Applicability of cash settled share-based payment transactions

For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability.

1. When vesting conditions are attached to the share based payment plans

The recognition of such share based payment plans should be done by recognizing fair value of the liability at the time of goods/ services received and not at the date of grant.

2. When no vesting period / condition is attached or to be fulfilled

Cash settled share based payment can be recognized in full at initial recognition itself.

Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period date and difference in fair value will be charged to profit or loss for the period as employee benefit expenses.

At the date of settlement, the liability is paid in cash based on the fair value on the date of settlement.

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

1 st April, 20X0			
Employee benefits expenses	Dr.	9,50,000	9,50,000
To Share based payment liability			
(Fair value of the SAR recognized)			
31 st March, 20X1			
Employee benefits expenses	Dr.	1,14,000	

To Share based payment liability			1,14,000
(Fair value of the SAR re-measured)			
31st March, 20X2			
Share based payment liability	Dr.	61,200	61,200
To Employee benefits expenses			
(Fair value of the SAR re-measured & reversed)			
31st March,-20X3			
Employee benefits expenses	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)			

Q5: MINDA issued 11,000 share appreciation rights (SAR) that vest immediately to its employees on 1 April 20X0. The SAR will be settled in cash. Using an option pricing model, at that date it is estimated that the fair value of a SAR is INR 100. SAR can be exercised any time up until 31 March 20X3. At the end of period on 31 March 20X1 it is expected exercise the option 95% of total employees, 92% at the end of next year and finally it was vested only 89% at the end of the 3rd year.

Fair value of SAR	INR
31-Mar-20X1	132
31-Mar-20X2	139
31-Mar-20X3	141

Pass the Journal entries?

Ans:

Period	Fair value	To be vested	Cumulative	Expense
Start	100	100%	11,00,000	11,00,000
Period 1	132	95%	13,79,400	2,79,400
Period 2	139	92%	14,06,680	27,280
Period 3	141	89%	13,80,390	(26,290)
				13,80,390

Journal Entries

1st April, 20X0

Employee benefits expenses	Dr.	11,00,000	11,00,000
To Share based payment liability			
(Fair value of the SAR recognised)			
31st March, 20X1			
Employee benefits expenses	Dr.	2,79,400	2,79,400
To Share based payment liability			
(Fair value of the SAR re-measured)			
31st March, 20X2			
Employee benefits expenses	Dr.	27,280	27,280
To Share based payment liability			
(Fair value of the SAR re-measured)			
31st March, 20X3			
Share based payment liability	Dr.	26,290	26,290
To Employee benefits expenses			
(Fair value of the SAR reversed)			
Share based payment liability	Dr.	13,80,390	
To Cash			13,80,390
(Settlement of SAR)			

Q6: An entity which follows its financial year as per the calendar year grants 1,000 share appreciation rights (SAR) to each of its 40 management employees as on 1st January 20X5. The SAR 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 SAR 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.

[MTP Nov 2020; MTP Nov 2023]

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

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

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

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

Journal Entries

31 December 20X5			
Employee benefits expenses	Dr.	2,16,000	
To Share based payment liability (Fair value of the SAR recognized)			2,16,000
31 December 20 X 6			
Employee benefits expenses	Dr.		
To Share based payment liability (Fair value of the SAR re-measured)			72,000
31 December 20 X 7			
Employee benefits expenses	Dr.	1,62,000	
To Share based payment liability (Fair value of the SAR recognized)			1,62,000
Share based payment liability	Dr.	60,000	
To Cash (Settlement of SAR)			60,000
31 December 20 X 8			
Share based payment liability	Dr.	30,000	
To Employee benefits expenses (Fair value of the SAR recognized)			30,000
Share based payment liability	Dr.	3,60,000	
To Cash (Settlement of SAR)			3,60,000

Share Based Payment-Cash Alternative

Q7: On 1 January 20X1, ABC limited gives options to its key management 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:	INR
Share alternative fair value (with restrictions)	102
Grant date fair value on 1 Jan 20X1	113
Fair value on 31 Dec 20X1	120
Fair Value on 31 Dec 20X2	132

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

[Exam Dec 21 (6 Marks); MTP May 2023]

Ans:

	1-Jan-20X1	31-Dec-20X1	31-Dec-20X2
	INR	INR	INR
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)		(1,000 x 120 x ½)	
		60,000	1,32,000
Equity Option (cumulative)		(40,000 x ½) 20,000	40,000
Expense for the period			
Equity option		20,000	20,000
Cash Option		60,000	72,000
Total		80,000	92,000

Journal Entries

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

*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.

However, ABC Limited may transfer the share based payment reserve within equity, i.e. a transfer from one component of equity to another.

Q8: Tata Industries has issued a 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
Cash settled shares		74,000
Service condition	3 years	
Option II		
Equity settled Shares		90,000
Conditions:	Period	INR
Service	3 years	
Restriction to sell	2 years	
Fair values		
Equity price with a restriction of sale for 2 years		115
Fair value grant date		135

Fair value	20X0	138
	20X1	140
	20X2	147

Pass the Journal entries?

[Exam Nov 22 (6 Marks)]**Ans:**

Fair value of Equity option component:		
Fair value of a share with restrictive clause		INR 115
No. of shares		90,000
Fair Value	A	INR 1,03,50,000
Fair value of a share at the date of grant		INR 135
No. of cash settled shares		74,000
Fair Value	B	INR 99,90,000
Fair value of Equity component in Compound Instrument (A-B)		INR 3,60,000

Journal Entries

31/12/20X0	Employee benefit expenses	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	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	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)		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 (147 x 74,000)	Dr.	1,08,78,000	
	To Share Capital			90,00,000
	To Share Premium			18,78,000
	(Being settlement made in equity)			
	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)			

Q9: At 1 January 20X1, Ambani Limited grants its CEO to take either 800 shares equivalent cash amount or 990 shares. The minimum service requirement is 2 years. There are some 3 years restriction if shares are being taken and must be kept for 3 years.

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

The key management exercises his cash option at the end of 20X1.

Ans:

	1-Jan-20X0	31-Dec-20X0	31-Dec-20X1
Equity alternative (990 x 212)	2,09,880		
Cash alternative (800 x 213)	1,70,400		
Equity option (2,09,880 – 1,70,400)	39,480		
Cash Option (cumulative) (using period end fair value)		88,000	1,85,600
Equity Option (cumulative)		19,740	39,480
Expense for the period			

Equity option		19,740	19,740
Cash Option		88,000	97,600
Total		1,07,740	1,17,340

Journal Entries

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

Equity Settled – Non market conditions-

Q10: Ankita Holding Inc. grants 100 shares to each of its 500 employees at 1st January 20X1, provided the employees remain in service during the vesting period. The shares will vest at the end of the First year if the company's earnings is more than 12%;

Second year if the company's earnings is 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 of one share at the grant date is INR 122. In 20X1, earnings was 10%, and 29 employees left the organisation. The company expects that earnings will continue at a similar rate in 20X2 and 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 was 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 had been met.

Required: Determine the expense for each year? **[Exam Nov 2018 (8 Marks); MTP SEP 2025]**

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

Workings:

	20X1	20X2	20X3
Total employees	500	500	500
Employees left	(29)	(58)	(79)
Expected to leave in future	(31)	(23)	-
Year End	440	419	421
Shares/employee	100	100	100
Fair value	122	122	122
Vesting period	1/2	2/3	3/3
Expenses-20X1	26,84,000	34,07,867	51,36,200
Expenses-20X2		7,23,867	
Expenses-20X3			17,28,333

Journal Entries

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

Q11: Entity X grants 10 shares to its 1000 employees on the conditions as below-

- Service condition to remain in service & Entity's PAT will reach to INR 100 Million,

- Expected to reach PAT of INR 100 Million by end of 3 years
- Fair value at Grant date is INR 100
- 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 on account of Share-based payment?

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

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

Equity Settled – Non market conditions (Reversals)

Q12: ACC limited granted 10,000 share options to one of its manager. 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?

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

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

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

Equity Settled – Market based conditions

Q13: Apple Limited has granted 10,000 share option to one of its directors for which he must work for next 3 years and the price of the share should be 20% on an average 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 INR 120. How should we recognize the transaction?

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

Even the required market condition does not meet, so there is no requirement to reverse the expense previously booked.

Irrespective of the outcome of the market price (as it is already taken care in fair value of the option), each period an amount of $(120 \times 10,000)/3 = \text{INR } 4,00,000$ will be charged to profit and loss.

Q14: An Entity P issues Share based payment to its employees based on the below details –

No. of employees	100 nos.
Fair value at Grant date	INR 25
Market condition	Share price to reach at INR 30
Service condition	To remain in service until market condition meets
Expected completion of market condition	4 years

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

- Market condition meets in the year 3, OR
- Market condition meets in the year 5

Ans: Market conditions are required to be considered while calculating fair value at grant date. However, service conditions will be considered as per the expected vesting right to be exercised

by the employees and would be re-estimated during vesting period. However, if the market related condition is fulfilled before it is expected then all remaining expenses would immediately be charged off. If market related condition takes longer than the expected period then original expected period will be followed.

Market condition is fulfilled in year 3:

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

Market condition is fulfilled in year 5:

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

Modifications- Equity Settled Share based payment

Q15: Marathon Inc. has issued 150 share option to each of its 1,000 employees subject to the service condition of 3 years. Fair value of the option given was calculated at INR 129. the below are the details and activities related to the SBP plan-

Year 1: 35 left, further 60 are expected to leave

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

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

Year 2: 30 left, further 36 expected to leave

Year 3: 39 left

How the modification/ re-pricing will be accounted?

Ans: The re-pricing has been 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 INR 30 (1/2 weight each years)

	Year 1	Year 2	Year 3
No. of employees	1,000	1,000	1,000
Employee left	(35)	(65)	104
Expected to leave	(60)	(36)	

Net employees	905	899	896
Options/ employee	150	150	150
Fair value of 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)

Q16: QA Ltd. had on 1st April, 2015 granted 1,000 share options each to 2,000 employees. The options are due to vest on 31st March, 2018 provided the employee remains in employment till 31st March, 2018.

