CMA Final

Corpore Financial Reporting

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Module 1

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Module 1 - Contents

3 Ind AS 102 - Share Based Payment

1. Introduction

Currency cash is the medium of exchange of transaction in business entity. But some times, entity use own equity shares as currency cash for acquiring goods and services. Payment through own equity shares is effectively used as a retention tool under employee compensation structure.

Although, transactions are settled in equity or based on equity but it is essential to account such type of transaction on the basis of substance over form. Ind AS 102 provides accounting treatment of share based payment transaction in profit & loss statement and balance sheet on the basis of substance of transaction rather than legal form.

2. Scope

(a) Applicability

General Applicability

An entity shall apply this standard in accounting for all share base transactions, whether or not the entity can identify specifically some or all of the goods or services received, including :

- Equity settled share based payment transactions,
- Cash settled share based payment transactions, and
- Transaction in which the entity receives or acquires goods or services and the terms of arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settle the transaction in cash (or other assets) or by issuing equity instruments.

Applicability on Group Entity

A share-based payment transaction may be settled by another group entity (or a shareholder of any group entity) on behalf of the entity receiving or acquiring the goods or services. Principle of general applicability also applies to an entity that

- receives goods or services when another entity in the same group (or a shareholder of any group entity) has the obligation to settle the share-based payment transaction, or
- has an obligation to settle a share-based payment transaction when another entity in the same group receives the goods or services unless the transaction is clearly for a purpose other than payment for goods or services supplied to the entity receiving them.

Explanation :

- In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or servives have been (or will be) received, in which case this Standard applies.
- This Standard applies to share-based payment transactions in which an entity acquires or receives goods or services. Goods includes inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets

(b) Non-Applicability

(i) Transaction with employee in capacity as Owner

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

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

(ii) Business Combination

- An entity shall not apply this Standard to transactions in which the entity acquires goods as part of the net assets acquired in a business combination as defined by Ind AS 103, in a combination of entities or businesses under common control, or the contribution of a business on the formation of a joint venture as defined by Ind AS 111.
- Hence, equity instruments issued in a business combination in exchange for control of the acquiree are not within the scope of this Standard.
- However, equity instruments granted to employees of the acquiree in their capacity as employees (eg in return for continued service) are within the scope of this Standard.
- Similarly, the cancellation, replacement or other modification of *share-based payment arrangements* because of a business combination or other equity restructuring shall be accounted for in accordance with this Standard.
- Ind AS 103 provides guidance on determining whether equity instruments issued in a business combination are part of the consideration transferred in exchange for control of the acquiree (and therefore within the scope of Ind AS 103) or are in return for continued service to be recognised in the postcombination period (and therefore within the scope of this Standard).

(iii) Financial Instruments

This Standard does not apply to share-based payment transactions in which the entity receives or acquires goods or services under a contract within the scope of Ind AS 32 & Ind AS 109.

Explanation

➢ This Standard uses the term 'fair value' in a way that differs in some respects from the definition of fair value in Ind AS 113.

➢ Therefore, when applying Ind AS 102 an entity measures fair value in accordance with this Standard, not Ind AS 113.

3. Recognition

(a) Recognition Rule

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

(b) Treatment of Expenses

When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognised as expenses.

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(c) Analysis of recognition of expenses

- An expense arises from the consumption of goods or services. For example, services are typically consumed immediately, in which case an expense is recognised as the counterparty renders service.
- Goods might be consumed over a period of time or, in the case of inventories, sold at a later date, in which case an expense is recognised when the goods are consumed or sold.
- However, sometimes it is necessary to recognise an expense before the goods or services are consumed or sold, because they do not qualify for recognition as assets. For example, an entity might acquire goods as part of the research phase of a project to develop a new product. Although those goods have not been consumed, they might not qualify for recognition as assets under the applicable Ind AS.

4. Equity-settled share-based payment transactions

(a) Definition of Important Terms

Equity-settled share-based payment transactions

A share-based payment transaction in which the entity

- receives goods or services as consideration for its own equity instruments (including shares or share options), or
- receives goods or services but has no obligation to settle the transaction with the supplier.

Share-Based payment transactions

A transaction in which the entity

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

Share-Based payment Arrangement

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

- cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity, or
- equity instruments (including shares or share options) of the entity or another group entity, provided the specified vesting conditions, if any, are met.

Share Option

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

(b) Measurement of Goods or Services in 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.

Measurement

Fair-value of Goods and Services can be measured reliably	Fair-value of Goods and Services can not be measured reliably
Equity = Fair value of goods or services	**Goods or Services =** Fair Value of equity

Analysis

(i) Transaction with Employees and others providing similar services

- The entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received.
- The fair value of those equity instruments shall be measured at grant date.
- This standard defines grant date is 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.
- Typically, shares, share options or other equity instruments are granted to employees as part of their remuneration package, in addition to a cash salary and other employment benefits. Usually, it is not possible to measure directly the services received for particular components of the employee's remuneration package. it might also not be possible to measure the fair value of the total remuneration package independently, without measuring directly the fair value of the equity instruments granted.
- Furthermore, shares or share options are sometimes granted as part of a bonus arrangement, rather than as a part of basic remuneration, eg as an incentive to the employees to remain in the entity's employment or to reward them for their efforts in improving the entity's performance.
- By granting shares or share options, in addition to other remuneration, the entity is paying additional remuneration to obtain additional benefits. Estimating the fair value of those additional benefits is likely to be difficult.
- Because of the difficulty of measuring directly the fair value of the services received, the entity shall measure the fair value of the employee services received by reference to the fair value of the equity instruments granted.

(ii) Transaction with parties other than employee

- There shall be a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. That fair value shall be measured at the date the entity obtains the goods or the counterparty renders service.
- In rare cases, if the entity rebuts this presumption because it cannot estimate reliably the fair value of the goods or services received, the entity shall measure the goods or services received, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders service.

(iii) Consideration received by the entity appears to be less than the fair value of equity instrument granted or liability incurred.

- This situation indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received by the entity. The entity shall measure the identifiable goods or services received in accordance with this Standard.
- The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received). The entity shall measure the unidentifiable goods or services received at the grant date.
- However, for cash-settled transactions, the liability shall be remeasured at the end of each reporting period until it is settled.

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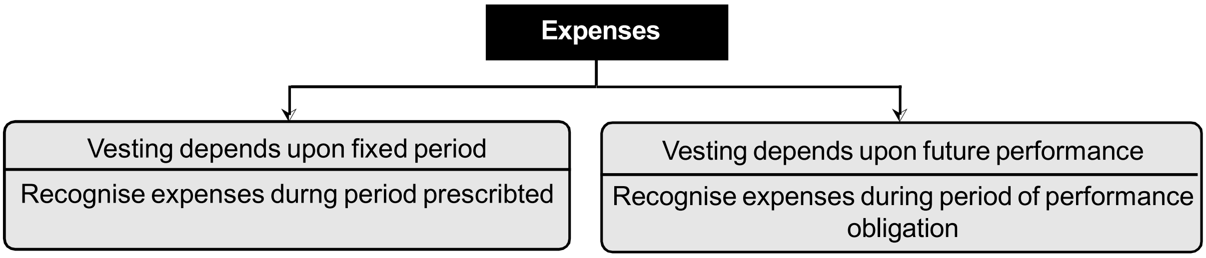
(c) Transactions in which services are received

(i) Equity Instruments granted vest immediately

- If the equity instruments granted *vest* immediately, the counterparty is not required to complete a specified period of service before becoming unconditionally entitled to those equity instruments.
- In the absence of evidence to the contrary, the entity shall presume that services rendered by the counterparty as consideration for the equity instruments have been received.
- In this case, on grant date the entity shall recognise the services received in full, with a corresponding increase in equity.

(ii) Equity Instruments granted do not vest immediately

- If the equity instruments granted do not vest until the counterparty completes a specified period of service, the entity shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the vesting period.
- The entity shall account for those services as they are rendered by the counterparty during the vesting period, with a corresponding increase in equity.



Analysis

(i) When vesting period is fixed

If an employee is granted share options conditional upon completing three years' service, then the entity shall presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over that three-year vesting period.

(ii) When vesting period is based on performance condition

- If an employee is granted share options conditional upon the achievement of a performance condition and remaining in the entity's employment until that performance condition is satisfied, and the length of the vesting period varies depending on when that performance condition is satisfied, the entity shall presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over the expected vesting period.
- The entity shall estimate the length of the expected vesting period at grant date, based on the most likely outcome of the performance condition.
- If the performance condition is a market condition, the estimate of the length of the expected vesting period shall be consistent with the assumptions used in estimating the fair value of the options granted, and shall not be subsequently revised.
- If the performance condition is not a market condition, the entity shall revise its estimate of the length of the vesting period, if necessary, if subsequent information indicates that the length of the vesting period differs from previous estimates.

(d) Measurement of Transaction based on Fair value of equity instrument granted

(i) Measurement of fair value of equity instrument granted

- For transactions measured by reference to the fair value of the equity instruments granted, an entity shall measure the fair value of equity instruments granted at the measurement date, based on market prices if available, taking into account the terms and conditions upon which those equity instruments were granted.

- Measurement Date means : 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.
- If market prices are not available, the entity shall estimate the fair value of the equity instruments granted using a valuation technique to estimate what the price of those equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties.
- The valuation technique shall be consistent with generally accepted valuation methodologies for pricing financial instruments, and shall incorporate all factors and assumptions that knowledgeable, willing market participants would consider in setting the price.

