INDAS – 102
SHARE BASED PAYMENTS

(TOTAL NO. OF QUESTIONS – 21)

INDEX

RTPs QUESTIONS

Q.1 (November 18)

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

31st March 2018	Rs. 210
31st March 2019	Rs. 220
31st March 2020	Rs. 215
31st March 2021	Rs. 218

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

SOLUTION

Journal entries in the books of P Ltd (without modification of service period of stock appreciation rights) **(Rs. in lakhs)**

Date	Particulars	Debit	Credit
31.03.2018	Profit and Loss account Dr. To Liability against SARs (Being Expense liability for stock appreciation rights recognised)	15.75	 15.75
31.03.2019	Profit and Loss account Dr. To Liability for SARs (Being Expense liability for stock appreciation rights recognised)	17.25	 17.25

31.03.2020	Profit and Loss account Dr. To Liability for SARs (Being Expense liability for stock appreciation rights recognised)	15.38	15.38
31.03.2021	Profit and Loss account Dr. To liability for SARs (Being expenses liability for stock appreciation rights recognized)	17.02	17.02

Working Notes:

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

1. For the year ended 31st March 2018

= Rs. 210 x 400 awards x 75 employees x 1 year /4 years of service

= Rs. 15,75,000

2. For the year ended 31st March 2019

= Rs. 220 x 400 awards x 75 employees x 2 years /4 years of service - Rs. 15,75,000 previous recognised

= Rs. 33,00,000 - Rs. 15,75,000 = Rs. 17,25,000

3. For the year ended 31st March 2020

= Rs. 215 x 400 awards x 75 employees x 3 years/4 years of service - Rs33,00,000 previously recognised

= Rs. 48,37,500 - Rs. 33,00,000 = Rs. 15,37,500

4. For the year ended 31st March, 2021

= Rs. 218 x 400 awards x 75 employees x 4 years / 4 years of service – Rs48,37,500 previously recognised

= Rs. 65,40,000 – Rs. 48,37,500 = Rs. 17,02,500

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

(Rs in lakhs)

Date	Particulars	Debit	Credit
31.03.2018	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	15.75	15.75
31.03.2019	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	28.25	28.25
31.03.2020	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	20.50	20.50

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

1. For the year ended 31st March 2018

   = Rs. 210 x 400 awards x 75 employees x 1 year / 4 years of service = Rs. 15,75,000

2. For the year ended 31st March 2019

   = Rs. 220 x 400 awards x 75 employees x 2 years / 3 years of service – Rs. 15,75,000 previous recognized

   = Rs. 44,00,000 – Rs 15,75,000 = Rs. 28,25,000

3. For the year ended 31st March 2020

   = Rs. 215 x 400 awards x 75 employees x 3 years/ 3 years of service – Rs. 44,00,000 previous recognised

   = Rs. 64,50,000 – Rs. 44,00,000 = Rs. 20,50,000.

Q.2 (May 19)

A parent grants 200 share options to each of 100 employees of its subsidiary, conditional upon the completion of two years' service with the subsidiary. The fair value of the share options on grant date is Rs 30 each. At grant date, the subsidiary estimates that 80 percent of the employees will complete the two-year service period. This estimate does not change during the vesting period. At the end of the vesting period, 81 employees complete the required two years of service. The parent does not require the subsidiary to pay for the shares needed to settle the grant of share options.

Pass the necessary journal entries for giving effect to the above arrangement.

SOLUTION

As required by Ind AS 102, over the two-year vesting period, the subsidiary measures the services received from the employees in accordance with 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:

Year 1	**Rs**	**Rs**
Remuneration expense Dr. (200 x 100 employees x Rs30 x 80% x ½)	2,40,000	
To Equity (Contribution from the parent)		2,40,000
Year 2		
Remuneration expense Dr. [(200 x 81 employees x Rs30) – 2,40,000]	2,46,000	
To Equity (Contribution from the parent)		2,46,000

Q.3 (November 19)

QA Ltd. had on 1st April, 20X1 granted 1,000 share options each to 2,000 employees. The options are due to vest on 31st March, 20X4 provided the employee remains in employment till 31st March, 20X4.

On 1st April, 20X1, the Directors of Company estimated that 1,800 employees would qualify for the option on 31st March, 20X4. This estimate was amended to 1,850 employees on 31stMarch, 20X2 and further amended to1,840 employees on31stMarch,20X3.

On 1st April, 20X1, the fair value of an option was Rs 1.20. The fair value increased to Rs 1.30 as on 31st March, 20X2 but due to challenging business conditions, the fair value declined thereafter. In September, 20X2, when the fair value of an option was Rs 0.90, the Director repriced the option and this caused the fair value to increase to Rs 1.05. Trading conditions improved in the second half of the year and by 31st March, 20X3 the fair value of an option was Rs1.25. QA Ltd. decided that additional cost incurred due to repricing of the options on 30th September, 20X2 should be spread over the remaining vesting period from 30th September, 20X2 to 31st March, 20X4.