On 1st April, 2015, the Directors of Company estimated that 1,800 employees would qualify for the option on 31st March, 2018. This estimate was amended to 1,850 employees on 31st March, 2016 and further amended to 1,840 employees on 31st March, 2017.

On 1st April, 2015, the fair value of an option was ₹ 1.20. The fair value increased to ₹1.30 as on 31st March, 2016 but due to challenging business conditions, the fair value declined thereafter. In September 2016, when the fair value of an option was ₹ 0.90, the Directors repriced the option and this caused the fair value to increase to ₹ 1.05. Trading conditions improved in the second half of the year and by 31st March, 2017 the fair value of an option was ₹1.25. QA Ltd. decided that additional cost incurred due to repricing of the options on 30th September, 2016 should be spread over the remaining vesting period from 30th September, 2016 to 31st March, 2018.

The Company has requested you to suggest the suitable accounting treatment for these transaction as on 31st March, 2017. **[MTP May 19; MTP Nov 22]**

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

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

If the repricing occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the repricing date until the date when the repriced equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period. Accordingly, the amounts recognised in years 1 and 2 are as follows:

Year	Calculation	Expense for period	Cumulative expense
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1	$[1,850 \text{ employees} \times 1,000 \text{ options} \times ₹ 1.20] \times 1/3$	7,40,000	7,40,000
2	$(1,840 \text{ employees} \times 1,000 \text{ options} \times [(\₹1.20 \times 2/3) + \{(\₹1.05 - 0.90) \times 0.5/1.5\}] - 7,40,000$	8,24,000	15,64,000

Q17: P Ltd. granted 400 stock appreciation rights (SAR) each to 75 employees on 1st April 2017 with a fair value ₹ 200. The terms of the award require the employee to provide service for four years in order to earn the award. The fair value of each SAR at each reporting date is as follows:

31st March 2018	₹ 210
31st March 2019	₹ 220
31st March 2020	₹ 215
31st March 2021	₹ 218

What would be the difference if at the end of the second year of service (i.e. at 31 st March 2019), P Ltd. modifies the terms of the award to require only three years of service. Answer on the basis of relevant Ind AS.

[RTP Nov 18; Exam Nov 19; MTP May 22; May 24; Nov 24; May 25; Exam May 2025 (8 Marks)]

Ans:

Date	Particulars		Debit	Credit
31.03.2018	Profit and Loss account	Dr.	15.75	
	To Liability against SAR			15.75
	(Being expenses liability for stock appreciation rights recognised)			
31.03.2019	Profit and Loss account	Dr.	17.25	
	To Liability against SAR			17.25
	(Being expenses liability for stock appreciation rights recognised)			
31.03.2020	Profit and Loss account	Dr.	15.38	
	To Liability for SAR			15.38
	(Being expenses liability for stock appreciation rights recognised)			
31.03.2021	Profit and Loss account	Dr.	17.02	
	To Liability for SAR			17.02
	(Being expenses liability for stock appreciation rights recognised)			

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

(₹ in lakhs)

Date	Particulars		Debit	Credit
31.03.2018	Profit and Loss account	Dr.	15.75	
	To Liability against SAR			15.75

	(Being expenses liability for stock appreciation rights recognised)			
31.03.2019	Profit and Loss account	Dr.	28.25	
	To Liability against SAR			28.25
	(Being expenses liability for stock appreciation rights recognised)			
31.03.2020	Profit and Loss account	Dr.	20.50	
	To Liability for SAR			20.50
	(Being expenses liability for stock appreciation rights recognised)			

Working Notes:**Calculation of expenses for issue of stock appreciation rights without modification of service period**

For the year ended 31st March 2018

$$= ₹ 210 \times 400 \text{ awards} \times 75 \text{ employees} \times 1 \text{ year} / 4 \text{ years of service} = ₹ 15,75,000$$

For the year ended 31st March 2019

$$= ₹ 220 \times 400 \text{ awards} \times 75 \text{ employees} \times 2 \text{ years} / 4 \text{ years of service} - ₹ 15,75,000 \text{ previous recognised} = ₹ 33,00,000 - ₹ 15,75,000 = ₹ 17,25,000$$

For the year ended 31st March 2020

$$= ₹ 215 \times 400 \text{ awards} \times 75 \text{ employees} \times 3 \text{ years} / 4 \text{ years of service} - ₹ 33,00,000 \text{ previously recognised} = ₹ 48,37,500 - ₹ 33,00,000 = ₹ 15,37,500$$

For the year ended 31st March 2021

$$= ₹ 218 \times 400 \text{ awards} \times 75 \text{ employees} \times 4 \text{ years} / 4 \text{ years of service} - ₹ 48,37,500 \text{ previously recognised} = ₹ 65,40,000 - ₹ 48,37,500 = ₹ 17,02,500$$

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

For the year ended 31st March 2018

$$= ₹ 210 \times 400 \text{ awards} \times 75 \text{ employees} \times 1 \text{ year} / 4 \text{ years of service} = ₹ 15,75,000$$

For the year ended 31st March 2019

$$= ₹ 220 \times 400 \text{ awards} \times 75 \text{ employees} \times 2 \text{ years} / 3 \text{ years of service} - ₹ 15,75,000 \text{ previous recognised} = ₹ 44,00,000 - ₹ 15,75,000 = ₹ 28,25,000$$

For the year ended 31st March 2020

$$= ₹ 215 \times 400 \text{ awards} \times 75 \text{ employees} \times 3 \text{ years} / 3 \text{ years of service} - ₹ 44,00,000 \text{ previous recognised} = ₹ 64,50,000 - ₹ 44,00,000 = ₹ 20,50,000.$$

Cancellation- Equity Settled Share based payment

Q18: Anara Fertilisers limited has issued 2000 Share options to its 10 directors for an exercise price of INR 100. The directors are required to stay with the company for next 3 years.

Fair value of the option estimated ₹ 130

Expected Directors to vest the option 8

During the year 2, there was a crisis in the company and Management decided to cancel the such 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 since only 9 directors were currently in employment during the date of cancellation of such scheme hence amount of ₹ 95 per option has been given to each of 9 directors.

How the cancellation would be recorded?

Ans:

A)	Year 1	Year 2
Expected directors to vest	8	9
Fair value of option	130	130
No. 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		
No. of directors		9
Amount agreed to pay		95
No. of options/ director		2,000
Compensation amount Refer W-1 & W-2 (9 x 95 x 2,000)		17,10,000
Working Notes:		
1. Amount to be deducted from Equity		
No. of directors		9
Fair value of option (at the date of cancellation)		90
No. 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

To Equity Shares (1000 x 10)	10,000
To Securities premium (balancing figure)	90,000

Group Share Based Payment Plan

Q21: 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. **[RTP May 2019]**

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

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

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

Q22: 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 employee of Company B. The details are as below –

No. of employee of Company B	100 nos.
Grant date fair value of Shares	INR 87
No. of Shares to each employee granted	25 nos.
Vesting conditions	Immediately

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

Ans: Books of Company P

Investment in Company B	Dr.	INR 2,17,500	
To Equity (Issue of Shares)			INR 2,17,500

Books of Company B

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

Q23: 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?

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

Accounting by Company S:

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

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

Accounting by Company P:

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

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

QUESTIONS FROM OTHER SOURCE

Q24: The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2006
Number of employees covered	525
Number options granted per employee	100
Vesting condition:	Continuous employment for 3 years
Nominal value per share (₹)	100
Exercise price per share (₹)	125
Market price per share on grant date (₹)	149
Vesting date	March 31, 2009
Exercise Date	March 31, 2010
Fair value of option per share on grant date (₹)	30

Position on 31/03/07

- (a) Estimated annual rate of departure 2%
- (b) Number of employees left = 15

Position on 31/03/08

- (a) Estimated annual rate of departure 3%
- (b) Number of employees left = 10

Position on 31/03/09

- (a) Number of employees left = 8
- (b) Number of employees entitled to exercise option = 492

Position on 31/03/10

- (a) Number of employees exercising the option = 480
- (b) Number of employees not exercising the option = 12

Compute expenses to recognise in each year and show important accounts.

Ans:

Year	Calculation	Compensation expense for period	Cumulative compensation expense
1	$[(525 - 15) \times 98\% \times 98\% \text{ employees} \times 100 \text{ options} \times ₹ 30] \times 1/3$	4,90,000	4,90,000
2	$[(525 - 15 - 10) \times 97\% \text{ employees} \times 100 \text{ options} \times ₹ 30] \times 2/3$	9,70,000	4,80,000
3	$[492 \text{ employees} \times 100 \text{ options} \times ₹ 30] \times 3/3$	14,76,000	5,06,000

Q25: Santhosh Ltd. granted 500 options to each of its 2,500 employees in 2003 at an exercise price of ₹50 when the market price was the same. The contractual life (vesting and exercise period) of the options granted is 6 years with the vesting period and exercise period being 3 years each. The expected life is 5 years and the expected annual forfeitures are estimated at 3 per cent. The fair value per option is arrived at ₹15. Actual forfeitures in 2003 were 5 per cent. However at the end of 2003 the management of Santhosh Ltd. still expects that the actual forfeitures would average only 3 per cent over the entire vesting period. During 2004 the management revises its estimated forfeiture rate to 10 per cent per annum. Of the 2,500 employees, 1,900 employees have completed the 3 year vesting period. 1,000 employees exercise their right to obtain shares vested in them in pursuance of ESOP at the end of 2007 and 500 employees exercise their right at the end of 2008. The rights of the remaining employees expire unexercised at the end of 2008. The face value per share is ₹10. Show the necessary journal entries with suitable narrations. Workings should form part of the answers.