Fair Value

Market Price aivalbel	Market price not available
Fair value = Market price + Other T&C	Fair Value = Value calculated using valuation techniques

(ii) Treatment of vesting conditions

➲ Meaning of Vesting Condition

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

➲ Meaning of Service Condition

- A vesting condition that requires the counterparty to complete a specified period of service during which services are provided to the entity. If the counterparty, regardless of the reason, ceases to provide service during the **vesting period**, it has failed to satisfy the condition. A service condition does not require a performance target to be met.
- Vesting Period means the period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.

➲ Meaning of Performance Condition

- *A vesting condition that requires:*
  - ➢ the counterparty to complete a specified period of service (ie a **service condition**). The service requirement can be explicit or implicit, and
  - ➢ specified performance target(s) to be met while the counterparty is rendering the service required above.
- *The period of achieving the performance targets :*
  - ➢ shall not extend beyond the end of the service period, and
  - ➢ may start before the service period on the condition that the commencement date of the performance target is not substantially before the commencement of the service period.
- *A performance target is defined by reference to :*
  - ➢ the entity's own operations (or activities) or the operations or activities of another entity in the same group (i.e. a non-market condition), or
  - ➢ the price (or value) of the entity's equity instruments or the equity instruments of another entity in the same group (including shares and share options) (i.e. a market condition).

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Explanation

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

- Meaning of Market Condition

  A performance condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group), such as :

  - attaining a specified share price or a specified amount of intrinsic value of a share option, or
  - achieving a specified target that is based on the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group) relative to an index of market prices of equity instruments of other entities.

  Explanation

  A market condition requires the counterparty to complete a specified period of service (ie a service condition), the service requirement can be explicit or implicit.

- Vesting Condition other than Market Condition
  - Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the shares or share options at the measurement date.
  - Instead, vesting conditions shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.
  - Hence, on a cumulative basis, no amount is recognised for goods or services received if the equity instruments granted do not vest because of failure to satisfy a vesting condition, e.g. the counterparty fails to complete a specified service period, or a performance condition is not satisfied.
  - The entity shall recognise an amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and shall revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested.

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

(iii) Treatment of non-vesting conditions

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

(iv) After Vesting Date

- Having recognised the goods or services received and a corresponding increase in equity, the entity shall make no subsequent adjustment to total equity after vesting date.
- For example, the entity shall not subsequently reverse the amount recognised for services received from an employee if the vested equity instruments are later forfeited or, in the case of share options, the options are not exercised.
- However, this requirement does not preclude the entity from recognising a transfer within equity, i.e. a transfer from one component of equity to another.
- Vest Means to become an entitlement. Under a share-based payment arrangement, a counterparty's right to receive cash, other assets or equity instruments of the entity vests when the counterparty's entitlement is no longer conditional on the satisfaction of any Vesting Condition.

(e) Measurement of Transaction when fair value of equity instrument cannot be estimated reliably

(i) Measurement based on Intrinsic Value

In rare cases, fair value of equity instrument granted is not available. In such cases entity shall

➢ measure the equity instruments at their *intrinsic value*, initially at the date the entity obtains the goods or the counterparty renders service and subsequently at the end of each reporting period and at the date of final settlement, with any change in intrinsic value recognised in profit or loss. For a grant of share options, the share-based payment arrangement is finally settled when the options are exercised, are forfeited (eg upon cessation of employment) or lapse (eg at the end of the option's life).

➢ recognise the goods or services received based on the number of equity instruments that ultimately vest or (where applicable) are ultimately exercised. The amount recognised for goods or services received during the vesting period shall be based on the number of share options expected to vest. The entity shall revise that estimate, if necessary, if subsequent information indicates that the number of share options expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested. After vesting date, the entity shall reverse the amount recognised for goods or services received if the share options are later forfeited, or lapse at the end of the share option's life.

(ii) Settlement of Contract

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

➢ any payment made on settlement shall be accounted for as the repurchase of equity instruments, ie as a deduction from equity, except to the extent that the payment exceeds the intrinsic value of the equity instruments, measured at the repurchase date. Any such excess shall be recognised as an expense.

(f) Modification, Cancellation and Settlement

(i) Introduction

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

(ii) Recognition of Expense

- The entity shall recognise, as a minimum, the services received measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date.
- This applies irrespective of any modifications to the terms and conditions on which the equity instruments were granted, or a cancellation or settlement of that grant of equity instruments.
- In addition, the entity shall recognise the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee.

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(iii) Cancellation

If a grant of equity instruments is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied):

Acconting for remaining expense

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

Treatment of Payment Made

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

Grant of new option

- if new equity instruments are granted to the employee and, on the date when those new equity instruments are granted, the entity identifies the new equity instruments granted as replacement equity instruments for the cancelled equity instruments, the entity shall account for the granting of replacement equity instruments in the same way as a modification of the original grant of equity instruments.
- The incremental fair value granted is the difference between the fair value of the replacement equity instruments and the net fair value of the cancelled equity instruments, at the date the replacement equity instruments are granted.
- The net fair value of the cancelled equity instruments is their fair value, immediately before the cancellation, less the amount of any payment made to the employee on cancellation of the equity instruments that is accounted for as a deduction from equity as per treatment made for payment.
- If the entity does not identify new equity instruments granted as replacement equity instruments for the cancelledequity instruments, the entity shall account for those new equity instruments as a new grant of equity instruments.

If an entity or counterparty can choose whether to meet a non-vesting condition, the entity shall treat the entity's or counterparty's failure to meet that non-vesting condition during the vesting period as a cancellation.

If an entity repurchases vested equity instruments, the payment made to the employee shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments repurchased, measured at the repurchase date. Any such excess shall be recognised as an expense.

5. Cash-settled share-based payment transactions

(i) General Treatment

- The entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability.
- Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.
- When entity issues rights to its employees/suppliers upon which they will be entitled for a cash payment in future, based on the prices of the shares of an entity / or equity prices of group, and in which right to increase in equity prices will be provided, is called as Share Appreciation Right (SAR).
- One goods/services are rendered against these share based payment to be settled in cash, then a liability is recognised by debiting expenses. This will be re-measured annually until it is actually paid off.

(ii) Treatment of vesting condition

- There could be vesting conditions attached to such share based payments e.g. to remain in service for next 3 years etc., then the recognition of such share based payment will be done by recognising the fair value (fair value at the closing period, and not the fair value of grant date) of such equity instrument as a liability with corresponding effect on expenses/asset etc.
- The liability so recognised will be fair vlaued at each reporting date by using fair value of such equity instruments and difference in value will be charged to profit and loss for the period.

(iii) Treatment when there is no vesting condition

- There could be somd cases where no vesting period/condition is required to be fulfilled, then the cash settled share based payment can be recognised in full at initial recognition only.

6. Cash or Equity alternative

(i) Provision

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

(ii) Accounting Treatment

Choice with counterparty	Transaction with Parties other than employee	**Step 1 :** Calculate / identify fair value of goods or services **Step 2 :** Calculate the fair value of debt component issued **Step 3 :** Fair value of equity = Step 1 - Step 2
	Transaction with Employee	<u>(a) On Grant Date</u> **Step 1 :** Calculate fair value if employee exercise cash settlement **Step 2 :** Calculate fair value if employee exercise equity settlement **Step 3 :** Fair value under cash settlement is treated as debt component **Step 4 :** Fair value of ESOP = Step 2 - Step 1 **Note :** If Step 2 is less than or equal to Step 1, then there is no ESOP at grant date. **(b) Vesting Period** • Account for liability component as stock appreciation right • Account for ESOP component as employee stock option scheme **(c) At exercise date** • <u>If employee exercise cash</u> Balance in SAR Account is paid in cash and ESOP account is transferred to general reserve.

		• <u>If employee exercise equity settlement</u> Balance in SAR account is transferred to ESOP account and then equity shares issued to employee. • Choice of settlement has no commercial substance or entity has past practice or stated policy of settling in cash or generally in cash when counterparty requires or legally prohibited to issue shares. • In this case transaction shall be accounted using cash settled share based payment i.e. SAR.
Choice with Entity *Transaction with Employee*	Entity has present obligation to settle in cash	• During vesting period transaction shall be accounted using equity settled share based payment (ESOP) approach • At Settlement Date **Case 1 :** Settlement in cash Assume at purchase of equity and deducted from equity. **Case 2 :** Settlement in equity
	Entity has no present obligation to settle in cash	No further accounting **Case 3 :** If entity elect to settle alternative with higher fair value on the date of settlement than entity shall recognised an additional expense for excess value given.

7. Group Settlement Scheme

- The measurement of goods or services received is done as equity settled or cash settled share based payment transaction by assessee nature of the award granted and its own right and obligation.
- Accounting treatment of such transaction is summarised in table below :

Entity receiving goods or services	Measurement as equity settled transaction	• Award granted are its own equity share or • Entity has no obligation settle in cash
	Measurement as cash settled transaction	If condition of equity settled transaction is not satisfied, account for such transaction as cash settled
Entity not receiving goods or services	Equity settled transaction	Only when entity issue own equity share
	Cash settled transaction	If entity does not issue own equity shares

8. Disclosure

(i) An entity shall disclose information that enables users of the financial statements to understand the nature and extent of share-based payment arrangements that existed during the period.