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

SOLUTION

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

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

Accordingly, the amounts recognised in years 1 and 2 are as follows:

Year	Calculation	Compensation expense for Period	Cumulative compensation Expense
		Rs	Rs
1	[1,850 employees× 1,000 options × Rs 1.20] × 1/3	7,40,000	7,40,000
2	(1,840 employees× 1,000 options × [(Rs. 1.20× 2/3) + {(Rs. 1.05 - 0.90) ×0.5/1.5}] – 7,40,000	8,24,000	15,64,000

Note: Year 3 calculations have not been provided as it was not required in the question.

Q.4 (May 20)

This is Same as MTP Question 10 of this book

Q.5 (May 21)

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 to the employees of company B. The details are as below –

Number of Employees of Company B	100
Grant date fair value of share	Rs. 87
Number of shares granted to each employee Vesting	25
conditions	Immediately
Face value per share	Rs. 10

Pass the journal entries in the books of company P & company B.

SOLUTION

I. Journal Entries

Books of Company P

Particulars	Debit (Rs.)	Credit (Rs.)
Investment in Company B Dr.	2,17,500	
To Equity Share Capital A/c (2,500 share x Rs.10)		25,000
To securities Premium		1,92,500
(Being allotment of 25 shares each to 100 employed of B at fair value of Rs. 87 per share)		

Books of Company B

Particulars	Debit (Rs.)	Credit (Rs.)
Employee Benefit Expense A/c Dr.	2,17,500	
To Capital Contribution from Parent P		2,17,500
(Being issue of shares by Parent to Employees pursuant to Group Share-based Payment Plan)		
(87 x 2,500 = 2,17,500)		

Q6. (Nov. 22)

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

No. of Employees covered	400	Nominal Value per share	Rs. 100
No. of options per Employee	60	Exercise price per share	Rs. 125

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

Position on Ist Year	Position on 2nd Year	Position on 3rd Year
- No. of employees left = 40 - Estimate of employees to leave in Year 2 = 36 - Estimate of employees to leave in Year 3 = 34 - Employees exercising Options in Group I = 350	- Employees left = 35 - Estimate of employees to leave in Year 3 = 30 - Employees exercising Options in Group II = 319	- Employees left = 28 - Employees exercising Options in Group III = 295

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

Solution

Total number of Options per employee = 60

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

Computation of Expenses for all the years

Group = No. of Options	Group I = 12 Options	Group II = 24 Options		Group III = 24 Options		
	Year I	Year I	Year 2	Year I	Year 2	Year 3
(a) Employees at year end = [Opening No. of Employees - Forfeiture]	400 - 40 = 360	400 - 40 = 360	360 - 35 = 325	400 - 40 = 360	360 - 35 = 325	325 - 28 = 297
(b) Expected to leave in future	NA	36	NA	36 + 34 = 70	30	NA
(c) No. of employees eligible (a - b)	360	324	325	290	295	297
(d) Options expected to Vest = [(c) x No. of Shares]	(360 x 12 sh.) 4,320	(324 x 24 sh.) 7,776	(325 x 24 sh.) 7,800	(290 x 24 sh.) 6,960	(295 x 24 sh.) 7,080	(297 x 24 sh.) 7,128
(e) FV per option =	Rs. 10	Rs. 12.50	Rs. 12.50	Rs. 14	Rs. 14	Rs. 14
(f) Value of Total Options = [d x e]	Rs. 43,200	Rs. 97,200	Rs. 97,500	Rs. 97,440	Rs. 99,120	Rs. 99,792
(g) Total Cumulative Cost of Options = [(f) x Completed Yrs/ Total Yrs)	Rs. 43,200	[(f) x 1/2] Rs. 48,600	[(f) x 2/2] Rs. 97,500	[(f) x 1/3] Rs.32,480	[(f) x 2/3] Rs.66,080	[(f) x 3/3] Rs. 99,792
(h) Less: Recognized in last years	0	0	Rs. 48,600	0	Rs.32,480	Rs. 66,080

(i) Expenses to be recognized	Rs. 43,200	Rs. 48,600	Rs. 48,900	Rs.32,480	Rs.33,600	Rs. 33,712
(j) Employees not exercising ESOP	10 Employees	325 - 319 = 6 Employees		297 - 295 = 2 Employees		
(k) Total Expenses for- Year 1 Year 2 Year 3	Rs. 43,200 (Gr. 1) + Rs. 48,600 (Gr. 2) + Rs. 32,480 (Gr. 3) = Rs. 1,24,280 Rs. 48,900 (Gr. 2) + Rs. 33,600 (Gr. 3) = Rs. 82,500 Rs. 33,712 (Gr. 3 only)					

Employees Benefit Expenses A/c

	Rs.		Rs.
Year 1			
To Share-based Payment Reserve A/c	1,24,280	By Profit and Loss A/c	1,24,280
	1,24,280		1,24,280
Year 2			
To Share-based Payment Reserve A/c	82,500	By Profit and Loss A/c	82,500
	82,500		82,500
Year 3			
To Share-based Payment Reserve A/c	33,712	By Profit and Loss A/c	33,712
	33,712		33,712