Ans:

Year	Calculation	Compensation expense for period	Cumulative compensation expense
1	$[(2500 \times 97\% \times 97\% \times 97\%) \times 500 \text{ options} \times ₹ 15] \times 1/3$	57,05,000	57,05,000
2	$[(2,500 \times 90\% \times 90\% \times 90\%) \text{ employees} \times 500 \text{ options} \times ₹ 15] \times 2/3$	91,15,000	34,10,000
3	$[1900 \text{ employees} \times 500 \text{ options} \times ₹ 15] \times 3/3$	1,42,50,000	51,35,000

Q26: The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2006
Number of employees covered	500
Number options granted per employee	100
Fair value of option per share on grant date (₹)	25

The vesting period shall be determined as below:

If the company earns ₹ 120 crore or above after taxes in 2006-07, the options will vest on 31/03/07. If condition (a) is not satisfied but the company earns ₹ 250 crores or above after taxes in aggregate in 2006-07 and 2007-08, the options will vest on 31/03/08. If conditions (a) and (b) are not satisfied but the company earns ₹ 400 crores or above after taxes in aggregate in 2006-07, 2007-08 and 2008-09, the options will vest on 31/03/09.

Position on 31/03/07

- (a) The company earned ₹ 115 crore after taxes in 2006-07
- (b) The company expects to earn ₹ 140 crores in 2007-08 after taxes
- (c) Expected vesting date: March 31, 2008
- (d) Number of employees expected to be entitled to option = 474

Position on 31/03/08

- (a) The company earned ₹ 130 crore after taxes in 2007-08
- (b) The company expects to earn ₹ 160 crores in 2008-09 after taxes
- (c) Expected vesting date: March 31, 2009
- (d) Number of employees expected to be entitled to option = 465

Position on 31/03/09

- (a) The company earned ₹ 165 crore after taxes in 2008-09
- (b) Number of employees on whom the option actually vested = 450

Compute expenses to recognise in each year.

Ans:	Calculation	Compensation expense for period	Cumulative compensation expense
Year			
1	474 employees × 100 options × ₹ 25] × 1/2	5,92,500	5,92,500
2	465 employees × 100 options × ₹ 25] × 2/3	1,82,500	7,75,000
3	450 employees × 100 options × ₹ 25] × 3/3	3,50,000	11,25,000

Q27: The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2006
Number of employees covered	50
Number options granted per employee	1,000
Fair value of option per share on grant date (₹)	9

The options will vest to employees serving continuously for 3 years from vesting date, provided the share price is ₹ 70 or above at the end of 2008-09.

The estimates of number employees satisfying the condition of continuous employment were 48 on 31/03/07, 47 on 31/03/08. The number of employees actually satisfying the condition of continuous employment was 45.

The share price at the end of 2008-09 was ₹ 68

Compute expenses to recognise in each year and show important accounts in books of the Company.

Ans: The vesting of options is subject to satisfaction of two conditions viz. service condition of continuous employment for 3 years and market condition that the share price at the end of 2008-09 is not less than ₹ 70. Since the share price on 31/03/09 was ₹ 68, the actual vesting as nil. Despite this, the company should recognise value of option over 3-year vesting period from 2006-07 to 2008-09.

Year	Calculation	Compensation expense for period	Cumulative compensation expense
1	48 employees × 1000 options × ₹ 9 × 1/3	1,44,000	1,44,000
2	47 employees × 1000 options × ₹ 9 × 2/3	1,38,000	2,82,000
3	45 employees × 1000 options × ₹ 9] × 3/3	1,23,000	4,05,000

Q28: The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2006
Number of employees covered	600
Number options granted per employee	60
Vesting condition:	Continuous employment for 3 years
Nominal value per share (₹)	100
Exercise price per share (₹)	125
Vesting date	March 31, 2009
Exercise Date	March 31, 2010
Fair value of option per share on grant date (₹)	14

Position on 31/03/07

- (a) Number of employees left = 30
 (b) Estimate of number of employees to leave in 2007-08 and 2008-09 = 70

- (c) Exercise price was reduced to ₹ 120
- (d) Fair value of original option on 31/03/07 = ₹ 13
- (e) Fair value of option at reduced exercise price on 31/03/07 = ₹ 15
- (f) Vesting date for modified option was March 31, 2009

Position on 31/03/08

- (a) Number of employees left = 35
- (b) Estimate of number of employees to leave in 2008-09 = 30

Position on 31/03/09

- (a) Number of employees left = 28
- (b) Number of employees entitled to exercise option = 507

Position on 31/03/10

- (a) Number of employees exercising the option = 500
- (b) Number of employees not exercising the option = 7

Compute the amount of expense the company should recognise in each of the years 2006-07, 2007-08 and 2008-09 and show important accounts in books of the company.

Ans: Year 2006-07

Fair value of option per share = ₹ 14

Number of shares expected to vest under the scheme = $(600 - 100) \times 60 = 30,000$ Fair value = $30,000 \times ₹ 14 = ₹ 4,20,000$

Vesting period = 3 years

Value of option recognised as expense in 2013-14 = ₹ $4,20,000 / 3 = ₹ 1,40,000$

Year 2007-08

Fair value of option per share = ₹ 14

Incremental fair value of option per share = ₹ $15 - ₹ 13 = ₹ 2$

Number of shares expected to vest under the scheme = $(600 - 95) \times 60 = 30,300$ Fair value of option = $30,300 \times ₹ 14 = ₹ 4,24,200$

Incremental fair value = $30,300 \times ₹ 2 = ₹ 60,600$ Vesting period = 3 years;

Remaining vesting period = 2 years (including current year)

Cumulative value of option to recognise as expense in 2013-14 and 2014-15

$$= (\text{₹ } 4,24,200 / 3) \times 2 + \text{₹ } 60,600 / 2 = \text{₹ } 3,13,100$$

Value of option recognised as expense in 2013-14 = ₹ 1,40,000

Value of option recognised as expense in 2014-15 = ₹ 3,13,100 – ₹ 1,40,000 = ₹ 1,73,100

Year 2008-09

Fair value of option per share = ₹ 14

Number of shares actually vested under the scheme = $507 \times 60 = 30,420$ Fair value of option = $30,420 \times \text{₹ } 14 = \text{₹ } 4,25,880$

Incremental fair value = $30,420 \times \text{₹ } 2 = \text{₹ } 60,840$

Cumulative value of option to recognise as expense in 3 years = ₹ 4,25,880 + ₹ 60,840 = ₹ 4,86,720

Value of option recognised as expense in 2013-14 and 2014-15 = ₹ 3,13,100

Value of option recognised as expense in 2015-16 = ₹ 4,86,720 – ₹ 3,13,100 = ₹ 1,73,620

Q29: A company announced a Stock Appreciation Right on 01/04/06 for each of its 525 employees. The scheme gives the employees the right to claim cash payment equivalent to excess on market price of company's shares on exercise date over the exercise price ₹ 125 per share in respect of 100 shares, subject to condition of continuous employment for 3 years. The SAR is exercisable after 31/03/09 but before 30/06/09. The fair value of SAR was ₹ 21 in 2006-07, ₹ 23 in 2007-08 and ₹ 24 in 2008-09. In 2006-07 the company estimates that 2% of the employees shall leave the company annually. This was revised to 3% in 2007-08. Actually, 15 employees left the company in 2006-07, 10 left in 2007-08 and 8 left in 2008-09. The SAR therefore actually vested to 492 employees. On 30/06/09, when the SAR was exercised, the intrinsic value was ₹ 25 per share.

Show SBP Liability Account by fair value method.

Ans:

Year	Calculation	Compensation expense for period	Cumulative compensation expense
2006-07	$(525 - 15 \times 0.98 \times 0.98) \times 100 \text{ SARs} \times \text{₹ } 21 \times 1/3$	3,43,000	3,43,000
2007-08	$[(525 - 15 - 10) \times 0.97] \times 100 \text{ SARs} \times \text{₹ } 23 \times 2/3$	7,43,667	4,00,667
2008-09	$[492 \times 100 \text{ SARs} \times \text{₹ } 15] \times 3/3$	11,80,800	4,37,133

Year 2009–10

Cash payment of SARs = 49,200 SARs ₹ 25 = ₹ 12,30,000

Value of SARs to be recognized as an expense in 2013–14 = ₹ 12,30,000 – ₹ 11,80,800 = ₹ 49,200

Q30: A company announced a share-based payment plan for its employees on 01/04/06, subject to a vesting period of 3 years. By the plan, the employees can (i) either claim difference between exercise price ₹ 150 per share and market price of those shares on vesting date in respect of 10,000 shares or (ii) can subscribe to 12,000 shares at exercise price ₹ 150 per share, subject to lock in period of 5 years. On 01/04/06, fair value of the option, without considering restrictions on transfers was ₹ 30 and that after considering restrictions on transfer was ₹ 27. The fair value estimates, without considering transfer restrictions were ₹ 31.50, ₹ 32.70 and ₹ 34 respectively, at the end of 2006-07, 2007-08 and 2008-09.

Show important accounts in books of the company if employees opt for

- (i) cash settlement
- (ii) equity settlement.

Ans:

	1/4/2006	31/03/2007	31/03/2008	31/03/2009
	INR	INR	INR	
Equity alternative (12,000 x 27)	3,24,000			
Cash alternative (10,000 x 30)	3,00,000			
Equity option (3,24,000 - 3,00,000)	24,000			
Cash Option (cumulative) (using period end fair value)		(10,000 x 31.5 x 1/3) 1,05,000	(10,000 x 32.7 x 2/3) 2,18,000	(10,000 x 34 x 3/3) 3,40,000
Equity Option (cumulative)		(24,000 x 1/3) 8,000	(24,000 x 2/3) 16,000	(24,000 x 3/3) 24,000
Expense for the period				
Equity option		8,000	8,000	8,000
Cash Option		1,05,000	1,13,000	1,22,000
Total		1,13,000	1,21,000	1,30,000

Q31: On April 1, 2006, a company offered 100 shares to each of its 500 employees at ₹ 40 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan shall be subject to lock-in on transfers for three years from grant date. The market price of shares of the company on the grant date is ₹ 50 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 48 per Share. On April 30, 2006, 400 employees accepted the offer and paid ₹ 40 per share purchased. Nominal value of each share is ₹ 10. Record the issue of shares in book of the company under the aforesaid plan.