(ii) For the purpose of above following should be disclosed :

➢ a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (eg whether in cash or equity).

➢ the number and weighted average exercise prices of share options for each of the following groups of options :
- outstanding at the beginning of the period

- granted during the period
- forfeited during the period
- exercised during the period
- expired during the period
- outstanding at the end of the period
- exercisable at the end of the period.

➢ for share options exercised during the period, the weighted average share price at the date of exercise. If options were exercised on a regular basis throughout the period, the entity may instead disclose the weighted average share price during the period.

➢ for share options outstanding at the end of the period, the range of exercise prices and weighted average remaining contractual life. If the range of exercise prices is wide, the outstanding options shall be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options.

(iii) An entity shall disclose information that enables users of the financial statements to understand how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined.

(iv) An entity shall disclose information that enables users of the financial statements to understand the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position.

9. Guidance on Determination of Fair Value

(a) When Fair value can be estimated reliably

For transaction measured by the reference to the fair value equity instrument granted, the fair value equity instrument at measurement date is summarised in following table.

Date of Measurement	Grant Date	**Case 1 :** Parties other than employees Date of receipt of goods / services **Case 2 :** Employees On agreement, share understanding on approval if subject to approval.
Measurement technique	When market price is available	Fair value is calculated after considering into account the terms and condition upon which those equity shares were granted.
	When market price is not available	Fair value is to be calculated using a valuation technique consistent with generally accepted valuation methodology for pricing financial instruments after incorporating Exercise price, Life of option, Current price of shares, Expected volatility, Expected dividend, Risk free interest rate for life of the option and Market related vesting conditions.

(b) When Fair Value cannot be estimated reliably

In such a case entity shall measure the equity instrument at intrinsic value,

- Initially at the date the entity obtains the goods or the counterparty renders services and
- Subsequently at the end of each reporting period and at the date of final settlement, with any change in intrinsic value being recognised in profit or loss.

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(c) Minimum input to be used for calculation of fair value

- All option pricing models take into account, as a minimum, the following factors :
  - the exercise price of the option,
  - the life of the option,
  - the current price of the underlying shares,
  - the expected volatility of the sale price,
  - the dividends expected on the shares (if appropriate), and
  - the risk-free interest rate for the life of the option.
- Exercise price, Current price and life of the option is observable inputs and relatively easy to understanding and vlaue can be easily identified. However, other inputs which are required to be used as minimum can be detailed out as below :

  (1) Expected early exercise

  If a SBP has service/performance conditions attached, then there is an underlying presumption that the SBP plan will vest and it is usually expected to settle/exercise when the current market price crosses exercise price of the plan. Some senior level employees normally tends to exercise options later than lower level employee. Since all expected exercise will not happen at the same time and it is difficult to establish a linear function for such behaviour, hence Binomial model is generaly used in such situations.

  (2) Expected Volatility

  The measure of volatility used in option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. Volatility is typically expresses in annualised terms that are comparable regardless of the time period used in the calculation, for example, daily, weekly or monthly price observeations.

  (3) Expected Dividend

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

10. Carves between IFRS 2 and Ind AS 102

There is no carve having Financial effect between Ind AS 102 and IFRS 2.

11. Practical Problems

Q.1. At the beginning of year 1, the enterprise grants 100 stock options to each of its 500 employees, conditional upon the employees remaining in the employment of the enterprise during the vesting period. The options will vest at the end of year 1 if the earnings of the enterprise is 18 per cent; at the end of year 2 if the earnings of the enterprise is an average of 13 per cent per year over the two year period; and at the end of year 3 if the earnings of the enterprise is an average of 10 per cent per year over the three year period. The fair value of the options, calculated at the grant date using an option pricing model, is ₹ 30 per option. No dividends are expected to be paid over the three-year period.

By the end of year 1, the earnings of the enterprise was 14 per cent, and 30 employees had left. The enterprise expected that earnings will continue at a similar rate in year 2, and, therefore, expected that the options will vest at the end of year 2. The enterprise expected on the basis of a weighted average probability, that a further 30 employees will leave during the year 2, and, therefore, assumed that options will vest in 440 employees at the end of the year 2.

By the end of year 2, the earnings of the enterprise was only 10 per cent. 28 employees have left during the year. The enterprise expected that a further 25 employees will leave during year 3, and that the earnings of the enterprise will be at least 6 per cent, thereby achieving the average of 10 per cent per year.

By the end of the year 3, 23 employees had left and the earnings of the enterprise had been 8 per cent. You are required to determine the compensation expense to be recognised each year.

Ans. :-

Statement of Expenses

	Year 1	Year 2	Year 3
(a) No. of option expected to vest	44,000	41,700	41,900
	[440 x 100]	[400-30-28-25)x100	(400-30-28-23)x100
(b) Fair value of option	30	30	30
(c) Expenses (a x b)	13,20,000	12,51,000	12,57,000
(d) Vesting Period	2	3	3
(e) Expenses till date	6,60,000	8,34,000	12,57,000
	$\left[\frac{13,20,000}{2} \times 1\right]$	$\left[\frac{12,51,000}{3} \times 2\right]$	$\left[\frac{12,57,000}{3} \times 3\right]$
(f) Expenses already recognize	—	(6,60,000)	(8,34,000)
(g) Expenses for CY (e - f)	6,60,000	1,74,000	4,23,000

Q.2. Virtual Limited granted on 1st April, 2015, 100000 Employees Stock Option at ₹ 40, when the Market Price was ₹ 60. These options will vest at the end of Year 1, if the earning of Virtual Limited is more than 15% or it will vest at the end of the year 2, if the average earnings of two years is more than 12% or lastly it will vest at the end of third year, if the average earnings of 3 years will be 9% or more. 6000 unvested options lapsed on 31st March 2016. 5,500 unvested options lapsed on 31st March, 2017 and finally 3,000 unvested options lapsed on 31st March, 2018.

Year ended on	Earnings in %
31.03.2016	13%
31.03.2017	9%
31.03.2018	7%

Employees exercised for 85,000 Stock Options which vested in them at the first opportunity and the balance options were lapsed. Pass necessary journal entries and show the necessary working.

(June, 2018 - 8 Marks)

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Ans. :-

(i) **Journal Entries in the books of Virtual Ltd.**

Date	Particulars		Dr.	Cr.
31.3.2016	Employee Benefit Expenses	Dr.	9,40,000	
	To Share based payment equity (reserve)			9,40,000
	(Being share based payment expenses recognised)			
31.3.2017	Employee Benefit Expenses	Dr.	2,40,000	
	To Share based payment equity (reserve)			2,40,000
	(Being share based payment expenses recognised)			
31.3.2018	Employee Benefit Expenses	Dr.	5,30,000	
	To Share based payment equity (reserve)			5,30,000
	(Being share based payment expenses recognised)			
	Bank A/c (85,000 x 20)	Dr.	34,00,000	
	Share Based Payment equity (reserve)	Dr.	17,00,000	
	To Equity share capital (85,000 x 10)			8,50,000
	To Other Equity (security premoium - b/f)			42,50,000
	(Being 85,000 share option exercised)			
	Share based payment equity (reserve)	Dr.	10,000	
	To General Reserve (other equity)			10,000
	(Being 500 option forfeited @ 20)			

(ii) **Statement of Expenses**

Particulars		Year 1	Year 2	Year 3
(a)	No. of option expected to vest	94,000 (1,00,000 - 6,000)	88,500 (94,000 - 5,500)	85,500 (88,500 - 3,000)
(b)	Intrinsic Value (60 - 40)	20	20	20
(c)	Total Expenses (a x b)	18,80,000	17,70,000	17,10,000
(d)	Veting Period	2	3	3
(e)	Cumulative Expenses recognised till date [(c) / (d) x No. of year expired till date]	9,40,000	11,80,000	17,10,000
(f)	Expenses recognised till previous year	Nil	9,40,000	11,80,000
(g)	Current year expense [(e) - (f)]	9,40,000	2,40,000	5,30,000

Q.3. 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	₹ 25
Market condition	Share price to reach at ₹ 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 -

(a) Market condition meets in the year 3, OR

(b) Market condition meets in the year 5

Ans. :-

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

(a) Market condition is fulfilled in year 3 :

Year 1	2,500/4 = 625
Year 2	2,500/4 = 625
Year 3 (2500 - 625 - 625)	1,250
Year 4	NIL

(b) Market condition is fulfilled in year 5 :

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

Q.4. 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

Calculate expenses and prepare share based payment equity (reserve) account.

Ans. :-

(i) Statement of Expenses

Particulars		Year 1	Year 2	Year 3
(a)	No. of option expected to vest	48,000 (48 x 1000)	47,000 (47 x 1000)	45,000 (45 x 1000)
(b)	Fair Value	9	9	9
(c)	Total Expenses (a x b)	4,32,000	4,23,000	4,05,000
(d)	Veting Period	3	3	3
(e)	Cumulative Expenses recognised till date [(c) / (d) x No. of year expired till date]	1,44,000	2,82,000	4,05,000
(f)	Expenses recognised till previous year	Nil	1,44,000	2,82,000
(g)	Current year expense [(e) - (f)]	1,44,000	1,38,000	1,23,000

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(ii) Share based equity reserve account

Date	Particulars	₹	Date	Particulars	₹
Year 1	To Balance c/d	1,44,000	Year 1	By Employee benefit expenses	1,44,000
		1,44,000			**1,44,000**
Year 2	To Balance c/d	2,82,000	Year 2	By Balance b/d	1,44,000
				By Employee benefit exp.	1,38,000
		2,82,000			**2,82,000**
Year 3	To General Reserve	4,05,000	Year 3	By Balance b/d	2,82,000
				By Employee benefit exp.	1,23,000
		4,05,000			**4,05,000**

Q.5. Apple Limited has granted 10,000 share option to one of its directors for whcih 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 ₹ 120. How should be recognise the transaction ?