Share-based Payment Reserve A/c

	Rs.		Rs.
Year 1			
To Retained Earnings [(360 - 350) Emp x 12 Options x Rs. 10]	1,200	By Employees Benefit Expenses A/c	1,24,280
To Share Capital (350 Emp x 12 Options x Rs. 100)	4,20,000	By Bank A/c (350 Emp x 12 Options x Rs. 125)	5,25,000
To Securities Premium (350 Emp x 12 Options x Rs. 35)	1,47,000		
To Balance c/d	81,080		
	6,49,280		**6,49,280**
Year 2			
To Retained Earnings [(325 - 319) Emp x 24 Options x Rs. 12.50]	1,800	By Balance b/d	81,080
		By Employees Benefit Expenses A/c	82,500
To Share Capital (319 Emp x 24 Options x Rs. 100)	7,65,600	By Bank A/c (319 Emp x 24 Options x Rs. 125)	9,57,000

To Securities Premium (319 Emp x 24 Options x Rs. 37.50)	2,87,100		
To Balance c/d	66,080		
	11,20,580		**11,20,580**
Year 3			
To Retained Earnings [(297 - 295) Emp x 24 Options x Rs. 14]	672	By Balance b/d	66,080
		By Employees Benefit Expenses A/c	33,712
To Share Capital (295 Emp x 24 Options x Rs. 100)	7,08,000	By Bank A/c (295 Emp x 24 Options x Rs. 125)	8,85,000
To Securities Premium (295 Emp x 24 Options x Rs. 39)	2,76,120		
	9,84,792		**9,84,792**

Working Note:

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

MTPs QUESTIONS

Q7. (Aug. 18 – 10 Marks)

On 1 January 2017, Ambani Limited granted its CEO an option to take either cash amount equivalent to 800 shares or 990 shares. The minimum service requirement is 2 years. There is a condition to keep the shares for 3 years if shares are opted.

Fair values of the shares	INR
Share alternative fair value (with restrictions)	212
Grant date fair value on 1st January, 2016	213
Fair value on 31st December, 2016	220
Fair value on 31st December, 2017	232

The key management exercises his cash option at the end of 2018. Pass journal entries.

SOLUTION

	1st Jan., 2017	31st Dec., 2017	31st Dec., 2018
Equity alternative (990 x 212)	2,09,880		
Cash alternative (800 x 213)	1,70,400		
Equity option (2,09,880 – 1,70,400)	39,480		
Cash Option (cumulative) (using period end fair value)		88,000	1,85,600
Equity Option (cumulative)		19,740	39,480
Expense for the period			
Equity option		19,740	19,740
Cash Option		88,000	97,600
Total		**1,07,740**	**1,17,340**
31st Dec., 2016			
Employee benefits expenses Dr.		1,07,740	
To Share based payment reserve (equity)			19,740
To Share based payment liability			88,000
(Recognition of Equity option and cash settlement option)			
31st Dec., 2017			
Employee benefits expenses Dr.		1,17,340	
To Share based payment reserve (equity)			19,740
To Share based payment liability			97,600
(Recognition of Equity option and cash settlement option)			
Share based payment liability Dr.		1,85,600	
To Bank/ Cash (Settlement in cash)			1,85,600

Q8. (Oct 18 – 6 Marks) – (Similar to Q14)

ABC Ltd. issued 11,000 share appreciation rights (SARs) that vest immediately to its employees on 1 April 2016. 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 INR 100. SAR can be exercised any time until 31st March 2019. It is expected that out of the total employees, 94% at the end of the period on 31st March 2017, 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	INR
31-Mar-2017	132
31-Mar-2018	139
31-Mar-2019	141

Pass the Journal entries?

SOLUTION

Period	Fair value	To be vested	Cumulative	Expense
Start	100	100%	11,00,000	11,00,000
Period 1	132	94%	13,64,880	2,64,880
Period 2	139	91%	13,91,390	26,510
Period 3	141	85%	13,18,350	(73,040)
				13,18,350

Journal Entries

1-Apr-2016			
Employee benefits expenses	Dr.	11,00,000	
To Share based payment liability (Fair value of the SAR recognised)			11,00,000
31-Mar-2017			
Employee benefits expenses	Dr.	2,64,880	
To Share based payment liability (Fair value of the SAR re-measured)			2,64,880
31-Mar-2018			
Employee benefits expenses	Dr.	26,510	
To Share based payment liability (Fair value of the SAR re-measured)			26,510
31-Mar-2019			
Share based payment liability	Dr.	73,040	
To Employee benefits expenses (Fair value of the SAR reversed)			73,040
Share based payment liability	Dr.	13,18,350	
To Cash (Settlement of SAR)			13,18,350

Q9. (March 2019 – 6 Marks)

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

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

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

The Company has requested you to suggest the suitable accounting treatment for these transaction as on 31st March, 2017.