Ans: Intrinsic value of ESPP per share = ₹ 48 – ₹ 40 = ₹ 8 Number of shares issued = 400 × 100 = 40,000

Fair value of ESPP = 40,000 × ₹ 8 = ₹ 3,20,000 Vesting period = One month

Expense recognised in 2006-07 = ₹ 3,20,000

Date		₹	₹	
April 30, 2006	Bank	16,00,000		40,000 × ₹ 40
	Employees' Compensation A/c	3,20,000		40,000 × ₹ 8
	To Share Capital		4,00,000	40,000 × ₹ 10
	To Securities Premium		15,20,000	40,000 × ₹ 38

Q32: At the beginning of year 1, an enterprise grants 10,000 stock options to a senior executive, conditional upon the executive remaining in the employment of the enterprise until the end of year 3. The exercise price is ₹ 40. However, the exercise price drops to ₹ 30 if the earnings of the enterprise increase by at least an average of 10 per cent per year over the three-year period.

On the grant date, the enterprise estimates that the fair value of the stock options, with an exercise price of ₹ 30, is ₹ 16 per option. If the exercise price is ₹ 40, the enterprise estimates that the stock options have a fair value of ₹ 12 per option. During year 1, the earnings of the enterprise is 12 per cent, and the enterprise expects that earnings will continue to increase at this rate over the next two years. The enterprise, therefore, expects that the earnings target will be achieved, and hence the stock options will have an exercise price of ₹ 30. During year 2, the earnings of the enterprise is 13 per cent, and the enterprise continues to expect that the earnings target will be achieved.

During year 3, the earnings of the enterprise is only 3 per cent, and therefore the earnings target was not achieved. The executive completes three years' service, and therefore satisfies the service condition. Because the earnings target was not achieved, 10,000 vested stock options have an exercise price of ₹ 40.

Calculate the amount to be charged to Profit and Loss Account every year on account of compensation expenses.

Ans: Since the exercise price varies depending on the outcome of a performance condition which is not a market condition the effect of that performance condition (i.e. the possibility that the exercise price might be ₹ 40 and the possibility that the exercise price might be ₹ 30) is not taken into account when estimating the fair value of the stock options at the grant date. Instead, the enterprise estimates the fair value of the stock options at the grant date under each scenario and revises the transaction amount to reflect the outcome of that performance condition at the end of every year based on the information available at that point of time.

Calculation of compensation expenses to be charged every year

Year	Calculation	Compensation expenses for the period (₹)	Cumulative compensation expenses (₹)
1	10,000 options × ₹ 16 × 1/3	53,333	53,333
2	(10,000 options × ₹ 16 × 2/3) – ₹ 53,333	53,334	1,06,667
3	(10,000 options × ₹ 12 × 3/3) – ₹ 1,06,667	13,333	1,20,000

Q33: At the beginning of year 1, an enterprise grants 300 options to each of its 1,000 employees. The contractual life (comprising the vesting period and the exercise period) of options granted is 6 years. The other relevant terms of the grant are as below:

Vesting Period	3 years
Exercise Period	3 years
Expected Life	5 years
Exercise Price	₹ 50
Market Price	₹ 50
Expected forfeitures per year	3%

The fair value of options, calculated using an option pricing model, is ₹ 15 per option. Actual forfeitures, during the year 1, are 5 per cent and at the end of year 1, the enterprise still expects that actual forfeitures would average 3 per cent per year over the 3-year vesting period. During the year 2, however, the management decides that the rate of forfeitures is likely to continue to increase, and the expected forfeiture rate for the entire award is changed to 6 per cent per year. It is also assumed that 840 employees have actually completed 3 years vesting period.

200 employees exercise their right to obtain shares vested in them in pursuance of the ESOP at the end of year 5 and 600 employees exercise their right at the end of year 6. Rights of 40 employees expire unexercised at the end of the contractual life of the option, i.e., at the end of year 6. Face value of one share of the enterprise is ₹ 10.

Ans: Working Notes:

1. The enterprise estimates the fair value of the options expected to vest at the end of the vesting period as below:

No. of options expected to vest = $300 \times 1,000 \times 0.97 \times 0.97 \times 0.97 = 2,73,802$ options

Fair value of options expected to vest = $2,73,802 \text{ options} \times ₹ 15 = ₹ 41,07,030$

2. As the enterprise still expects actual forfeitures to average 3 per cent per year over the 3-year vesting period, therefore, it recognizes ₹ 41,07,030/3 towards the employee services.

3. The revised number of options expected to vest = $2,49,175 (3,00,000 \times .94 \times .94 \times .94)$.

The fair value of revised options expected to vest = ₹ 37,37,625 ($2,49,175 \times ₹ 15$).

The expense to be recognised during the year is determined as below:

Revised total fair value ₹ 37,37,625

Revised cumulative expense at the end of year 2 = ($₹ 37,37,625 \times 2/3$) ₹ 24,91,750

Less: Expense already recognised in year 1 ₹ 13,69,010

Expense to be recognised in year 2 ₹ 11,22,740

4. The expense to be recognised during the year is determined as below:

No. of options actually vested = $840 \times 300 = 2,52,000$

Fair value of options actually vested ($\text{₹ } 2,52,000 \times \text{₹ } 15$) =	₹ 37,80,000
Expense already recognised	₹ 24,91,750
Expense to be recognised in year 3	₹ 12,88,250

Q34: On 1.1.2009, Surya Kiran Ltd grants 200 stock options to each of its 300 employees, which will vest at the end of 3rd year, provided the employees are in service at the end of 3rd year. The exercise price per option is ₹ 60 if average annual output per employee is in the range of 100 units to 120 units, ₹ 50 if the same is in the range of 121 units to 130 units, ₹ 40 if the same is above 130 units.

Fair value as on grant date is estimated at ₹ 50 per option if the exercise price is ₹ 60, ₹ 40 per option if the exercise price is ₹ 50, ₹ 30 per option if the exercise price is ₹ 40.

On 31.12.2009, 20 employees have left. Actual average annual output per employee is 115 till date. X Ltd. expects that it is most likely that the average output will be 122 over the 3 years and that further 30 employees will leave during next 2 years.

On 31.12.2010, further 25 employees have left. Actual average annual output per employee is 132 till date. X Ltd. expects that it is most likely that the average output will be above 130 units over the 3 years. It also estimates that a further 10 employees will leave during the 3rd year.

On 31.12.2011, further 15 employees have left. Actual average annual output per employees is only 112 till date.

Compute the amounts to be recognized for each year.

Hint:

	Particulars	31.12.09	31.12.10	31.12.11
A	Number of employees expected to satisfy vesting conditions	250	245	240
		[300-20-30]	[300-20-25-10]	[300-20-25-15]
B	Expected/Most likely average annual output per employee	122	Above 130	112
C	Fair value per option as on grant date, based on most likely outcome	40	30	50
D	Fair value of options expected to vest (A x C x 200 options per employee)	20,00,000	14,70,000	24,00,000
E	Cumulative fair value to be recognized till date	6,66,667	9,80,000	24,00,000
		[20,00,000x1/3]	[14,70,000x2/3]	[24,00,000x3/3]

F	Cumulative fair value already recognized	0	6,66,667	9,80,000
G	Expense to be recognized for the period (E-F)	6,66,667	3,13,333	14,20,000

QUESTIONS FROM RTP/MTP/EXAMS

Q35: On 1st April 2017, Kara Ltd. granted an award of 150 share options to each of its 1,000 employees, on condition of continuous employment with Kara Ltd. for three years and the benefits will then be settled in cash of an equivalent amount of share price. Fair value of each option on the grant date was ₹ 129.

Towards the end of 31st March 2018, Kara Ltd.'s share price dropped; so on 1st April 2018 management chose to reduce the exercise price of the options. At the date of the re-pricing, the fair value of each of the original share options granted was ₹ 50 and the fair value of each re-priced option was ₹ 80. Thus, the incremental fair value of each modified option was ₹ 30.

At the date of the award, management estimated that 10% of employees would leave the entity before the end of three years (i.e., 900 awards would vest). During financial year 2018-2019, it became apparent that fewer employees than expected were leaving, so management revised its estimate of the number of leavers to only 5 % (i.e. 950 awards would vest). At the end of 31st March 2020, awards to 930 employees actually vested.

Determine the expense for each year and pass appropriate journal entries as per the relevant Ind AS.

[Exam Jan 2021 (12 Marks)]

Ans: **Note:** The first para of the question states that “benefits will then be settled in cash of an equivalent amount of share price.” This implies that the award is cash settled share-based payment. However, the second and third para talks about repricing of the option which arises in case of equity settled share-based payment.

Hence, two alternative solutions have been provided based on the information taking certain assumptions.

1st Alternative based on the assumption that the award is cash settled share -based payment.

In such a situation, the services received against share-based payment plan to be settled in cash are measured at fair value of the liability and the liability continues to be re-measured at every reporting date until it is actually paid off.

There is a vesting condition attached to the share-based payment plans i.e. to remain in service for next 3 years. The recognition of such share-based payment plans should be done by recognizing fair value of the liability at the time of services received and not at the date of grant. The liability so recognized will be fair valued at each reporting date and difference in fair value will be charged to profit or loss for the period.