Ans. :-

- The share price movement is a market-based vesting condition hence its expectations are taken into consideration while calculating the fair value of the option.
- Even if the required market condition as required is not fulfilled, there is no requirement to reverse the expense previously booked.
- Irrespective of the outcome of the market prices (as it is already taken care of in the fair value of the option), each period an amount of (120 x 10,000)/3 = ₹ 4,00,000 will be charged to profit and loss.

Q.6. ABC Ltd. 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 ₹ 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 ₹ 50.

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

Year 2 : 30 left, further 36 expected to leave

Year 3 : 39 left

Calculate expenses to be recognised including modification expenses ?

Ans.:-

(i) **Statement of Expenses**

Particulars		Year 1	Year 2	Year 3
(a)	No. of option expected to vest	1,35,750 (1000-35-60)x150	1,34,850 (1000-65-36)x150	1,34,400 (1000-104)x150
(b)	Fair Value	129	129	129
(c)	Total Expenses (a x b)	1,75,11,750	1,73,95,650	1,73,37,600
(d)	Veting Period	3	3	3
(e)	Cumulative Expenses recognised till date [(c) / (d) x No. of year expired till date]	58,37,250	1,15,97,100	1,73,37,600
(f)	Expenses recognised till previous year	Nil	58,37,250	1,15,97,100
(g)	Current year expense [(e) - (f)]	58,37,250	57,59,850	57,40,500
(h)	Modification expense	Nil	20,22,750 (899x150x30x1/2)	20,09,250 (896x150x30x2/2) - 20,22,750)
(i)	Total Expense (g + h)	58,37,250	77,82,600	77,49,750

Q.7. 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
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 from ₹ 125 to ₹ C 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

Calculate expenses to be recognised.

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Ans.:-

Statement of Expenses

Particulars		Year 1	Year 2	Year 3
(a)	No. of option expected to vest	30,000 (600 - 30 - 70) x 60	30,300 (600 - 65 - 30) x 60	30,420 (507 x 60)
(b)	Fair Value	14	14	14
(c)	Total Expenses (a x b)	4,20,000	4,24,200	4,25,880
(d)	Veting Period	3	3	3
(e)	Cumulative Expenses recognised till date [(c) / (d) x No. of year expired till date]	1,40,000	2,82,800	4,25,880
(f)	Expenses recognised till previous year	Nil	1,40,000	2,82,800
(g)	Current year expense [(e) - (f)]	1,40,000	1,42,800	1,43,080
(h)	Modification expense	Nil	30,300 (30300x2x½)	30,540 (30420x2x2/2) - 30300)
(i)	Total Expense (g + h)	1,40,000	1,73,300	1,73,620

Q.8. 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 valueof shares	₹ 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 ? (RTP - May 2021)

Ans. :-

Journal Entry

Particulars		Dr.	Cr.
Books of Company P			
Investment in Company B	Dr.	2,17,500	
To Equity (Issue of Shares)			2,17,500
Books of Company B			
Expense	Dr.	2,17,500	
To Capital contribution from Parent P			2,17,500

Q.9. **(RTP - Nov. 2019) (MTP - March 2019 & October 2022 - 6 marks)** QA Ltd. had on 1st April, 2011 granted 1,000 share options each to 2,000 employees. The options are due to vest on 31st March, 2014 provided the employee remains in employment till 31st March, 2014. On 1st April, 2011, the Directors of Company estimated that 1,800 employees would qualify for the option on 31st March, 2014. This estimate was amended to 1,850 employees on 31st March 2012 and further amended to 1,840 employees on 31st March 2013.

On 1st April, 2011 the fair value of an option was ₹ 1.20. The fair value increased to ₹ 1.30 as on 31st March, 2012 but due to challending business conditions, the fair value declined thereafter. In September, 2012, when the fair value of an option was ₹ 0.90, the Directors repriced the option and this caused the fair vlaue to increase to ₹ 1.05. Trading conditions improved in the second half of the year and by 31st March, 2013 the fair value of an option was ₹ 1.25. QA Ltd. decided that additional cost incurred due to repricing of the option on 30th September, 2012 should be spread over the remaining vesting period from 30th September, 2012 to 31st March, 2014.

The Company has requested you to suggest the suitable accounting treatment for these transaction as on 31st March, 2013.

Ans.:-

- 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 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.

Statement of Expenses

Particulars		Year 1	Year 2	Year 3
(a)	No. of option expected to vest	18,50,000 (1850 x 1000)	18,40,000 (1840x1000)	NA
(b)	Fair Value	1.2	1.2	NA
(c)	Total Expenses (a x b)	22,20,000	22,08,000	NA
(d)	Veting Period	3	3	NA
(e)	Cumulative Expenses recognised till date [(c) / (d) x No. of year expired till date]	7,40,000	14,72,000	NA
(f)	Expenses recognised till previous year	Nil	7,40,000	NA
(g)	Current year expense [(e) - (f)]	7,40,000	7,32,000	NA
(h)	Modification expense	Nil	92,000 (1840000x.15x.5/1.5)	NA
(i)	Total Expense (g + h)	7,40,000	8,24,000	NA

Q.10. (RTP - May 2019) A parent company P, grants 30 shars 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 Year 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 expenses recognised by Company S. What would be the accounting treatment in the books of Company P and Company S ?

Ans.:-

- As required by 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.
- 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 :

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

Q.11. (RTP - May 2020) (MTP - May 2020 -10 Marks) An entity which follows its financial year as per the calendar year grants 1,000 share appreciation rights (SARs) to each of its 40 management employees as on 1st January 2015. SARs provide the employees with the right to receive (at the date when the rights are exercised) cash equal to the appreciation in the entity's share price since the gant date. All of the rights vest on 31st December 2016; and they can be exercised during 2017 and 2018. Management estimates that, at grant date, the fair value of each SAR is ₹ 11; and it estimates that overall 10% of the employees will leave during the two-year period. The fair values of the SARs at each year end are shown below :

Year	Fair value at year end
31 December 2015	12
31 December 2016	8
31 December 2017	13
31 December 2018	12

10% of employees left before the end of 2016. On 31st December 2017 (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 2018 (when the intrinsic value of each SAR was equal to the fair vlaue of ₹ 12)

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

Ans.:-

(i) **Share based payment liability account**

Date	Particulars	₹	Date	Particulars	₹
31.12.2015	To Balance c/d (36x1000x12x½)	2,16,000	2014-2015	By Employee benefit expenses	2,16,000
		2,16,000			**2,16,000**
31.12.2016	To Balance c/d (36x1000x8)	2,88,000	2015-2016	By Balance b/d	2,16,000
				By Employee benefit exp.	72,000
		2,88,000			**2,88,000**
31.12.2017	To Bank (6x1000x10)	60,000	2016-2017	By Balance b/d	2,88,000
	To Balance c/d (30x1000x13)	3,90,000		By Employee benefit exp.(b/f)	1,62,000
		4,50,000			**4,50,000**
31.12.2018	To Bank (30x1000x12)	3,60,000	2017-2018	By Balance b/d	3,90,000
	To P&L (b/f)	30,000			
		3,90,000			**3,90,000**

(ii) **Journal Entries**

Particulars		Dr.	Cr.
31 December 20X5			
Employee benefits expenses	Dr.	2,16,000	
To Share-based payment liability			2,16,000
(Fair value of the SAR recognized)			
31 December 20X6			
Employee benefits expenses	Dr.	72,000	
To Share-based payment liability			72,000
(Fair value of the SAR re-measured)			
31 December 20X7			
Employee benefits expenses	Dr.	1,62,000	
To Share-based payment liability			1,62,000
(Fair value of the SAR recognized)			
Share-based payment liability	Dr.	60,000	
To Cash(Settlement of SAR)			60,000

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

Note : Last two entries can be combined.

Q.12. (RTP - May 2022) (MTP - March 2023 - 7 Marks) 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 30 th 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 1st 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?

Ans. :-

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

(a) **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.

(b) **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.

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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)	30th June, 20X1	30th June, 20X1	The date on which the scheme was approved by the employees	For employees, the measurement date is grant date.
(ii)	1st April, 20X1	30th 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)	30th September, 20X1	30th September, 20X1	The date when the approval by shareholders was obtained	For employees, the measurement date is grant date

Q.13. Z Ltd. grants 100 share options to each of its 400 employees conditional on their continuing in service for 3 years. Fair value of share option on the grant date is ₹ 30. During year 1, 18 employees leave. The entity revises its estimate of total employee departures over the three- year period from 20 per cent to 16 per cent. During year 2, a further 20 employees leave. The entity revises its estimate of total employee departures over the three-year period from 16 per cent to 13 per cent. During year 3, a further 14 employees leave. All the continuing employees exercised the option to subscribe in the equity shares of ₹ 10 each at ₹ 50 only, when market price stands at ₹ 84.

Pass Journal Entries of all the years and show the working.