SOLUTION

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

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

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

Accordingly, the amounts recognised in years 1 and 2 are as follows

Year	Calculation	Compensation expense for period	Cumulative compensation expense
		Rs.	Rs.
1	[1,850 employees× 1,000 options × Rs. 1.20] × 1/3	7,40,000	7,40,000
2	(1,840 employees× 1,000 options × [(Rs.1.20 × 2/3)+ {(Rs.1.05 - 0.90) ×0.5/1.5}] – 7,40,000	8,24,000	15,64,000

Q10. (April 2019 – 12 Marks)

Ankita Holding Inc. grants 100 shares to each of its 500 employees on 1st January, 20X1. The employees should remain in service during the vesting period. The shares will vest at the end of the First year if the company's earnings increase by 12%; Second year if the company's earnings increase by more than 20% over the two-year period; Third year if the entity's earnings increase by more than 22% over the three-year period. The fair value per share at the grant date is Rs. 122. In 20X1, earnings increased by 10%, and 29 employees left the organisation. The company expects that earnings will continue at a similar rate in 20X2 and expects that the shares will vest at the end of the year 20X2. The company also expects that additional 31 employees will leave the organisation in the year 20X2 and that 440 employees will receive their shares at the end of the year 20X2. At the end of 20X2, the company's earnings increased by 18%. Therefore, the shares did not vest. Only 29 employees left the organization during 20X2. Company believes that additional 23 employees will leave in 20X3 and earnings will further increase so that the performance target will be achieved in 20X3. At the end of the year 20X3, only 21 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met. Determine the expense for each year and pass appropriate journal entries?

SOLUTION

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

Workings:

	20X1	20X2	20X3
Total employees	500	500	500
Employees left (Actual)	(29)	(58)	(79)
Employees expected to leave in the next year	(31)	(23)	-
Year end – No of employees	440	419	421
Shares per employee	100	100	100
Fair value of share at grant date	122	122	122
Vesting period	1/2	2/3	3/3
Expenses-20X1 (Note 1)	26,84,000		
Expenses-20X2 (Note 2)		7,23,867	
Expenses-20X3 (Note 3)			17,28,333

Note 1:

Expense for 20X1

= No. of employees x Shares per employee x Fair value of share x Proportionate vesting period

= 440 x 100 x 122 X ½ = 26,84,000

Note 2:

Expense for 20X2

= (No of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 20X1

= (419 x 100 x 122 x 2/3) – 26,84,000 = 7,23,867

Note 3:

Expense for 20X3

= (No of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 20X1 and 20X2

= (421 x 100 x 122 x 3/3) – (26,84,000 + 7,23,867) = 17,28,333.

Journal Entries

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

Q11. (RTP/MTP May 20 – 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 20X5. The SARs provide the employees with the right to receive (at the date when the rights are exercised) cash equal to intrinsic value of the entity's share price. All of the rights vest on 31st December 20X6; and they can be exercised during 20X7 and

20X8. Management estimates that, at grant date, the fair value of each SAR is Rs. 11; and it estimates that 10% of the employees will leave evenly during the two-year period. The fair values of the SARs at each year end are shown below:

Year	Fair value at year end
31 December 20X5	12
31 December 20X6	8
31 December 20X7	13
31 December 20X8	12

10% of employees left before the end of 20X6. On 31st December 20X7 (when the intrinsic value of each SAR was Rs. 10), six employees exercised their options and remaining employees exercised their options at the end of 20X8 (when the intrinsic value of each SAR was equal to the fair value of Rs. 12).

How much expense and liability is to be recognized at the end of each year? Also pass Journal entries.

SOLUTION

The amount recognized as an expense in each year and as a liability at each year end is as follows: 6

Year	Expense	Liability	Calculation of Liability
	Rs.	Rs.	
31 December 20X5	2,16,000	2,16,000	= 36 x 1,000 x 12 x ½
31 December 20X6	72,000	2,88,000	= 36 x 1,000 x 8
31 December 20X7	1,62,000	3,90,000	= 30 x 1,000 x 13 Expense comprises an increase in the liability of Rs. 102,000 and cash paid to those exercising their SARs of Rs. 60,000(6 x 1,000 x 10).
31December 20X8	(30,000)	0	Liability extinguished. Excess liability reversed, because cash paid to those exercising their SARs Rs. 3,60,000 (30 x 1,000 x 12) was less than the opening liability Rs.3,90,000.

Journal Entries

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

To Share based payment liability (Fair value of the SAR recognized)			1,62,000
Share based payment liability To Cash (Settlement of SAR)	Dr.	60,000	60,000
31 December 20X8			
Share based payment liability To Employee benefits expenses (Fair value of the SAR recognized)	Dr.	30,000	30,000
Share based payment liability To Cash (Settlement of SAR)	Dr.	3,60,000	3,60,000

Q12. (October 20 – 8 Marks)

Lucky Limited grants 180 share options to each of its 690 employees. Each grant contains conditions on the employees working for Lucky Ltd. over the next 4 years. Lucky Ltd. has estimated that the fair value of the option is Rs 15. Lucky Ltd. also estimated that 30% of employees will leave during the four-year period and hence forfeit their rights to the share option. If the above expectations are correct, what amount of expenses to be recognised during the vesting period?