Calculation of expenses:

For the year ended 31st March 2018

$$= ₹ 50 \times 150 \text{ awards} \times 900 \text{ employees} \times (1 \text{ year} / 3 \text{ years of service}) = ₹ 22,50,000$$

For the year ended 31st March 2019

Note: It is assumed that the fair value of ₹ 80 each of repriced option continues at the end of the remaining reporting period ie 31st March, 2019 and 31st March, 2020

$$= [₹ 80 \times 150 \text{ awards} \times 950 \text{ employees} \times (2 \text{ year} / 3 \text{ years of service})] - ₹ 22,50,000$$

$$= ₹ 7,60,00,000 - ₹ 22,50,000 = ₹ 53,50,000$$

For the year ended 31st March 2020

$$= [₹ 80 \times 150 \text{ awards} \times 930 \text{ employees}] - ₹ 22,50,000 - ₹ 53,50,000$$

$$= ₹ 1,11,60,000 - ₹ 22,50,000 - ₹ 53,50,000 = ₹ 35,60,000$$

Journal Entries

31 st March, 2018			
Employee benefits expenses	Dr.	22,50,000	
To Share based payment liability (Fair value of the liability recognized)			22,50,000
31 st March, 2019			
Employee benefits expenses	Dr.	53,50,000	
To Share based payment liability (Fair value of the liability re-measured)			53,50,000
31 st March, 2020			
Employee benefits expenses	Dr.	35,60,000	
To Share based payment liability (Fair value of the liability recognized)			35,60,000
Share based payment liability To Bank (Being liability for awards settled in cash)	Dr.	1,11,60,000	
			1,11,60,000

2nd Alternative based on fair value at the grant date (ignoring the fact that the award has to be settled in cash).

Calculation of expenses:

For the year ended 31st March 2018

$$= [₹ 129 \times 150 \text{ awards} \times 900 \text{ employees} \times (1 \text{ year} / 3 \text{ years of service})]$$

$$= ₹ 58,05,000$$

For the year ended 31st March 2019

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

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

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

Year ended	Calculation	Compensation expense for period	Cumulative compensation expense
		₹	₹
31 March, 2018	[₹ 129 x 150 awards x 900 employees x (1 year / 3 years of service)]	58,05,000	58,05,000
31 March, 2019	[₹ 129 x 150 awards x 950 employees x (2 year / 3 years of service)] + (80-50) x 150 awards x 950 employees x (1 year / 2 years of service) - 58,05,000	85,87,500	1,43,92,500
31 March, 2020	[(₹ 129 + 30) x 150 awards x 930 employees] - 1,43,92,500	77,88,000	2,21,80,500

Journal Entries

31st March, 2018			
Employee benefits expenses	Dr.	58,05,000	
To Outstanding Share based payment option (Fair value of the liability recognized)			58,05,000
31st March, 2019			
Employee benefits expenses	Dr.	85,87,500	
To Outstanding Share based payment option (Fair value of the liability re-measured)			85,87,500
31st March, 2020			

Employee benefits expenses	Dr.	77,88,000	
To Outstanding Share based payment option (Fair value of the liability recognized)			77,88,000
Outstanding Share based payment option Dr.		2,21,80,500	
To Equity share capital (Being award settled)			2,21,80,500

Q36: New Age Technology Limited has entered into following Share Based payment transactions:

- (i) On 1st April, 20X1, New Age Technology Limited decided to grant share options to its employees. The scheme was approved by the employees on 30th June, 20X1. New Age Technology Limited determined the fair value of the share options to be the value of the equity shares on 1st April, 20X1.
- (ii) On 1st April, 20X1, New Age Technology Limited entered into a contract to purchase IT equipment from Bombay Software Limited and agreed that the contract will be settled by issuing equity instruments of New Age Technology Limited. New Age Technology Limited received the IT equipment on 30th July, 20X1. The share-based payment transaction was measured based on the fair value of 'the equity instruments as on 1 st April, 20X1.
- (iii) On 1st April, 20X1, New Age Technology Limited decided to grant the share options to its employees. The scheme was approved by the employees on 30th June, 20X1. The issue of the share options was however subject to the same being approved by the shareholders in a general meeting. The scheme was approved in the general meeting held on 30th September, 20X1. The fair value of the equity instruments for measuring the share- based payment transaction was taken on 30th September, 20X1.

Identify the grant date and measurement date in all the 3 cases of Share based payment transactions entered into by New Age Technology Limited, supported by appropriate rationale for the determination?

[MTP May 2021; RTP May 2022; MTP May 2023]

Ans: Ind AS 102 defines grant date and measurement dates as follows:

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

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

Applying the above definitions in the given scenarios following would be the conclusion based on the assumption that the approvals have been received prospectively:

Scenario	Grant date	Measurement date	Base for grant date	Base for measurement date
(i)	30 th June, 20X1	30 th June, 20X1	The date on which the scheme was approved by the employees	For employees, the measurement date is grant date
(ii)	1 st April, 20X1	30 th July, 20X1	The date when the entity and the counterparty entered a contract and agreed for settlement by equity instruments	The date when the entity obtains the goods from the counterparty
(iii)	30 th September, 20X1	30 th September, 20X1	The date when approval by the shareholders was obtained	For employees, the measurement date is grant date

Q37: Ryder, a public limited company is reviewing certain events which have occurred since its year - end 31st March, 20X4. The financial statements were authorized for issue on 12th May, 20X4. The following events are relevant to the financial statements for the year ended 31st March, 20X4.

The company granted share appreciation rights (SARs) to its employees on 1st April, 20X2 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 March, 20X4 and payment was made on schedule on 1st May, 20X4.

The FV of the SAR's per share at 31st March, 20X3 was ₹ 6, at 31st March, 20X4 was ₹8 and at 1st May, 20X4 was ₹9. The company has recognized a liability for the SAR's as at 31st March, 20X2 based upon Ind AS 102 'Share-based Payments' but the liability was stated at the same amount at 31st March, 20X4.

Discuss the accounting treatment of the above events in the financial statements of the Ryder Group for the year ending 31st March, 20X4 taking into account the implications of events occurring after the reporting period. **[MTP Nov 2021]**

Ans: Ind AS 102 'Share-based Payments' requires a company to remeasure 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 31st March, 20X4, the vesting date.

The liability recognised at 31st March, 20X4 was in fact based on the share price at the previous year-end and would have been shown at ₹6 x 1/2 x 10 million shares – half the cost as the SARs vest over 2 years. This liability at 31st March, 20X4 has not been changed since the previous year-end by the company.

The SARs vest over a two-year period and hence on 31st March, 20X4 there would be a weighting of the eventual cost by 1 year/2 year. Therefore, an additional liability of ₹ 50 million (30 million + 20 million) should be accounted for in the financial statements at 31st March, 20X4.

The SARs would be settled on 1st May, 20X4 at ₹ 90 million (₹ 9 x 10 million). The increase of ₹ 10 million (over and above ₹ 80 million) in the value of the SARs is a non-adjusting event. Hence, the change in the fair value of ₹ 10 million during the year 20X4-20X5 would be charged to profit and loss for the year ended 31st March, 20X5 and not 31st March, 20X4.

Q38: Voya Limited issued 1,000 share options to each of its 200 employees for an exercise price of ₹ 10. The employees are required to stay in employment for next 3 years. The fair value of the option is estimated at ₹ 18.

90% of the employees are expected to vest the option.

The Company faced severe crisis during the 2nd year and it was decided to cancel the scheme with immediate effect. The market price of the share at the date of cancellation was ₹ 15.

The following information is available:

- Fair value of the option at the date of cancellation is ₹ 12.
- The company paid compensation to the employees at the rate of ₹ 13.50. There were only 190 employees in the employment at that time.

You are required to show how cancellation will be recorded in the books of the Company as per relevant Ind AS.

[Exam July 2021 (5 Marks); MTP May 2023]

Ans:

(A) Calculation of employee compensation expense

	Year 1	Year 2	
Expected employees to remain in the employment during the vesting period	180	190	
Fair value of option	18	18	
Number of options	1,000	1,000	
Total	32,40,000	34,20,000	
Expense weightage	1/3	2/3	Balance 2/3rd in full, as it is cancelled
Expense for the year	10,80,000	23,40,000	Remaining amount since cancelled

(B) Cancellation compensation to be charged in the year 2

Cancellation compensation		
Number of employees (A)		190
Amount agreed to pay (B)		13.50
Number of options/ employee (C)		1,000

Compensation amount (A x B x C)		25,65,000
Less: Amount to be deducted from Equity		
Number of employees (D)	190	
Fair value of option (at the date of cancellation) (E)	12	
Number of options / employee (F)	1,000	
Amount to be deducted from Equity (D x E x F)		(22,80,000)
Balance transferred to Profit and Loss		2,85,000

Q39: 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	- Employees left = 35	- Employees left = 28
- Estimate of employees to leave in Year 2 = 36	- Estimate of employees to leave in Year 3 = 30	- Employees exercising Options in Group III = 295
- Estimate of employees to leave in Year 3 = 34	- Employees exercising Options in Group II = 319	
- Employees exercising Options in Group I = 350		

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. [RTP Nov 2022]

Ans: Total number of Options per employee = 60

Group I - 20% vesting in Year 1	Group II - 40% vesting in Year 2	Group III - 40% vesting in Yr. 3
= 12 options, Vesting period = 1 Yr.	= 24 options, Vesting period = 2 Yrs.	= 24 options, Vesting period = 3 Yrs.