Ans. :-

(i) Statement of Expenses

Particulars		Year 1	Year 2	Year 3
(a)	No. of option expected to vest	33,600 (400 x 100 x 84%)	34,800 (400 x 100 x 87%)	34,800 (348 x 100)
(b)	Fair value of option granted	30	30	30
(c)	Total Expenses (a x b)	10,08,000	10,44,000	10,44,000
(d)	Veting Period	3	3	3
(e)	Cumulative Expenses recognised till date [(c) / (d) x No. of year expired till date]	3,36,000	6,96,000	10,44,000
(f)	Expenses recognised till previous year	Nil	3,36,000	6,96,000
(g)	Current year expense [(e) - (f)]	3,36,000	3,60,000	3,48,000

Note : No. of employee actually vest (400 - 18 - 20 - 14) = 348.

(ii) Journal Entries in the books of Z Ltd.

Date	Particulars		Dr.	Cr.
Year 1	Employee Benefit Expenses	Dr.	3,36,000	
	To Share based payment equity (reserve)			3,36,000
	(Being share based payment expenses recognised)			
Year 2	Employee Benefit Expenses	Dr.	3,60,000	
	To Share based payment equity (reserve)			3,60,000
	(Being share based payment expenses recognised)			
Year 3	Employee Benefit Expenses	Dr.	3,48,000	
	To Share based payment equity (reserve)			3,48,000
	(Being share based payment expenses recognised)			

Bank A/c (348 employees x 100 option x ₹ 50)	Dr.	17,40,000	
Share Based Payment equity (reserve)	Dr.	10,44,000	
To Equity share capital (348 x 100 x 10)			3,48,000
To Other Equity (security premoium - b/f)			24,36,000
(Being share exercised by 348 employee recorded)			

Q.14. PQR Ltd. grants 80 cash share appreciation rights (SARs) to each of its 400 employees, on condition that the employees remain in its employment for the next three years. During year 1, 30 employees leave. The entity estimates that a further 50 will leave during years 2 and 3. During year 2, 40 employees leave and the entity estimates that a further 30 will leave during year 3. During year 3, 40 employees leave. At the end of year 3, all SARs held by the remaining employees vest.

At the end of year 3, 100 employees exercise their SARs, another 120 employees exercise their SARs at the end of year 4 and the remaining employees exercise their SARs at the end of year 5.

The fair value of the SARs at the end of each year in which a liability exists and the intrinsic values of the SARs at the date of exercise (which equal the cash paid out) at the end of years 3, 4 and 5 are shown below.

At the end of Year	Fair Value ₹	Intrinsic Value ₹
1	15	
2	16	
3	18	15
4	21	20
5		24

Pass journal entries and show working notes.

Ans. :-

(i) Statement of Expenses

Particulars		Year 1	Year 2	Year 3
(a)	No. of SAR expected to vest	25,600 (400-30-50)x80	24,000 (400-30-40-30)x80	23,200 (400-30-40-40)
(b)	Fair value of SAR granted	15	16	18
(c)	Total Expenses (a x b)	3,84,000	3,84,000	4,17,600
(d)	Veting Period	3	3	3
(e)	Cumulative Expenses recognised till date [(c) / (d) x No. of year expired till date]	1,28,000	2,56,000	4,17,600
(f)	Expenses recognised till previous year	Nil	1,28,000	2,56,000
(g)	Current year expense [(e) - (f)]	1,28,000	1,28,000	1,61,600

(ii) Share based payment liability account

Date	Particulars	₹	Date	Particulars	₹
Year 1	To Balance c/d	1,28,000	Year 1	By Employee benefit expenses	1,28,000
		1,28,000			**1,28,000**
Year 2	To Balance c/d	2,56,000	Year 2	By Balance b/d	1,28,000
				By Employee benefit exp.	1,28,000
		2,56,000			**2,56,000**
Year 3	To Bank (100x80x15)	1,20,000	Year 3	By Balance b/d	2,56,000
	To Balance c/d (190x80x18)	2,73,600		By Employee benefit exp.(b/f)	1,37,600
		3,93,600			**3,93,600**

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Year 4	To Bank (120x80x20)	1,92,000	Year 4	By Balance b/d	2,73,600
	To Balance c/d (70x80x21)	1,17,600		By Employee Benefit Expenses (b/f)	36,000
		3,09,600			**3,09,600**
Year 5	To Bank (70x80x24)	1,34,400	Year 5	By Balance b/d	1,17,600
				By employee benefit exp. (b/f)	16,800
		1,34,400			**1,34,400**

Q.15. On condition of completion of 3 years service an employee is granted the right to choose either -

(i) right to cash payment equal to the value of 3000 shares, or

(ii) 3600 shares with restriction to hold them for 3 years after vesting. The share price (nominal value ₹ 10) at the grant date is ₹ 60 and after taking the effect of the post-vesting transfer restriction the fair value is estimated at ₹ 54 per share. At the end of the years 1, 2 and 3 the share price is ₹ 64, ₹68 and ₹ 72 respectively.

At the end of year 3, the employee chooses: (a) the cash alternative; (b) the equity alternative.

Show the necessary workings and pass the journal entries.

Ans. :-

(i) Calculation of Equity at Grant Date

Particulars	₹
Contract fair value (3600 x 54)	1,94,400
Liability fair value (3000 x 60)	(1,80,000)
Equity to be recognised	14,400

(ii) Statement of Expenses

	Particulars	Year 1	Year 2	Year 3
(a)	No. of SAR expected to vest	3,000	3,000	3,000
(b)	Fair value of SAR granted	64	68	72
(c)	Total Expenses (a x b)	1,92,000	2,04,000	2,16,000
(d)	Veting Period	3	3	3
(e)	Cumulative Expenses recognised till date [(c) / (d) x No. of year expired till date]	64,000	1,36,000	2,16,000
(f)	Expenses recognised till previous year	Nil	64,000	1,36,000
(g)	Current year expense [(e) - (f)]	64,000	72,000	80,000
(h)	Expenses on equity (14,400/3)	4,800	4,800	4,800
(i)	Total Expenses (g+h)	68,800	76,800	84,800

Q.16. At the beginning of year 1, X Ltd. grants 200 shares each to 400 employees, conditional upon the employees' remaining in employment with the company during the vesting period. The shares will vest at the end of year 1 if the entity's earnings increase by more than 15 percent; at the end of year 2 if the entity's earnings increase by more than an average of 12 per cent per year over the two-year period; and at the end of year 3 if the entity's earnings increase by more than an average of 10 per cent per year over the three-year period.

The shares have a fair value of ₹40 per share at the start of year 1. No dividends need be considered.

By the end of year 1, the entity's earnings have increased by 13 per cent, and 32 employees left. The entity expects further 30 employees to leave during year 2. By the end of year 2, the entity's earnings have increased by only 11 per cent and 27 employees left during the year. The entity expects a further 25 employees to leave during year 3. By the end of year 3, 22 employees left and the company's earnings increased by (a) 9 percent, (b) 6 percent.

Find the Remunertion expenses to be recognised in each year.

Ans. :-

Statement of Expenses

Particulars		Year 1	Year 2	Year 3
(a)	No. of Option expected to vest	67,600 (400-32-30)x200	63,200 (400-32-27-25)x200	63,800 (400-32-27-22)x200
(b)	Fair value of Option granted	40	40	40
(c)	Total Expenses (a x b)	27,04,000	25,28,000	25,52,000
(d)	Veting Period	2	3	3
(e)	Cumulative Expenses recognised till date [(c) / (d) x No. of year expired till date]	13,52,000	16,85,333	25,52,000
(f)	Expenses recognised till previous year	Nil	13,52,000	16,85,333
(g)	Current year expense [(e) - (f)]	13,52,000	3,33,333	8,66,667

Q.17. At the beginning of year 1, X Ltd. grants options to 200 employees. The share options will vest at the end of year 3, provided that the employees remain in the entity's employment, and provided that revenues of the company increases by at least at an average of 8 percent per year. If the per cent of increase is 8 percent and above but below 10 per cent per year, each employee will receive 120 share options, if 10 percent and above but below 15 percent each year, each employee will receive 240 share options and if on or above 15 percent, each employee will receive 360 share options. On grant date, X Ltd. estimates that the share options have a fair value of ₹40 per option and also estimates that 16 per cent of employees will leave before the end of year 3.

By the end of year 1, 12 employees have left and the entity still expects that a total of 32 employees will leave by the end of year 3. In year 1, revenue has increased by 12 per cent and the company expects this rate of increase to continue over the next 2 years. By the end of year 2, a further 10 employees have left, bringing the total to 22 to date. The entity now expects only 5 more employees will leave during year 3, and therefore expects a total of 27 employees will have left during the three-year period. Revenue in year 2 increased by 18 per cent, resulting in an average of 15 per cent over the two years. By the end of year 3, a further 8 employees have left. The revenue increased by an average of 16 per cent per year in the three year period.

Find the Remunertion expenses to be recognised in each year.