SOLUTION

Expense to be recognized during 4 years' vesting period:

Year	Calculation	Expenses for the period Rs	Cumulative expenses Rs
1	690 employees x 180 options x 70% x Rs 15 x ¼	3,26,025	3,26,025
2	[690 employees x 180 options x 70% x Rs 15 x 2/4 years] – Rs 3,26,025	3,26,025	6,52,050
3	[690 employees x 180 options x 70% x Rs 15 x 3/4 years] – Rs 6,52,050	3,26,025	9,78,075
4	[690 employees x 180 options x 70% x Rs 15 x 4/4 years] – Rs 9,78,075	3,26,025	13,04,100

Total amount of the expenses to be recognized during the 4 years' vesting period will be 13,04,100.

Q13. (April 21 – 8 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 30th June, 20X1. New Age Technology Limited determined the fair value of the share options to be the value of the equity shares on 1st April, 20X1.

(ii) On 1st April, 20X1, New Age Technology Limited entered into a contract to purchase IT equipment from

Bombay Software Limited and agreed that the contract will be settled by issuing equity instruments of New Age Technology Limited. New Age Technology Limited received the IT equipment on 30th July, 20X1. The share-based payment transaction was measured based on the fair value of the equity instruments as on 1 st April, 20X1.

(iii) *On 1st April, 20X1, New Age Technology Limited decided to grant the share options to its employees. The scheme was approved by the employees on 30th June, 20X1. The issue of the share options was however subject to the same being approved by the shareholders in a general meeting. The scheme was approved in the general meeting held on 30th September, 20X1. The fair value of the equity instruments for measuring the share- based payment transaction was taken on 30th September, 20X1.*

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

SOLUTION

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), the 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 the grant date. For transactions with parties other than employees (and those providing similar services), the measurement date is the date the entity obtains the goods or the counterparty renders service.

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

Scenario	Grant date	Measurement date	Base for grant date	Base for measurement date
(i)	30th June, 20X1	30th 20X1 June,	The date on which the scheme was approved by the employees	For employees, the measurement date is grant date
(ii)	1st April, 20X1	30th 20X1 July,	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

Q14. (October 21 – 8 Marks)

On 1st April, 20X1, ABC limited gave options to its key management personnel (employees) to take either cash equivalent to 1,000 shares or 1,500 shares. The minimum service requirement is 2 years and shares being taken must be kept for 3 years.

Fair values of the shares are as follows:	**Rs.**
Share alternative fair value (with restrictions)	102
Grant date fair value on 1st April, 20X1	113
Fair value on 31st March, 20X2	120
Fair Value on 31st March, 20X3	132
The employees exercise their cash option at the end of 20X2-20X3. Pass the journal entries.	

SOLUTION

	1st April, 20X1	31st March, 20X2	31st March, 20X3
	Rs.	Rs.	Rs.
Equity alternative (1,500 x 102)	1,53,000		
Cash alternative (1,000 x 113)	1,13,000		
Equity option (1,53,000 - 1,13,000)	40,000		
Cash Option (cumulative) (using period end fair value)		(1,000 x 120 x ½) 60,000	1,32,000
Equity Option (cumulative)		(40,000 x ½) 20,000	40,000
Expense for the period			
Equity option		20,000	20,000
Cash Option		60,000	72,000
Total		**80,000**	**92,000**

Journal Entries

31st March, 20X2			**Rs.**
Employee benefits expenses	Dr.	80,000	
To Share based payment reserve (equity)*			20,000
To Share based payment liability			60,000
(Recognition of Equity option and cash settlement option)			
31st March, 20X3			

Employee benefits expenses	Dr.	92,000	
To Share based payment reserve (equity)*			20,000
To Share based payment liability			72,000
(Recognition of Equity option and cash settlement option)			
Share based payment liability	Dr.	1,32,000	
To Bank/ Cash			1,32,000
(Settlement in cash)			

*The equity component recognized (Rs. 40,000) shall remain within equity. By electing to receive cash on settlement, the employees forfeited the right to receive equity instruments. However, ABC Limited may transfer the share-based payment reserve within equity, i.e. a transfer from one component of equity to another.

QUESTIONS FROM PAST EXAM PAPERS

Q15. (May 18 – 10 Marks)

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 Rs 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	Rs
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.