Computation of Expenses for all the years

Group = No. of Options	Group I = 12 Options		Group II = 24 Options		Group III = 24 Options		
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2	Year 3

(a) Employees at year end = [Opening No. of Employees - Forfeiture]	400 - 40 = 360	400 - 40 = 360	360 - 35 = 325	400 - 40 = 360	360 - 35 = 325	325 - 28 = 297
(b) Expected to leave in future	NA	36	NA	36 + 34 = 70	30	NA
(c) No. of employees eligible (a - b)	360	324	325	290	295	297
(d) Options expected to Vest = [(c) x No. of Shares]	(360 x 12 sh.) = 4,320	(324 x 24 sh.) = 7,776	(325 x 24 sh.) = 7,800	(290 x 24 sh.) = 6,960	(295 x 24 sh.) = 7,080	(297 x 24 sh.) = 7,128
(e) FV per option =	₹ 10	₹ 12.50	₹ 12.50	₹ 14	₹ 14	₹ 14
(f) Value of Total Options = [d x e]	₹ 43,200	₹ 97,200	₹ 97,500	₹ 97,440	₹ 99,120	₹ 99,792
(g) Total Cumulative Cost of Options = [(f) x Completed Yrs/ Total Yrs]	₹ 43,200	[(f) x 1/2] = ₹ 48,600	[(f) x 2/2] = ₹ 97,500	[(f) x 1/3] = ₹ 32,480	[(f) x 2/3] = ₹ 66,080	[(f) x 3/3] = ₹ 99,792
(h) Less: Recognized in last years	0	0	₹ 48,600	0	₹ 32,480	₹ 66,080
(i) Expenses to be recognized	₹ 43,200	₹ 48,600	₹ 48,900	₹ 32,480	₹ 33,600	₹ 33,712
(j) Employees not exercising ESOP	10 Employees	325 - 319 = 6 Employees		297 - 295 = 2 Employees		
(k) Total Expenses for- Year 1 Year 2 Year 3	₹ 43,200 (Gr. 1) + ₹ 48,600 (Gr. 2) + ₹ 32,480 (Gr. 3) = ₹ 1,24,280 ₹ 48,900 (Gr. 2) + ₹ 33,600 (Gr. 3) = ₹ 82,500 ₹ 33,712 (Gr. 3 only)					
Employees Benefit Expenses A/c						
Year 1						
	₹					₹
To Share-based Payment Reserve A/c	1,24,280	By Profit and Loss A/c				1,24,280
	1,24,280					1,24,280
Year 2						
To Share-based Payment Reserve A/c	82,500	By Profit and Loss A/c				82,500
	82,500					82,500
Year 3						
To Share-based Payment Reserve A/c	33,712	By Profit and Loss A/c				33,712
	33,712					33,712
Share-based Payment Reserve A/c						
Year 1						

	₹		₹
To Retained Earnings [(360 - 350) Emp x 12 Options x ₹ 10]	1,200	By Employees Benefit Expenses A/c	1,24,280
To Share Capital (350 Emp x 12 Options x ₹ 100)	4,20,000	By Bank A/c (350 Emp x 12 Options x ₹ 125)	5,25,000
To Securities Premium (350 Emp x 12 Options x ₹ 35)	1,47,000		
To Balance c/d	81,080		
	6,49,280		6,49,280
Year 2			
To Retained Earnings [(325 - 319) Emp x 24 Options x ₹ 12.50]	1,800	By Balance b/d	81,080
To Share Capital (319 Emp x 24 Options x ₹ 100)	7,65,600	By Employees Benefit Expenses A/c	82,500
To Securities Premium (319 Emp x 24 Options x ₹ 37.50)	2,87,100	By Bank A/c (319 Emp x 24 Options x ₹ 125)	9,57,000
To Balance c/d	66,080		
	11,20,580		11,20,580
Year 3			
To Retained Earnings [(297 - 295) Emp x 24 Options x ₹ 14]	672	By Balance b/d	66,080
To Share Capital (295 Emp x 24 Options x ₹ 100)	7,08,000	By Employees Benefit Expenses A/c	33,712
To Securities Premium (295 Emp x 24 Options x ₹ 39)	2,76,120	By Bank A/c (295 Emp x 24 Options x ₹ 125)	8,85,000
	9,84,792		9,84,792

Working Note:

Calculation of Securities Premium	Group I	Group II	Group III
	Year 1	Year 2	Year 3
	Exercise Price received per share	125.00	125.00
Value of service received per share, being the FV of the Options	10.00	12.50	14.00
Total Consideration received per share	135.00	137.50	139.00
Less: Nominal Value per share	(100.00)	(100.00)	(100.00)
Securities Premium per share	35.00	37.50	39.00

Q40: Entity A runs a copper-mining business. Entity A has a year-end of 31st March. Dividends declared on the shares accrue to the employees during the three-year period. If the condition is met, the

employees will receive the shares together with the dividends that have been declared on those shares during the three years upto 31st March, 20X3.

The entity estimates that on 1st April, 20X0 its shares are valued at ₹ 10 each. The grant date fair amount of each share is ₹ 10.

Entity A prepares annual financial statements for the year ended 31st March and:

- on 1st April, 20X0 it estimates that 800 shares will vest;
- at the end of the first year (31st March, 20X1) it has revised this estimate to 780;
- at 31st March, 20X2 it has further revised this estimate to 750; and
- 750 shares vest on 31st March, 20X3 based on the number of employees still employed on that date.

On 1st April, 20X0 as part of a long-term incentive scheme, Entity A provisionally awards its sales employees 1,000 Entity A's shares receivable on 31st March, 20X3. Explain the accounting treatment for the above share-based awards based on satisfaction of the condition that the sales employees must remain in employment until 31st March, 20X3. The requirement to remain in employment is a service condition and would not be reflected in the fair value of the share awards. [RTP May 2023]

Ans: The grant date fair value amount would be recognised as an expense over the three year service period adjusted by the number of shares expected to vest. Consequently, for each period, Entity A estimates how many eligible employees are expected to be employed on 31st March, 20X3 and this forms the basis for that adjustment. The journal entries would be:

Year 1 (Year ended 31st March, 20X1)

Employee benefit expenses A/c	Dr. ₹ 2,600
To Share-based payment reserve	₹ 2,600

(To recognise the receipt of employee services in exchange for shares)

Year 2 (Year ended 31st March, 20X2)

Employee benefit expenses A/c	Dr. ₹ 2,400
To Share-based payment reserve	₹ 2,400

(To recognise the receipt of employee services in exchange for shares)

Year 3 (Year ended 31st March, 20X3)

Employee benefit expenses A/c	Dr. ₹ 2,500
To Share-based payment reserve	₹ 2,500

(To recognise the receipt of employee services in exchange for shares)

Working Notes:

1. Year 1

780 shares expected to vest x ₹ 10 grant date fair value of each share x 1/3 of vesting period elapsed = ₹ 2,600 recognised in Year 1.

2. Year 2

(750 shares expected to vest x ₹ 10 grant date fair value of each share x 2/3 of vesting period elapsed) less ₹ 2,600 recognised in Year 1 = ₹ 2,400 recognised in Year 2.

3. Year 3

(750 shares x ₹ 10 grant date fair value of each share) less ₹ 5,000 recognised in Years 1 and 2 = ₹ 2,500 recognised in Year 3.

Q41: A Ltd. announced a stock appreciation right (SAR) on 1st April, 2020 for each of its employees. The scheme gives the employees the right to claim cash payment equivalent to an excess of market price of Company's shares on exercise date over the exercise price of ₹ 250 per share in respect of 100 shares, subject to a condition of continuous employment of 3 years. The SAR is exercisable after 31st March, 2023 but before 30th June, 2023. The fair value of SAR was:

- ₹ 42 in 2020-2021;
- ₹ 46 in 2021-2022; and
- ₹ 48 in 2022-2023.

In 2020-2021, the company estimates that 2% of its employees shall leave the Company annually. This was revised to 3% in 2021-2022. Actually:

15 employees left the company in 2020-2021;

10 employees left the company in 2021-2022; and

8 employees left the company in 2022-2023.

The SAR therefore actually vested in 492 employees on 31st March, 2023 and when SAR was exercised, the intrinsic value was ₹ 50 per share.

Compute, by fair value method, the SAR expense for financial years;

- 2020-2021;
- 2021-2022;
- 2022-2023;
- 2023-2024.

Also provide SAR ledger from inception till closure. Discuss whether this account is in the nature of liability or equity?

[Exam Nov 2023 (8 Marks)]

Ans: Number of employees at the grant date to whom the SARs were granted = 492 + 15 + 10 + 8 = 525 employees

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

Year	Expense	Liability	Calculation of Liability
	₹	₹	
31 st March, 2021	6,86,000	6,86,000	$[(525-15) \times 0.98 \times 0.98] \times 100 \times 42 \times 1/3]$
31 st March, 2022	8,01,333	14,87,333	$\{[(525-15-10) \times 0.97 \times 100 \times 46 \times 2/3] - 6,86,000\}$
31 st March, 2023	8,74,267	23,61,600	$[525-15-10-8] \times 48 \times 100 - 14,87,333$
30 th June, 2023	(98,400)*	0	$[(492 \times 100 \times 50) - 23,61,600]$

*Difference of opening liability ₹ 23,61,600 and actual liability paid ₹ 24,60,000 $[(492 \times 100 \times 50) - 23,61,600]$ is recognised to Profit and loss i.e. ₹ 98,400.

SAR Ledger

Date	Particular	Amount	Date	Particular	Amount
31.3.2021	To Balance c/d	6,86,000	31.3.2021	By Employee benefits expenses	6,86,000
		<u>6,86,000</u>			<u>6,86,000</u>
31.3.2022	To Balance c/d	14,87,333	1.4.2021	By Balance b/d	6,86,000
			31.3.2022	By Employee benefits expenses	8,01,333
		<u>14,87,333</u>			<u>14,87,333</u>
31.3.2022	To Balance c/d	23,61,600	1.4.2022	By Balance b/d	14,87,333
			31.3.2023	By Employee benefits expenses	8,74,267
		<u>23,61,600</u>			<u>23,61,600</u>
30.6.2023	To Bank	24,60,000	1.4.2022	By Balance b/d	23,61,600
			30.6.2023	By Employee benefits expenses	98,400
		<u>24,60,000</u>			<u>24,60,000</u>

SAR Account is in the nature of liability because it is a cash settled share-based transaction which is summed up on payment of cash to the employees at the end of the exercise period.