Ans. :-

Statement of Expenses

Particulars		Year 1	Year 2	Year 3
(a)	No. of Option expected to vest	40,320 (200-16%)x240	62,280 (200-12-10-5)x360	61,200 (200-12-10-8)x360
(b)	Fair value of Option granted	40	40	40
(c)	Total Expenses (a x b)	16,12,800	24,91,200	24,48,000
(d)	Veting Period	3	3	3
(e)	Cumulative Expenses recognised till date [(c) / (d) x No. of year expired till date]	5,37,600	16,60,800	24,48,000
(f)	Expenses recognised till previous year	Nil	5,37,600	16,60,800
(g)	Current year expense [(e) - (f)]	5,37,600	11,23,200	7,87,200

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Q.18. At the beginning of year 1, an entity grants to a senior executive 10,000 share options, conditional upon the executive's remaining in the entity's employment until the end of year 3. The exercise price is ₹40. However, the exercise price drops to ₹30 if the entity's earnings increase by at least an average of 10 per cent per year over the three-year period.

On grant date, the entity estimates that the fair value of the share options, with an exercise price of ₹30, is ₹16 per option. If the exercise price is ₹40, the entity estimates that the share options have a fair value of ₹12 per option. During year 1, the entity's earnings increased by 12 per cent, and the entity expects that earnings will continue to increase at this rate over the next two years. The entity therefore expects that the earnings target will be achieved, and hence the share options will have an exercise price of ₹30. During year 2, the entity's earnings increased by 13 per cent, and the entity continues to expect that the earnings target will be achieved. During year 3, the entity's earnings increased by 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, the 10,000 vested share options have an exercise price of ₹40.

Find the Remunertion expenses to be recognised in each year.

Ans. :-

Statement of Expenses

Particulars		Year 1	Year 2	Year 3
(a)	No. of Option expected to vest	10,000	10,000	10,000
(b)	Fair value of Option granted	16	16	12
(c)	Total Expenses (a x b)	1,60,000	1,60,000	1,20,000
(d)	Veting Period	3	3	3
(e)	Cumulative Expenses recognised till date [(c) / (d) x No. of year expired till date]	53,333	1,06,667	1,20,000
(f)	Expenses recognised till previous year	Nil	53,333	1,06,667
(g)	Current year expense [(e) - (f)]	53,333	53,334	13,333

Q.19. At the beginning of year 1, an entity grants to a senior executive 10,000 share options, conditional upon the executive remaining in the entity's employment until the end of year 3. However, the share options cannot be exercised unless the share price has increased from ₹50 at the beginning of year 1 to above ₹65. If the share price is above ₹65 the share options can be exercised at any time till the end of year 10. The entity applies a binomial option pricing model, which takes into account the possibility that the share price will exceed ₹65 (and hence the share options become exercisable) and the possibility that the share price will not exceed ₹65 (and hence the options will be forfeited). It estimates the fair value of the share options with this market condition to be ₹24 per option.

Find the Remunertion expenses to be recognised in each year.

Ans. :-

Statement of Expenses

Particulars		Year 1	Year 2	Year 3
(a)	No. of Option expected to vest	10,000	10,000	10,000
(b)	Fair value of Option granted	24	24	24
(c)	Total Expenses (a x b)	2,40,000	2,40,000	2,40,000
(d)	Veting Period	3	3	3
(e)	Cumulative Expenses recognised till date [(c) / (d) x No. of year expired till date]	80,000	1,60,000	2,40,000
(f)	Expenses recognised till previous year	Nil	80,000	1,60,000
(g)	Current year expense [(e) - (f)]	80,000	80,000	80,000

Q.20. (RTP - May 2024) 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.?

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.

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Q.21. ABC Limited issued 20,000 Share Appreciation Rights (SARs) that vest immediately to its employees on 1st April 2015. The SARs will be settled in cash. At that date it is estimated using an option pricing model, that the fair value of a SAR is ‘ 95. SAR can be exercised any time up to 31st March 2018. At the end of 31st March 2016 it is expected that 95% of total employees will exercise the option, 92 % of total employees will exercise the option at the end of next year and finally 89 % will be vested only at the end of the 3rd year. Fair values at the end of each period have been given below :

Fair value of SAR	₹
31st March, 2016	110
31st March, 2017	107
31st March, 2018	112

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

Ans.

(i) Applicability of Cash Settled SBP

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.

- 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.

- 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.

(ii) Statement of Expenses

	Particulars	**2015-2016**	**2016-2017**	**2017-2018**
(a)	No. of SAR expected to vest	19,000 20,000 x 95%	18,400 20,000 x 92%	17,800 20.000 x 89%
(b)	Fair value of SAR granted	110	107	112
(c)	Total Expenses (a x b)	20,90,000	19,68,800	19,93,600
(d)	Vesting Period	NA	NA	NA
(e)	Cumulative Expenses recognised till date	20,90,000	19,68,800	19,93,600
(f)	Expenses recognised till previous year	19,00,000	20,90,000	19,68,800
(g)	Current year expense [(e) - (f)]	1,90, 000	(1,21,200)	24,800

Note :- Expenses recognised at grant date = 20,000 x 95 = 19,00,000

(iii) Journal Entries

Date	Particulars		Dr.	Cr.
1.4.2015	Employee benefits expenses	Dr.	19,00,000	
	To Share based payment liability			19,00,000
	(Fair value of the SAR recognized initially)			
31.3.2016	Employee benefits expenses	Dr.	1,90,000	
	To Share based payment liability			1,90,000
	(Fair value of the SAR re-measured)			
31.3.2017	Share based payment liability	Dr.	1,21,200	
	To Employee benefits expenses			1,21,200
	(Fair value of the SAR re-measured & reversed)			
31.3.2018	Employee benefits expenses	Dr.	24,800	
	To Share based payment liability			24,800
	(Fair value of the SAR remeasured & recognized)			
	Share based payment liability	Dr.	19,93,600	
	To Cash			19,93,600
	(Settlement of SARs in cash)			

Q.22. Golden Era Limited grants 200 shares to each of its 400 employees on 1st January, 2016. The employee should remain in service during the vesting period so as to be eligible. The shares will vest at the end of the

1st year	If the company's earnings increase by 12%.
2nd year	If the company's earnings increase by more than 20% over the two year period.
3rd year	If the company's earnings increase by more than 20% over the three year period.

The fair value per share (non-market related) at the grant date is ₹ 61. In 2016, earnings increased by 10% and 22 employees left the company. The company expects that earnings will continue at a similar rate in 2017 and expect that the shares will vest at the end of the year 2017. The company also expects that additional 18 employees will leave the organization in the year 2017 and that 360 employees will receive their shares at the end of the year 2017. At the end of 2017 company's earnings increased by 18% (over the 2 years period). Therefore, the shares did not vest. Only 16 employees left the organization during 2017.

The company believes that additional 14 employees will leave in 2018 and earnings will further increase so that the performance target will be achieved in 2018. At the end of the year 2018, only 9 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met.

You are required to determine the expense as per Ind AS for each year (assumed as financial year) and pass appropriate journal entries.

(Nov. 2018 - 8 Marks)

Ans. :-

(i) Statement of Expenses calender year wise

Particulars		2016	2017	2018
(a)	No. of option expected to vest	72,000 (400-22-18)x200	69,600 (400-22-16-14)x200	70,600 (400-22-16-9)x200
(b)	Fair Value	61	61	61
(c)	Total Expenses (a x b)	43,92,000	42,45,600	43,06,600
(d)	Vesting Period	2	3	3
(e)	Cumulative Expenses recognised till date [(c) / (d) x No. of year expired till date]	21,96,000	28,30,400	43,06,600
(f)	Expenses recognised till previous year	Nil	21,96,000	28,30,400
(g)	Current year expense [(e) - (f)]	21,96,000	6,34,400	14,76,200

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(ii) **Calculation of Expenses Financial year wise**

31.3.2016	21,96,000 x 3 / 12	= 5,49,000
31.3.2017	21,96,000 x 9/12 + 6,34,400 x 3/12	= 18,05,600
31.3.2018	6,34,400 x 9/12 + 14,76,200 x 3/12	= 8,44,850
31.3.2019	14,76,200 x 9/12	= 11,07,150

(iii) Journal Entries

Date	Particulars		Dr.	Cr.
31.3.2016	Employee benefits expenses A/c	Dr.	5,49,000	
	To Share based payment reserve (equity) A/c			5,49,000
31.3.2017	Employee benefits expenses	Dr.	18,05,600	
	To Share based payment reserve (equity)			18,05,600
31.3.2018	Employee benefits expenses	Dr.	8,44,850	
	To Share based payment reserve (equity)			8,44,850
31.3.2019	Employee benefits expenses	Dr.	11,07,150	
	To Share based payment reserve (equity)			11,07,150
	Share based payment reserve (equity) (353 x 200 x 61)	Dr.	43,06,600	
	To Share Capital			43,06,600

Q.23. Beetel Holding Inc. grants 100 shares to each of its 300 employees on 1st January, 2015. The employees should remain in service during the vesting period. The shares will vest at the end of the

First year	if the company's earnings increase by 13%
Second year	if the company's earnings increased by more than 21% over the two - year period
Third year	if the entity's earning increased by more than 23% over the three-year period.

The fair value per share at the grant date is ₹ 125.

In 2015, earnings increased by 9% and 20 employees left the organization. The company expects that earnings will continue at a similar rate in 2016 and expects that the shares will vest at the end of the year 2016. The company also expects that additional 30 employees will leave the organization in the year 2016 and that 250 employees will receive their shares at the end of the year 2016.

At the end of 2016, company's earnings increased by 19%. Therefore, the shares did not vest. Only 20 employees left the organization during 2016. Company believes that additional 25 employees will leave in 2017 and earnings will further increase so that the performance target will be achieved in 2017.