SOLUTION

Applicability of cash settled share-based payment transactions

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

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

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

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

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

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

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

Calculation of expenses recognized during the year on account of change in the fair value of SARs

Period	Fair valve	To be vested	Cumulative expenses	Expense / (benefit) for the current year
	A	B	c = a x b x 20,000	d = c-of current period – c of previous period
1st April, 2015	95	100%	19,00,000	19,00,000
31st March, 2016	110	95%	20,90,000	1,90,000

31st March, 2017	107	92%	19,68,800	(1,21,200)
31st March, 2018	112	89%	19,93,600	24,800
				19,93,600

Journal Entries

Date			
1st April, 2015	Employee benefits expenses Dr.	19,00,000	
	To Share based payment liability		19,00,000
	(Fair value of the SAR recognized initially)		
31st March, 2016	Employee benefits expenses Dr.	1,90,000	
	To Share based payment liability		1,90,000
	(Fair value of the SAR re-measured)		
31st March, 2017	Share based payment liability Dr.	1,21,200	
	To Employee benefits expenses		1,21,200
	(Fair value of the SAR re-measured & reversed)		
31st March, 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 (Settlement of SARs in cash)		19,93,600

Q16. (November 18 – 8 Marks)

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 Rs61. 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.

SOLUTION

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

Calculation of yearly expenses to be charged:

		2016	2017	2018
(a)	Total employees	400	400	400
(b)	Employees left (Actual)	(22)	(38)*	(47)**
(c)	Employees expected to leave in the next year	(18)	(14)	-
(d)	Year end – No of employees (a-b-c)	**360**	**348**	**353**
(e)	Shares per employee	200	200	200
(f)	Fair value of a share at the grant date	61	61	61
	Conditional increase in earnings	12%	20%	20%
	Actual increase in earnings	10%	18%	20%
(g)	Vesting period	1/2	2/3	3/3
(h)	Expenses (Refer Working Notes)	21,96,000	6,34,400	14,76,200

*22 + 16 = 38

** 22 +16 + 9 = 47

Journal Entries

31st March, 2016	**Rs**	**Rs**
Employee benefits expenses A/c Dr.	5,49,000	
To Share based payment reserve (equity) A/c		5,49,000
(Equity settled shared based payment based on conditional vesting period)		
Profit and Loss A/c Dr.	5,49,000	
To Employee benefits expenses A/c		5,49,000
(Employee benefits expenses transferred to Profit and Loss A/c)		
31st March, 2017		
Employee benefits expenses Dr.	18,05,600	
To Share based payment reserve (equity)		18,05,600
(Equity settled share based payment based on conditional expected vesting period)		
Profit and Loss A/c Dr.	18,05,600	
To Employee benefits expenses A/c		18,05,600

(Employee benefits expenses transferred to Profit and Loss A/c)		
31st March, 2018		
Employee benefits expenses Dr.	8,44,850	
To Share based payment reserve (equity)		8,44,850
(Equity settled shared based payment based on conditional expected vesting period)		
Profit and Loss A/c Dr.	8,44,850	
To Employee benefits expenses A/c		8,44,850
(Employee benefits expenses transferred to Profit and Loss A/c)		
31st March, 2019		
Employee benefits expenses Dr.	11,07,150	
To Share based payment reserve (equity)		11,07,150
(Equity settled share based payment based on conditional expected vesting period)		
Profit and Loss A/c Dr.	11,07,150	
To Employee benefits expenses A/c		11,07,150
(Employee benefits expenses transferred to Profit and Loss A/c)		
Share based payment reserve (equity) Dr.	43,06,600	
To Share Capital (Share capital Issued)		43,06,600
(353 x 200 x 61)		

Working Notes:

1. Expense for 2016 (Jan to Dec) = No. of employees x Shares per employee x Fair value of share x Proportionate vesting period

   = 360 x 200 x 61 X 1/2

   = 21,96,000

   Expense recognized in the financial year 2015-2016= 21,96,000 x 3/12 = 5,49,000

2. Expense for 2017 (Jan to Dec) = No of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 2016

   = [(348 x 200 x 61) x 2/3] – 21,96,000

   = 6,34,400

   Expense recognized in the financial year 2016-2017= (21,96,000 x 9/12) + (6,34,400 x 3/12) = 16,47,000 + 1,58,600 = 18,05,600

3. Expense for 2018 (Jan to Dec) = (No of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 2016 and 2017

   = [(353 x 200 x 61) x 3/3] – (21,96,000 + 6,34,400)

= 14,76,200

Expense recognized in the financial year 2017-2018= (6,34,400 x 9/12) + (14,76,200 x 3/12) = 4,75,800 + 3,69,050 = 8,44,850

4. Expense recognized in the financial year 2018-2019=(14,76,200x9/12)= 11,07,150

Q17. (May 19 – 8 Marks)

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 earnings increased by more than 23% over the three-year period.

The fair value per share at the grant date is Rs 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, the 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 in2017.

At the end of the year 2017, only 22 employees 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.