Q42: Fashion India Ltd. (FIL) entered into an agreement with RFD Ltd. on 10th August, 20X2 for purchasing a machinery. The agreement has a clause that FIL will have to settle the consideration of machinery purchased by issuing its equity shares. FIL agreed to the clause and the order was confirmed. Machinery was supplied vide invoice dated 25th October, 20X2 and delivered on 1st November, 20X2. Agreed purchase consideration was ₹ 150 Lakhs and the fair value of the machinery supplied was estimated to be ₹ 160 Lakhs. As agreed, FIL issued 1,00,000 equity shares of face value ₹ 100 each to RFD Ltd. As per Ind AS 102 'Share Based Payment', what should be the price and the date for recording the machinery purchased from RFD Ltd.? [RTP May 2024]

Ans: As per para 10 of Ind AS 102, for equity settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. Here, since the fair value of the asset received can be estimated reliably, the price for recording the machinery would be ₹ 160 lakhs.

Further the control is assumed to be transferred on the date the delivery is received which is 1st November, 20X2. Therefore, this will be the date for recognizing the machinery in the books.

Q43: At 1st April, 20X1 an entity enters into a share-based payment arrangement with its employees. The terms of the award are as follows:

- Employees are required to work for the entity for five years; after that they will receive a cash payment equal to the value of the entity's shares.
- If the entity achieves a successful IPO during the five -year period, the employees will receive free shares rather than a cash payment. So, employees might receive free shares at the time of IPO or a cash payment at the end of 5th year, but not both.
- No employees are expected to leave the entity over the next five years.
- At the date of the award and till the end of second year, it was not probable that a successful IPO would occur before year 5.
- At the end of year 3, a successful IPO becomes probable; and management expects it to occur in year 4.
- At the end of year 4, a successful IPO occurs; and employees receive free shares.
- The fair value of the equity-settled award alternative is ₹ 1,000 at the grant date. The fair value of the cash-settled alternative, ignoring the probability that an IPO will happen within the five years, is as follows:
 - ₹ 50 at the end of year 1;
 - ₹ 500 at the end of year 2;
 - ₹ 100 at the end of year 3; and
 - ₹ 50 at the end of year 4.

Required: How the entity would account for this transaction?

[RTP May 2025]

Ans: At the end of first and second year, the entity would not record a charge for the equity-settled award; this is because the vesting conditions are not expected to be met (that is, a successful IPO is not probable).

Hence, a liability is recognised, because cash settlement is probable until year 3. (Refer para 42 of Ind AS 102)

	Dr. (₹)	Cr. (₹)
Year-end 31st March, 20X2		
Employee benefits expense (₹ 50 / 5years) Dr.	10	10
To Share-based payment liability		
(Cash settled award recognised over the vesting period)		
Yearend 31st March, 20X3		
Employee benefits expense {(₹ 500 x 2/5)- ₹10} Dr.	190	190
To Share-based payment liability		
(Cash-settled award recognised over the vesting period)		

At the end of year 3, a successful IPO becomes probable; so the entity would record a charge for an equity-settled award.

There should also be a reversal of the SBP liability, because this award is now deemed not probable.

Year end 31st March, 20X4	Dr.	Cr.
Share-based payment Liability Dr.	200	200
To Share-based Payment Reserve		
(Reversal of cash -settled share-based payment, because IPO deemed probable)		
Employee benefits expense {(₹ 1,000 x ¾) - ₹ 200} Dr.	550	550
To Share-based Payment Reserve		
(Equity -Settled award measured at grant date fair value of ₹ 550, because IPO is now deemed probable)		
Year-end 31st March, 20X5		
Employee Benefits Expenses Dr.	250	250
To Share-based Payment Reserve		
(Equity settled award recognised over the vesting period)		
Share-based Payment Reserve Dr.	1,000	1,000
To Equity share capital		
(Settlement of share-based payment award through issuance of free shares)		

Equity-settled award measured at fair value of ₹ 1,000. All of the vesting conditions for this ward have been met in year 4; so the award has vested, and the remaining charge of ₹ 250 (₹ 1,000 – ₹ 750) is recognised in the Statement of profit and loss.

Q44: Greater Ltd., in order to reward its employees launched a scheme effective from 1st April, 2021, in which employees will be granted equity shares of the company at a price less than the market price subject to satisfaction of certain conditions. Following details are provided to you:

- According to scheme, each employee has an option to purchase 250 equity shares of the company at ₹ 45 per share provided that the employee does not leave the company for 3 years from the date of launch of the scheme i.e. up to 31st March, 2024.
- Once 3 years are completed by an employee, the employee can exercise the option within 1 year i.e. by 31st March, 2025.
- The closing share price on stock exchange as at 1st April, 2021 is ₹ 91 per share with face value of ₹ 10 per share. A registered valuer has been appointed by the company who derived the price of option at ₹ 75 using Black Scholes model of option pricing.
- There are 750 employees eligible for the scheme. As at 31st March, 2022, 25 employees left the company and further 35 employees are expected to leave over the next 2 years. During the year 2022-2023, a foreign based company entered into the market and started hiring experienced employees and therefore retention of existing employees has been problematic and a high attrition rate is observed in the market. 275 employees left the company during the year ended 31st March, 2023 and further 135 employees are expected to leave in the next one year. As at 31st March, 2024, only 400 employees remained with the company out of 750 employees.
- Out of it only 375 employees exercised the option to purchase the equity shares during the year ended 31st March, 2024.

You are required to provide necessary accounting entries during the life of share-based payment scheme to account the scheme implemented by the company.

[Nov 2024 Exams (8 Marks); MTP May 2025]

Ans: Journal Entries

31 st March, 2022		₹	₹
Employee benefits expenses (W.N.1)	Dr.	43,12,500	
To Share-based payment reserve (equity)			43,12,500
(Being 1/3 rd expenses on share-based payment recognised)			
31st March, 2023			
Share-based payment Reserve (equity) (W.N.1)	Dr.	3,75,000	
To Employee benefits expenses (transferred to P/L)			3,75,000
(Being reversal of excess expenses booked on computation of 2/3 rd expenses on share-based payment)			
31st March, 2024			
Employee benefits expenses (W.N.3)	Dr.	35,62,500	

To Share-based payment reserve (equity)			35,62,500
(Being final recognition of expenses on vesting of share-based options)			
31st March, 2025			
Share-based payment reserve (equity) (W.N.4)	Dr.	75,00,000	
Bank A/c (W.N.4)	Dr.	42,18,750	
To Share Capital (W.N.4)			9,37,500
To Securities Premium (W.N.4)			1,03,12,500
To Retained Earnings (W.N.4)			4,68,750
(Being accounting on exercise of 375 options and lapse of 25 options)			

Working Notes:**1) Calculation of Employee Benefit Expenses**

	31.3.2022	31.3.2023	31.3.2024
No of Employees	750	750	750
Less: Employees left	(25)	(300)	(350)
Less: Employees expected	(35)	(135)	
No of employees eligible	690	315	400
No of options per employee	250	250	250
Total options expected to vest	172,500	78,750	100,000
Fair value per option	75	75	75
Total FV	12,937,500	5,906,250	7,500,000
Cumulative expenses	1/3	2/3	3/3
	4,312,500	3,937,500	7,500,000
Expense already recognised	-	4,312,500	3,937,500
Expense to be recognised	4,312,500	-375,000	3,562,500

2) For the year ended 31st March, 2025

Bank = 375 employees x 250 options x ₹ 45 = ₹ 42,18,750

Share capital = 375 employees x 250 options x ₹ 10 = ₹ 9,37,500

Securities Premium = 375 employees x 250 options x ₹ (75 + 35) = ₹ 1,03,12,500

Retained Earnings = (400-375) employees x 250 options x ₹ 75 = ₹ 4,68,750

Q45: Max Ltd. enters into a share-based payment arrangement with its employees on the following terms:

- a) Each employee will receive 500 shares if they remain employed for a period of five years.
- b) It is expected that no employees are expected to leave during the five year period.
- c) The grant date fair value of the award is ₹ 4,000.
- d) If an employee leaves Max Ltd. after the five -year period, but before its shares are listed, the entity has an option to purchase the shares for fair value from the employee.
- e) On grant date, Max Ltd. expects to list in the list in the next 3-5 years. This is the first share-based plan and Max Ltd. has no past practice or stated policy of buying back shares from employees when the employees leave. Neither does Max Ltd. expect that it will settle the awards in cash.
- f) At the end of year 2, Max Ltd. no longer expects to list; and the employees are informed of this fact. Max Ltd. announces to employees that if it is not listed after the five years and employees leave, Max Ltd. will repurchase the shares. The fair value of the shares is ₹ 6,000 on this date.
- g) At the end of year 3, the fair value of the liability has increased to ₹ 9,000

Required

- 1) Determine the accounting for years 1-3.
- 2) What would be the treatment of the awards, if at the end of year 2, Max Ltd. does not inform employees that it will repurchase the shares after a five-year period, and a listing of the entity's shares is still achievable. But at the end of year 6, Max Ltd. has not yet listed and two of the employees leave. Max Ltd. exercises its settlement choice and buys the leaving employee's shares at fair value.

[RTP SEP 2025]

Ans: 1) On the grant date, the employer accounts for the arrangement as an equity settled share-based payment because there is no present obligation to settle in cash.

Journal Entries

	₹	₹
Employee benefit expenses (4,000 x 1/5) Dr.	800	
To Share-based payment reserve		800

At the end of year 2, Max Ltd. has created an obligation to settle in cash through a change in stated policy:

Employee benefit expenses (4,000 x 1/5) Dr.	800	
To Share-based payment reserve		800

The above entry is to record ₹ 4,000 vesting over a period of five years which was the expectation until year end.