At the end of the year 2017, only 22 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met.

Determine the expense for each year and pass appropriate journal entries. **(May 2019 - 8 Marks)**

Ans. :-

(i) **Statement of Expenses**

Particulars		2015	2016	2017
(a)	No. of option expected to vest	25,000	23500	23800
		(300-20-30)x100	(300-20-20-25)x100	(300-20-20-22)x100
(b)	Fair Value	125	125	125
(c)	Total Expenses (a x b)	31,25,000	29,37,500	29,75,000
(d)	Veting Period	2	3	3
(e)	Cumulative Expenses recognised till date	15,62,500	19,58,333	29,75,000
	[(c) / (d) x No. of year expired till date]			
(f)	Expenses recognised till previous year	Nil	15,62,500	19,58,333
(g)	Current year expense [(e) - (f)]	15,62,500	3,95,833	10,16,667

(ii) Journal Entries

Date	Particulars		Dr.	Cr.
31.12.2015	Employee benefits expenses	Dr.	15,62,500	
	To Share based payment reserve (equity)			15,62,500
	(Equity settled shared based payment expected vesting amount)			
31.12.2016	Employee benefits expenses	Dr.	3,95,833	
	To Share based payment reserve (equity)			3,95,833
	(Equity settled shared based payment expected vesting amount)			
31.12.2017	Employee benefits expenses	Dr.	10,16,667	
	To Share based payment reserve (equity)			10,16,667
	(Equity settled shared based payment expected vesting amount)			
	Share based payment reserve (equity)	Dr.	29,75,000	
	To Share Capital			2,97,5,000
	(Share capital issued)			

Q.24. (MTP - April 2024) ABC Limited granted 500 stock appreciation rights (SAR) each to 80 employees on 1st April, 2017 with a fair value ₹ 100 each. The terms of the award require the employee to provide service for four years to earn the award. The SARs are expected to be settled in cash and it is expected that 100% of the employees will exercise the option. The fair value of each SAR at each reporting date is as follows :

31st March, 2018	₹ 110
31st March, 2019	₹ 120
31st March, 2020	₹ 115
31st March, 2021	₹ 130

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

What would be the difference if at the end of the second year of service (i.e. at 31st March, 2019), ABC Limited modifies the terms of the award to require only three years of total service? Please present with the revised journal entries. Answer on the basis of relevant Ind AS.

(Nov. 2019 - 8 Marks)

Ans. :-

(i) Original Contract Presentation

(a) Statement of Expenses

Particulars		2017-18	2018-19	2019-20	2020-21
(a)	No. of SAR Expected to vest (80 x 500)	40,000	40,000	40,000	40,000
(b)	Fair value of SAR granted	110	120	115	130
(c)	Total Expenses (a x b)	44,00,000	48,00,000	46,00,000	52,00,000
(d)	Vesting Period	4	4	4	4
(e)	Cumulative Expenses recognised till date	11,00,000	24,00,000	34,50,000	54,00,000
(f)	Expenses recognised till previous year	Nil	11,00,000	24,00,000	34,50,000
(g)	Current year expense [(e) - (f)]	11,00,000	13,00,000	10,50,000	17,50,000

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(b) Journal Enties

Date	Particulars		Dr.	Cr.
31.3.2018	Employee benefits expenses (P&L)	Dr.	11,00,000	
	To Share based payment liability			11,00,000
	(Fair value of SARs has been recognised)			
31.3.2019	Employee benefits expenses (P&L)	Dr.	13,00,000	
	To Share based payment liability			13,00,000
	(Fair value of SARs has been re-measured)			
31.3.2020	Employee benefits expenses (P&L)	Dr.	10,50,000	
	To Share based payment liability			10,50,000
	(Fair value of SARs has been recognized)			
31.3.2021	Employee benefits expenses A/c	Dr.	17,50,000	
	To Share based payment liability			17,50,000
	(Fair value of SARs has been recognized)			

(ii) Modified Presentation

(a) Expenses

2017-18 = 11,00,000 (Original Calculation)

2018-19 = (48,00,000 x 2/3 - 11,00,000) = 21,00,000

2019-20 = (46,00,000 - 11,00,000 - 21,00,000) = 14,00,000

(b) Journal Entry

Date	Particulars		Dr.	Cr.
31.3.2018	Employee benefits expenses	Dr.	11,00,000	
	To Share based payment liability			11,00,000
	(Fair value of SARs has been recognised)			
31.3.2019	Employee benefits expenses	Dr.	21,00,000	
	To Share based payment liability			21,00,000
	(Fair value of SARs has been re-measured)			
31.3.2020	Employee benefits expenses	Dr.	14,00,000	
	To Share based payment liability			14,00,000
	(Fair value of SARs has been recognized)			

Q.25. Nest Ltd. issued 10,000 Share Appreciation Rights (SARs) that vest immediately to its employees on 1 April 2017. The SARs will be settled in cash. Using an option pricing model, at that date it is estimated that the fair value of a SAR is ₹ 100. SAR can be exercised any time until 31 March 2020. It is expected that out of the total employees, 94% at the end of period on 31 March 2018, 91% at the end of next year will exercise the option.

Finally, when these were vested* i.e. at the end of the 3rd year, only 85% of the total employees exercised the option.

Fair value of SAR	₹
31 March 2018	132
31 March 2019	139
31 March 2020	141

You are required to pass the Journal entries to show the effect of the above transaction.

(Nov. 2020 - 5 Marks)

Ans. :-

(i) Statement of Expenses

Particulars		2017-18	2018-19	2019-20
(a)	No. of SAR expected to vest	9,400 10,000 x 94%	9,100 10,000 x 91%	8,500 10.000 x 85%
(b)	Fair value of SAR granted	132	139	141
(c)	Total Expenses (a x b)	12,40,800	12,64,900	11,98,500
(d)	Vesting Period	NA	NA	NA
(e)	Cumulative Expenses recognised till date	10,00,000	12,40,800	12,64,900
(f)	Current year expense [(c) - (e)]	2,40,000	24,100	(66,400)

Grant Date Expenses (10,000 x 100) = 10,00,000

(ii) Journal Entries

Date	Particulars		Dr.	Cr.
1.4.2017	Employee benefits expenses	Dr.	10,00,000	
	To Share based payment liability			10,00,000
	(Fair value of the SAR recognized)			
31.3.2018	Employee benefits expenses	Dr.	2,40,800	
	To Share based payment liability			2,40,800
	(Fair value of the SAR re-measured)			
31.3.2019	Employee benefits expenses	Dr.	24,100	
	To Share based payment liability			24,100
	(Fair value of the SAR re-measured			
31.3.2020	Share based payment liability	Dr.	66,400	
	To Employee benefits expenses			66,400
	(Fair value of the SAR remeasured and reversed)			
	Share based payment liability	Dr.	11,98,500	
	To Cash/Bank			11,98,500
	(Settlement of SAR)			

Q.26. 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.

(Jan. 2021 - 12 Marks)

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Ans. :-

(i) Statement of Expenses

Particulars	2017-18	2018-19	2019-20
(a) No. of SAR expected to vest	1,35,000 900 x 150	1,42,500 950 x 15	1,39,500 930x 150
(b) Fair value of SAR granted	129	129	129
(c) Total Expenses (a x b)	1,74,15,000	1,83,82,500	1,79,95,500
(d) Vesting Period	3	3	3
(e) Cumulative Expenses recognised till date	58,05,000	1,22,55,000	1,79,95,500
(f) Expenses recognised till previous year	Nil	21,37,500	20,47,500
(g) Current year expense [(e) - (f)]	58,05,000	85,87,500	77,88,000

Modified Expenses

2017-18 = 1,42,500 x 30 x ½ = 21,37,500

2019-20 = (1,39,500 x 30 x ½) - 21,37,500 = 20,47,500

(ii) Journal Entries

Date	Particulars		Dr.	Cr.
31.3.2018	Employee benefits expenses	Dr.	58,05,000	
	To Outstanding Share based payment option			58,05,000
	(Fair value of the liability recognized)			
31.3.2019	Employee benefits expenses	Dr.	85,87,500	
	To Outstanding Share based payment option			85,87,500
	(Fair value of the liability re-measured)			
31.3.2020	Employee benefits expenses	Dr.	77,88,000	
	To Outstanding Share based payment option			77,88,000
	(Fair value of the liability recognized)			
	Outstanding Share based payment option	Dr.	2,21,80,500	
	To Equity share capital			2,21,80,500
	(Being award settled)			

Q.27. 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.

(July 2021 - 5 Marks)

Ans. :-

(i) Calculation of employee compensation expense

Particulars		**Year 1**	**Year 2**	**Year 3**
(a)	No. of option expected to vest	1,80,000	1,90,000	NA
		(180 x 1000)	(190 x 1000)	
(b)	Fair Value	18	18	
(c)	Total Expenses (a x b)	32,40,000	34,20,000	
(d)	Veting Period	3	Cancelled	
(e)	Cumulative Expenses recognised till date	10,80,000	34,20,000	
	[(c) / (d) x No. of year expired till date]			
(f)	Expenses recognised till previous year	Nil	10,80,000	
(g)	Current year expenses (e - f)	10,80,000	23,40,000	

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

Particulars		₹
(a)	Compensation Expenses agreed to be paid (190 x 1000 x 13.5)	25,65,000
(b)	Amount to be deducted from equity (190 x 1000 x 12)	22,80,000
(c)	Amount transfer to P&L (a - b)	2,85,000

Q.28. Georgy Ltd. gave its key management an option to take either 810 equity shares or cash amount equivalent to 650 equity shares on 1st April, 2020. The minimum service requirement is 2 years. If shares are opted then they are to be kept for at least 4 years.