SOLUTION

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

Determination of expenses for each year:

		2015	2016	2017
A	Total employees	300	300	300
B	Cumulative- Employees left (Actual)	(20)	(40)	(62)
C	Employees expected to leave in the next year	(30)	(25)	-
D	Year end – No of employees	250	235	238
E	Shares per employee	100	100	100
F	Fair value of a share at grant date	125	125	125
G	Vesting period	1/2	2/3	3/3

H	Cumulative expenses (d x e x f x g)	15,62,500	19,58,333	29,75,000
I	**Expenses to be recognized (h-h of previous year)**		**3,95,833**	**10,16,667**

Journal Entries

31^{st} December,2015			**Rs**
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^{st} December, 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^{st} December, 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)			

Q18. (Nov. 19 – 8 Marks)

ABC Limited granted 500 stock appreciation rights (SAR) each to 80 employees on 1st April, 2017 with a fair value Rs 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 Rs 110

31st March, 2019 Rs 120

31st March, 2020 Rs 115

31st March, 2021 Rs 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 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.

SOLUTION

Number of SARs = 80 Employees x 500 SARs = 40,000 SARs

1. **When the term of the awards is 4 years of service**

Period	Fair value	To be vested	Cumulative	Expense in proportion to the award earned	Cumulative expenses recognized
	A	b	c = 40,000 x a x b	d = [{(c / no. of total years) x years completed} – e of pvs year]	E
1st April, 2017	100	100%	40,00,000	-	-
31st March, 2018	110	100%	44,00,000	11,00,000	11,00,000
31st March, 2019	120	100%	48,00,000	13,00,000	24,00,000
31st March, 2020	115	100%	46,00,000	10,50,000	34,50,000
31st March, 2021	130	100%	52,00,000	17,50,000	52,00,000

Journal Entries

31st March, 2018			
Employee benefits expenses/Profit and Loss A/c	Dr.	11,00,000	
To Share based payment liability			11,00,000
(Fair value of SARs has been recognised)			
31st March, 2019			
Employee benefits expenses/Profit and Loss A/c	Dr.	13,00,000	
To Share based payment liability			13,00,000
(Fair value of SARs has been re-measured)			
31st March, 2020			
Employee benefits expenses/Profit and Loss A/c	Dr.	10,50,000	
To Share based payment liability			10,50,000
(Fair value of SARs has been recognized)			
31st March, 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)			

2. **When the term of the awards is modified to 3 years of service instead of 4 years of service**

Period	Fair value	%age of vesting	Cumulative	Expense in proportion to the award earned	Cumulative expenses recognized
	a	b	c = 40,000 x a x b	d = [{(c / total years) x years completed} – e of pvs year]	e
1st April, 2017	100	100%	40,00,000	-	-
31st March, 2018	110	100%	44,00,000	11,00,000	11,00,000
31st March, 2019	120	100%	48,00,000	21,00,000	32,00,000
31st March, 2020	115	100%	46,00,000	14,00,000	46,00,000

Journal Entries

31^{st} March, 2018			
Employee benefits expenses	Dr.	11,00,000	
To Share based payment liability			11,00,000
(Fair value of SARs has been recognised)			
31^{st} March, 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^{st} March, 2020			
Employee benefits expenses	Dr.	14,00,000	
To Share based payment liability			14,00,000
(Fair value of SARs has been recognized)			

Q19. (November 20 – 5 Marks)

Nest Ltd. issued 10,000 Share Appreciation Rights (SARs) that vest immediately to its employees on April 1^{st}, 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 is ₹100. SAR can be exercised any time until March 31^{st}, 2020. It is expected that out of the total employees, 94% at the end of the period on March 31^{st}, 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	₹
March 31^{st}, 2018	132
March 31^{st}, 2019	139
March 31^{st}, 2020	141

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

SOLUTION

Table showing amount of expense to be charged each year

Period	Fair value	To be vested	Cumulative	Expense
	a	b	c= a x b x 10,000	d = c-prev. period c
1 April 2017	100	100%	10,00,000	10,00,000
31 March 2018	132	94%	12,40,800	2,40,800
31 March 2019	139	91%	12,64,900	24,100
31 March 2020	141	85%	11,98,500	(66,400)
				11,98,500

Journal Entries

1 April 2017			
Employee benefits expenses	Dr.	10,00,000	
To Share based payment liability			10,00,000

(Fair value of the SAR recognized)			
31 March 2018			
Employee benefits expenses	Dr.	2,40,800	
To Share based payment liability			2,40,800
(Fair value of the SAR re-measured)			
31 March 2019			
Employee benefits expenses	Dr.	24,100	
To Share based payment liability			24,100
(Fair value of the SAR re-measured)			
31 March 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)			

Q20. (January 21 – 12 Marks)

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 Rs.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 repricing, the fair value of each of the original share options granted was Rs. 50 and the fair value of each re-priced option was Rs. 80. Thus, the incremental fair value of each modified option was Rs. 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 the 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.

SOLUTION

Note: The first para of the question states that "benefits will then be settled in cash of an equivalent amount of share price." This implies that the award is cash settled share-based payment. However, the second and third para talks about repricing of the option which arises in case of equity settled share-based payment. Hence, two alternative solutions have been provided based on the information taking certain assumptions.