Share-based payment reserve Dr.	2,400	
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To Share-based payment liability (6,000 x 2/5)		2,400
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In substance the reclassification represents the repurchase by Max Ltd. of its own shares, so no further expense is recognized. The subsequent measurement of the liability would follow the requirements for a cash settled share – based payment. At the end of year 3, the award is accounted for on a cash – settled basis as follows:

Employee benefit expenses	Dr.	3,000	
To Share-based payment liability (9,000x3/5–2,400)			3,000

- 2) The settlement of the two employee's award may create a valid expectation in the minds of the remaining employees that they will also receive cash when they leave. However, judgement will be required to determine if an isolated transaction establishes past practice resulting in a cash settlement obligation for Max Ltd. Depending on any contrary facts, Max Ltd. should treat the remaining awards as cash settled, because it now revisit the classification of any similar grants that it has made and evaluate if it should reclassify them to cash -settled.

Q46: H Ltd. is a parent company and has a subsidiary S Ltd. H Ltd. and S Ltd. are unlisted entities. Following arrangements with respect to ESOP scheme took place between them:

- 1) Original ESOP scheme by H Ltd. (Parent ESOP scheme)

At the beginning of year 1, H Ltd. granted 1,500 options in its own shares to its own employees as well as S Ltd.'s employees (i.e. 1,000 to H Ltd.'s employees and 500 to S Ltd.'s employees) with a fair value of ₹15 per options, conditional upon the completion of 3 years' service. H Ltd. will settle in its own equity shares. All the options are expected to vest. H Ltd. doesn't recharge to S Ltd. for ESOP expenses.

- 2) New ESOP scheme by S Ltd. (Subsidiary ESOP scheme)

H Ltd. and S Ltd. are unlisted entities. However, at the end of Year 1, S Ltd. gets listed.

At the beginning of year 2, S Ltd. offers 1,500 options in its own shares to H Ltd.'s employees and its own employees (i.e. 1,000 to H Ltd.'s employees and 500 to S Ltd.'s employees), conditional upon H Ltd. and S Ltd.'s employees surrendering the right over parent ESOP scheme.

Remaining vesting period is same as H Ltd.'s ESOP scheme i.e. conditional upon the completion of remaining 2 years' service.

Incremental fair value of new ESOP scheme is ₹6. All the options are expected be vest. All H Ltd. and S Ltd.'s employees have opted for new ESOP scheme. S Ltd. doesn't recharge to H Ltd. for ESOP expenses.

Required: Analyze the above arrangements from the perspective of Consolidated Financial Statements and Individual Financial Statements of both parent and subsidiary. Also show the accounting treatment of the above arrangements in the Consolidated Financial Statements and Individual Financial Statements of both parent and subsidiary.

[RTP Jan 2026]

Ans: Analysis of new ESOP scheme given on surrendering options under original ESOP scheme as replacement scheme. The original ESOP scheme was issued by H Ltd. to its own employees as well as S Ltd.'s employees. S Ltd. has issued new ESOP scheme to its own and H Ltd.'s employees, conditional upon employees of S Ltd. and H Ltd. surrendering the right over original ESOP scheme. Since obtaining the options under new ESOP scheme is conditional on surrendering the employee's entitlement under original ESOP scheme, the new scheme S Ltd. would be designated as replacement scheme for original scheme by S Ltd.

Accordingly, in the current fact pattern, the original ESOP scheme of H Ltd. has been replaced with the new ESOP scheme of S Ltd. Hence, according to para 28(c) of Ind AS 102, modification accounting would apply.

Classification of new ESOP scheme

(i) Consolidated Financial Statements (CFS):

The award is settled in equity shares of the group and therefore treated as an equity-settled share-based payment.

(ii) Individual (Stand-alone) Financial Statements (SFS) of H Ltd.:

From H Ltd.'s perspective, the award is treated as an equity-settled share-based payment. This is because H Ltd. does not have an obligation to settle the award.

(i) Individual (Stand-alone) Financial Statements (SFS) of S Ltd.

ESOP will be settled against issue of S Ltd.'s own shares. Therefore, ESOP are classified as 'Equity settled'.

To the extent S Ltd. provides ESOP to H Ltd.'s employees, the same will be treated as dividend distribution to H Ltd.

Accounting for change in settlor from H Ltd. (parent) to S Ltd. (subsidiary)

(i) Consolidated Financial Statements (CFS) of H Ltd.:

- a) As on the date of new ESOP scheme by S Ltd., there is ESOP reserve standing in CFS. This ESOP reserves is classified as 'Equity' in CFS considering that under original scheme, equity shares of H Ltd. are given.
- b) ESOP reserve as per (a) above in CFS will continue even after new scheme. Since new scheme is accounted as modification of original scheme, grant date fair value as per original scheme plus incremental fair value as per new scheme is recognised as ESOP cost in CFS. Incremental fair value is accounted prospectively.

- c) ESOP reserve as per (a) above in CFS is reclassified from 'Equity' to "Non-controlling interest' (NCI) due to change in settlor from H Ltd. (Parent) to S Ltd. (Subsidiary). This is because the definition of NCI refers to the equity in a subsidiary not attributable, directly or indirectly to a Parent.

(ii) Stand-alone financial statements (SFS) of parent H Ltd. and subsidiary S Ltd.:

- a) Ind AS 102 doesn't contain any specific guidance on accounting for change in settlor.
- b) Under original ESOP scheme, Parent H Ltd. was settlor. Therefore, on the date of new ESOP scheme, in the SFS of Parent H Ltd., there is 'ESOP reserves which would have been utilised in case Parent continued as settlor.
- c) However, under the new ESOP scheme, Subsidiary S Ltd. is settlor. 'ESOP reserves' standing in SFS of Parent H Ltd. is no longer required as H Ltd. has passed on its responsibility of settling ESOP scheme to S Ltd. Therefore, 'ESOP reserves' in SFS of Parent H Ltd. is reversed.
- d) Subsidiary S Ltd. under new ESOP scheme become settlor for an existing ESOP plan. However, in SFS of S Ltd. there is no 'ESOP reserves' standing. Therefore 'ESOP reserves' relating to period already elapsed under original ESOP scheme is to be recognised in SFS of Subsidiary S Ltd.

Journal Entries

Years	ESOP scheme references	Parent (H Ltd.) Standalone Financial Statement (P SFS)			Subsidiary (S Ltd.) Standalone Financial Statements (S SFS)		
		Particular	Debit	Credit	Particular	Debit	Credit
Year 1	Original ESOP scheme by Parent H Ltd.	Employees expenses* Dr.	5,000		Employees expenses# Dr.	2,500	
		Investment in Subsidiary** Dr.	2,500		To Equity (Capital Contribution from Parent)		2,500
		To Equity (ESOP reserves)		7,500			
		(Recognition of employees expenses/ investment in subsidiary under ESOP scheme by Parent for Year 1)			(Recognition of employees expenses under ESOP scheme by Parent for Year 1)		
					[#Subsidiary employees = 500 options x ` 2,500]		

		[*Parent employees = 1,000 options x ` 15 x 1/3 = ` 5,000] [**Subsidiary employees = 500 options x ` 15 x 1/3 = ` 2,500]						
Year / Period	Nature of Transaction	Particulars (PARENT)	Debit	Credit	Particulars (SUBSIDIARY)	Debit	Credit	
Year 2 Beginning	Accounting for change in settlor from Parent to Subsidiary :	Equity (ESOP reserves) Dr.	7,500		Equity (Distribution to Parent) Dr.	5,000		
		To Investment in Subsidiary		2,500	Equity (capital contribution from Parent) Dr.	2,500		
		To Dividend Income (Deemed Distribution from Subsidiary)		5,000	To Equity (ESOP reserves)		7,500	
		(Parent is no longer required to settle ESOP for its own employees as well as subsidiary employees under New ESOP scheme by Subsidiary)	(Accounting of obligations taken by Subsidiary under New ESOP scheme by Subsidiary for parent employees as well as its own employees. This entry is passed since subsidiary has taken obligation of existing scheme)					
Year 2 End	Modifications accounting – New ESOP scheme by Subsidiary :	Employees expenses* Dr.	8,000		Equity (Distribution to Parent)# Dr.	8,000		
		To Dividend Income (Deemed Distribution from Subsidiary)		8,000	Employees expenses** Dr.	4,000		
					To Equity (ESOP reserves)		12,000	
		(Recognition of employee expenses for parent employees under Old ESOP scheme and incremental fair value under New ESOP scheme for Year 2)	Recognition of employees' expenses for parent employees as well as subsidiary employees under Old ESOP scheme and incremental fair value under New ESOP scheme for Year 2)					
		[*] Parent employees A. Original ESOP scheme = $(\$1000 \times 15 \times \frac{2}{3} - 5,000\$) = 5,000$ B. Incremental fair value – New ESOP scheme = $(1000 \text{ options} \times ` 6 \times \frac{1}{2}) = ` 3,000$ Total = ` 8,000]			[#] Parent employees 8,000 (i.e. computation same as parent) ##Subsidiary employees = A. Original ESOP scheme = $(500 \text{ options} \times ` 15 \times \frac{2}{3} - 2,500) = ` 2,500$ B. Incremental fair value – New			

Year / Period	Nature of Transaction	Particulars (PARENT)	Debit	Credit	Particulars (SUBSIDIARY)	Debit	Credit
					ESOP scheme = (500 options x ` 6 x ½) = ` 4,000]		
Year 3-End	Modifications accounting – New ESOP scheme by Subsidiary	Particular	Debit	Credit	Particular	Debit	Credit
		Employees expenses Dr.	8,000		Equity (Distribution to Parent) Dr.	8,000	
		To Dividend Income (Deemed Distribution from Subsidiary)		8,000	Employees expenses Dr.	4,000	
					To Equity (ESOP reserves)		12,000
		(Recognition of employee expenses for parent employees under New ESOP scheme for Year 2)			(Recognition of employees' expenses for parent employees as well as subsidiary employees under New ESOP scheme for Year 2)		