Fair value of the shares	₹
Fair value for share alternative (with restrictions)	460
Grant date fair value on 1st April, 2020	480
Fair value on 31st March, 2021	530
Fair value on 31st March, 2022	560

Pass the necessary Journal Entries for the years ended 31st March, 2021 & 2022 if the key management exercises the cash option at the end of 2022.

(Dec. 2021 - 6 Marks)

Ans. :-

(i) Statement of Equity at Grant

Particulars	₹
Total Contract Value (810 x 480)	3,88,800
Less : Liability (650 x 460)	2,99,000
	89,800

(ii) Statement of Expenses

		2020-21	**2021-22**
(a)	Estimated SAR	650	650
(b)	Fair Value	530	560
(c)	Total Expenses	3,44,500	3,64,000
(d)	Vesting Period	2	2
(e)	Cumulative Expenses	**1,72,250**	**3,64,000**
(f)	Expenses recognised till previous year	Nil	1,72,000
(g)	Current year expenses of SAR (e - f)		1,91,250
(h)	Expenses related to equity (89,800 / 2)	44,900	44,900
(i)	Total Expenses (g + h)	**2,17,650**	**2,36,150**

(iii) Journal Entries

Date	Particulars		Dr.	Cr.
31.3.2021	Employee benefits expenses	Dr.	2,02,250	
	To Share based payment reserve (equity)			30,300
	To Share based payment liability			1,72,250
	(Recognition of Equity option and cash settlement option)			
31.3.2022	Employee benefits expenses	Dr.	2,22,050	
	To Share based payment reserve (equity)			30,300
	To Share based payment liability			1,91,750
	(Recognition of Equity option and cash settlement option)			
	Share based payment liability	Dr.	3,64,000	
	To Bank/ Cash			3,64,000
	(Settlement in cash)			

Q.29. On 1st April, 2019, Sun Ltd. issued share-based option to one of its key managerial personnel (employee) which can be exercised either in cash or equity and it has following features :

Option I	
No. of cash settled shares	70,000
Service condition	3 years
Option II	
No. of equity settled shares of face value of ₹ 100 each	80,000
Conditions :	
Service	3 years
Restriction to sell	2 years
Fair Values	
Share alternative fair value (with restriction)	₹ 125
Fair value at grant date	₹ 136
Fair value on 31st March, 2020	₹ 141
Fair value on 31st March, 2021	₹ 143
Fair value on 31st March, 2022	₹ 146

You are required to pass the journal entries if the key managerial employee exercises cash option at the end of 31st March, 2022 and also if he exercises equity option at the end of 31st March, 2022.

(Nov. 2022 - 6 Marks)

Ans. :-

(i) Statement of Equity at Grant

Particulars	₹
Contract Value (80,000 x 125)	1,00,00,000
Liability (70,000 x 136)	(95,20,000)
	4,80,000

(ii) Statement of Expenses

		2019-20	2020-21	2021-22
(a)	Estimated	70,000	70,000	70,000
(b)	Fair Value	141	143	146
(c)	Total Expenses	98,70,000	1,00,10,000	1,02,20,000
(d)	Vesting Period	3	3	3
(e)	Cumulative Expenses	32,90,000	66,73,333	1,02,20,000
(f)	Expenses recognised till previous year	Nil	32,90,000	66,73,333
(g)	Cumulative Expenses recognised till date	32,90,000	33,83,333	35,46,667
(h)	Expenses related to equity (4,80,000 / 3)	1,60,000	1,60,000	1,60,000
(i)	Total Expenses (g + h)	**34,50,000**	**35,43,333**	**37,06,667**

(iii) Journal Entries

	Particulars		Dr.	Cr.
(i)	**If Cash alternative is chosen**			
	Share based payment liability	Dr.	1,02,20,000	
	To Bank/ Cash			1,02,20,000
	(Settlement in cash)			
	Share based payment reserve (equity)*	Dr.	4,80,000	
	To Retained earnings			4,80,000
	(Being transfer of equity from one account to another one)			
(ii)	**If Equity alternative is chosen**			
	Share based payment liability	Dr.	1,02,20,000	
	To Share based payment reserve (equity)			1,02,20,000
	(Being transfer of liability account to equity)			
	Share based payment reserve (equity)	Dr.	1,07,00,000	
	To Capital			80,00,000
	To Securities Premium			27,00,000
	(Being settlement made in equity)			
Alternative entries under equity settlement				
(ii)	**If Equity alternative is chosen:**			
	Share based payment liability	Dr.	1,02,20,000	
	To Share Capital			80,00,000
	To Securities Premium			22,20,000
	(Being settlement made in equity)			
	Share based payment reserve (equity)*	Dr.	4,80,000	4,80,000
	To Retained earnings			
	(Being transfer of equity from one account to another one)			

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Q.30. On 1.7.2019 AMLA, GILOY & TULSI Ltd. grants 200 options to each of its 2,100 employees at ₹ 120 when the market price is ₹ 400. The vesting date is 31st March 2022 and the exercise date is 31st March 2023. At the end of year 1, the company found that 100 employees had left and estimated the expected annual forfeitures rate at 10%. Fair value of a share issued under ESOP was ₹ 186. At the end of year 2, the company found that 80 employees had left and reestimated the expected annual foreitures rate at 5%. Fair value of a share issued under ESOP was ₹ 208. At the end of year 3, the company found that 192 employees had left. Fair value of a share issued under ESOP was ₹ 160. Only 1,700 employees exercised their options on 31st March 2021. The face v alue of equity share is ₹ 10 per share. As per Ind AS 102 -

(a) Calculate Expenses to be recognised in year 1 by Fair Value Method

(b) Calculate Expenses to bre recognised in year 2 by Fair value method

(c) Calculate expenses to be recognised in year 3 by Fair value method

(d) Calculate value of Options Forfeited.

(June 2023 - 10 Marks)

Ans. :-

(i) Statement of Expenses

		2019-20	**2020-21**	**2021-22**
(a)	Estimated No. of Option	3,24,000 [(2100-100)x.9x.9]x200	3,64,800 [(2100-100-80)x.95]x200	3,45,600 (2100-100-80-192)x200
(b)	Intrinsic Value at end of the year	66 (186-120)	88 (208-120)	40 (160-120)
(c)	Total Expenses	2,13,84,000	3,21,02,400	1,38,24,000
(d)	Vesting Period	33 months	33 months	33 months
(e)	Cumulative Expenses	58,32,000	2,04,28,800	1,38,24,000
(f)	Expenses recognised till previous year	Nil	58,32,000	2,04,28,800
(g)	Cumulative Expenses recognised till date	58,32,000	1,45,96,800	(66,04,800)

(ii) Value of Option forfeited

No. of Employee not exercised (1728-1700)	= 28
Intrinsic value of option	= 40
Value of option forfeited (28x200x40)	= 2,24,000

Q.31. 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 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 2020-21
- ₹ 46 in 2021-22, and
- ₹ 48 in 2022-23.

In 2020-21 the company estimates that 2% of its employees shall leave the Company annually. This was revised to 3% in 2021-22.

Actually :

- 15 employees left the company in 2020-21,
- 10 employees left the company in 2021-22, and
- 8 employees left the company in 2022-23.

The SAR therefore actually vested in 492 employees on 30th June, 2023 and when SAR was exercised, the intrinsic value was ₹ 50 per share.

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

- 2020-21
- 2021-22
- 2022-23
- 2023-24

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

(Nov. 2023 - 8 Marks)

Ans. :-

(i) Statement of Expenses

Particulars		2017-18	2018-19	2019-20
(a)	No. of SAR expected to vest	48,980 [(525-15)x.98x.98x100]	48,500 [(525-15-10)x.97x100]	49,200 492x100
(b)	Fair value of SAR granted	42	46	48
(c)	Total Expenses (a x b)	20,57,160	22,31,000	23,61,600
(d)	Vesting Period	3	3	3
(e)	Cumulative Expenses recognised till date	6,85,720	14,87,333	23,61,600
(f)	Expenses recognised till Previous year	Nil	6,85,720	14,87,333
(g)	Current year expense [(e) - (f)]	6,85,720	8,01,613	8,74,267

Note : Total No. of Employee at grant date = 492 + 8 + 10 + 15 = 525.

(ii) Share Based Payment liability account

Date	Particulars	₹	Date	Particulars	₹
31.3.2021	To Balance c/d	6,85,720	31.3.2021	By EB expenses	6,85,720
		6,85,720			**6,85,720**
31.3.2022	To Balance c/d	14,87,333	1.4.2021	By Balance b/d	6,85,720
			31.3.2022	By EB expenses	8,01,613
		14,87,333			**14,87,333**
31.3.2022	To Balance c/d	23,61,600	1.4.2022	By Balance b/d	14,87,333
			31.3.2023	By EB expenses	8,74,267
		23,61,600			**23,61,600**
30.6.2023	To Bank	24,60,000	1.4.2022	By Balance b/d	23,61,600
			30.6.2023	By EB expenses (b/f)	98,400
		24,60,000			**24,60,000**

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.

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