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

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

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

Calculation of expenses:

For the year ended 31st March 2018

= Rs. 50 x 150 awards x 900 employees x (1 year /3 years of service)

= Rs. 22,50,000

For the year ended 31st March 2019

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

= [Rs. 80 x 150 awards x 950 employees x (2 year / 3 years of service)] – Rs. 22,50,000

= Rs. 7,60,00,000 – Rs. 22,50,000 = Rs. 53,50,000

Journal Entries

31st March, 2018			
Employee benefits expenses To Share based payment liability	Dr.	22,50,000	22,50,000
31st March, 2019			
Employee benefits expenses To Share based payment liability (Fair value of the liability recognized)	Dr.	53,50,000	53,50,000
31st March, 2020			
Employee benefits expenses To Share based payment liability (Fair value of the liability recognized) [(930 x 80 x 150) - 22,50,000 - 53,50,000]	Dr.	35,60,000	35,60,000
Share based payment liability To Bank (Being liability for awards settled in cash) (930 x 80 x 150)	Dr.	1,11,60,000	1,11,60,00

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

Calculation of expenses:

For the year ended 31st March 2018

= [Rs. 129 x 150 awards x 900 employees x (1 year /3 years of service)]

= Rs. 58,05,000

For the year ended 31st March 2019

Ind AS 102 requires the entity to recognise the effects of repricing that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee.   *If the repricing increases the fair value of the equity instruments granted standard requires the entity to include the incremental fair value granted (ie the difference between the fair value of the repriced equity instrument and that of the original equity instrument, both estimated as at the date of the modification) in the measurement of the amount recognised for services received as consideration for the equity instruments granted.*   *If the repricing occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the repricing date until the date when the repriced equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period. Accordingly, the amounts recognised are as follows:*

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

Journal Entry

31st March, 2018		
Employee benefits expenses Dr. To Outstanding Share based payment option (Fair value of the liability recognized)	58,05,000	58,05,000
31st March, 2019		
Employee benefits expenses Dr. To Outstanding Share based payment option (Fair value of the liability re-measured)	85,87,500	85,87,500
31st March, 2020		
Employee benefits expenses Dr. To Outstanding Share based payment option (Fair value of the liability recognized)	77,88,000	77,88,000
Outstanding Share based payment option Dr. To Equity share capital (Being award settled)	2,21,80,500	2,21,80,500

Q21. (JULY 21 – 12 Marks)

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

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

The Company faced a 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 Rs. 15.

The following information is available:

- Fair value of the option at the date of cancellation is Rs. 12.
- The company paid compensation to the employees at the rate of Rs. 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.

SOLUTION

Calculation of employee compensation expense

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

Cancellation compensation to be charged in the year 2

Cancellation compensation		
Number of employees (A)	190	
Amount agreed to pay (B)	13.50	
Number of options/ employee (C)	1,000	
Compensation amount (A x B x C)		25,65,000
Less: Amount to be deducted from Equity		
Number of employees (D)	190	
Fair value of option (at the date of cancellation) (E)	12	
Number of options / employee (F)	1,000	
Amount to be deducted from Equity (D x E x F)		(22,80,000)
Balance transferred to Profit and Loss		2,85,000

Q22. (December 21 – 6 Marks) – (Similar to Q.13)

On 1st April, 2020.21, Grocery limited gave options to its key management personnel (employees) to take either cash equivalent to 650 shares or 810 shares. The minimum service requirement is 2 years and shares being taken must be kept for 4 years.

Fair values of the shares are as follows:	**Rs.**
Share alternative fair value (with restrictions)	460
Grant date fair value on 1st April, 2020.21	480
Fair value on 31st March, 20X2	530
Fair Value on 31st March, 20X3	560
The employees exercise their cash option at the end of 2021-2022. Pass the journal entries.	

SOLUTION

	1st April, 2020-21	**31st March, 20X2**	**31st March, 20X3**
	Rs.	**Rs.**	**Rs.**
Equity alternative (860 x 460)	3,72,600		
Cash alternative (650 x 480)	3,12,000		
Equity option (3,72,600 – 3,12,000)	60,600		
Cash Option (cumulative) (using period end fair value)		(650 x 530 x ½) 1,72,250	1,91,750
Equity Option (cumulative)		(40,000 x ½) 30,300	30,300
Expense for the period			
Equity option		30,300	30,300
Cash Option		1,72,250	1,91,750
Total		**2,02,550**	**2,22,050**

Journal Entries

31st March, 2021			**Rs.**
Employee benefits expenses	Dr.	2,02,550	
To Share based payment reserve (equity)*			30,300
To Share based payment liability			1,72,250
(Recognition of Equity option and cash settlement option)			
31st March, 20X3			
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)			

*The equity component recognized (Rs. 60,600) shall remain within equity. By electing to receive cash on settlement, the employees forfeited the right to receive equity instruments. However, Grocery Limited may transfer the share-based payment reserve within equity, i.e. a transfer from one component of equity to another.