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CHAPTER

IND AS 102 - SHARE BASED PAYMENTS

1. Introduction

As the name itself describes, share-based payments refer to "payments made by a company **based on its share price**" (read carefully). Share-based payment occurs when an entity buys goods (or) avails services from a 'counterparty' and the counterparty could be any supplier or even an employee;

This standard deals with the effects of share-based payment transactions in P&L and Balance sheet *including* expenses associated with share options granted to employees.

What is share-based payment?

The standard has given TWO step definition *i.e.* it has defined (1) **Share-based payment arrangement;** and (2) **Share-based payment transaction** separately. *One should read very carefully to understand it.*

Share-based payment arrangement is an **agreement** between

(*a*) the entity/another **group** entity/**any shareholder** of **any group entity**; and

(*b*) another party (including an employee)

This arrangement **entitles the other party** to receive

- shares/share options of the entity **or** another group entity; or
- **cash/other assets based on share price (share option price) of the entity or another group entity**;

(subject to satisfaction of vesting conditions mentioned in the agreement)

The distinction between employee and other than the employee is **important as the measurement** of share-based payments **differs** accordingly.

A **'share-based payment transaction'** is 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 *(in this case - the entity (A Ltd.) receives goods/services and A Ltd. settles the obligation either by paying cash based on its share price or issuing equity shares)*
- **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**. *(Read it carefully, another group entity receives the goods/services from any supplier/employee and this entity is going to settle the obligation - Like, Subsidiary receives the services from its employees but Holding Co. issues its shares to subsidiary employees*) This part is going to be discussed in detail towards the end of this chapter.

What do you mean by "group" entity?

The group includes parent, subsidiaries (include sub-subsidiary also), fellow subsidiaries. It does not include Associates & Joint Ventures.

What do you mean by "Goods"?

Goods include inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets.

Read the above two definitions very carefully two to three times.

Let us discuss, what kind of transactions will be included or excluded in this standard.

2. Scope

This standard is **applicable** to **all share-based payment transactions** in relation to goods or services received **irrespective of its specific identification.** (That is, the standard is applicable to goods/services whether identified or unidentified). This is including:

(*a*) equity-settled share-based payment transactions - *It settles by issuing equity instruments or share option of the entity;*

(*b*) cash-settled share-based payment transactions **-** *It settles by giving either cash or other assets of the entity but based on share price of the entity;*

(*c*) choice of settlement - It can be settled either by giving cash/other assets or issuing equity instruments. This choice can be either with the entity or the counterparty;

(*d*) unidentified Goods/Services that are being received; and

(*e*) in some cases, one entity *(Subsidiary)* is receiving the goods or services but other group entity *(Say parent entity)* has to settle the obligation and *vice versa i.e.* other group entity (*Parent*) received goods or services and the entity (*Subsidiary*) needs to settle the obligation. This standard is applicable to both the entities receiving Goods or Services *as well* who settles the payment.

Non-applicability

(*a*) A transaction with employees (or other parties) in his/her **capacity as a holder of equity instruments** of the entity is not a share-based payment transaction.

For example, Rights issue - if an entity grants rights to purchase additional shares to all holders of a particular class of its equity instruments at a price that is less than the fair value, and an employee receives such a right because he is a holder of equity instruments, the granting or exercise of that right is not covered by this Standard.

(*b*) Transactions in which the entity acquires goods as part of the net assets acquired in a **business combination.** However, equity instruments **granted to employees of the acquiree in their capacity as employees** (e.g. in return for continued service) are **within the scope of this Standard.** Ind AS 103 guides whether the equity instruments are issued for control acquisition or continued services.

(*c*) The transaction under a contract is within the scope of Financial Instruments Ind AS 32.

Let us look into the definitions of the standard before entering into concept capsules.

3. Definitions

"Equity-settled" share-based payment transaction:

A share-based payment transaction in which the entity:

(*a*) receives goods or services as consideration for its own equity instruments (including shares or share options), or

(*b*) receives goods or services but has **no obligation to settle** the transaction with the supplier *(because it will be settled by group entity).*

"Cash-settled" share-based payment transaction:

A share-based payment transaction in which the entity **acquires goods or services** by **incurring liability to transfer cash or other assets** to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity.

We will learn few more definitions at later point of time

Read so far discussion carefully for two to three times before attempting the concept capsules.

Concept capsule 1

Discuss whether this Standard is applicable in the following cases:

1. Entity B grants 10 shares to its employees provided that they remain in service for the next 12 months.
2. Entity C grants employees a cash bonus equal to C's share price growth provided that they remain in service over the next 12 months.
3. Entity E's share price is ₹120. E awards a cash bonus of ₹120 to employees, payable in one year to those who remain in service during the next 12 months.
4. Entity D awards a cash bonus of 500 to employees, payable in one year to those who remain in service if D's share price exceeds a price of ₹10 per share during the next 12 months.
5. Entity E is developing a new product and purchases a patent from entity F. The parties agree a purchase price of 1,000 of entity E's shares. These will be issued to entity F within 60 days of finalising the legal documentation that transfers the patent from entity F to entity E.
6. An **individual** with a 40% shareholding in entity F awards 2% of his shareholding in entity F to a director of entity F's subsidiary, entity G, in exchange for employment services;
7. Shares, share options, Bonus shares or other equity instruments are granted to **employees** as part of their **remuneration package**, in addition to a cash salary and other employment benefits.
8. Entity F needs a new Plant & Machinery and has arranged to acquire it from an existing shareholder. The purchase price will be settled by the entity issuing 1,500 new shares. For legal purposes, the transaction is considered as an in-kind capital contribution of P&M.
9. Entity H enters into a contract to purchase 10 tonnes of cocoa beans. The purchase price will be **settled in cash** at an amount **equal to the value of 100 of entity H's shares**. But the entity can settle the contract at any time by paying an amount equal to the current market value of ₹100 of its shares less the market value of 10 tonnes of cocoa beans. The entity has entered into the contract as part of its hedging strategy and has no intention of taking physical delivery of the cocoa beans. (Read carefully)
10. The management committee of an entity has initiated a plan to provide some stock options to its employees but there are some terms which are yet to be finalized and the plan is not yet communicated to employees till the year end. Whether this standard should be followed for the current year?
11. An entity issuing its own shares for a charity without any consideration.

Suggested answer

1. The entity is receiving employee services for 12 months period and it is settling the same by issuing the shares to employees. This is an equity-settled share-based payment - covered by this Standard.
2. The entity is receiving required period of service (12 months) from employees and it is settling the same by paying cash which is determined based on the change in share price. This is a cash-settled share-based payment. This award is also known as an SAR.
3. This is not a share-based payment. Although the payment to the employees is linked to the delivery of service from the employees, the payment is not based on the share price of E. *i.e.* employee receives ₹ 120 irrespective of increase or decrease in share value over the period. The award is considered an employee benefit in the scope of Ind AS 19.

4. Although D has an obligation if the share price-related target is met and the employees provide the required services, the amount of the payment is **not based on the share price of D**. The award is considered an employee benefit in the scope of Ind AS 19. This is not a share-based payment.
5. The entity is issuing shares as a consideration of received goods (patents - intangible asset). This is equity settled share-based payment;
6. As per the definition, agreement between a shareholder of any group entity and another person - In this case, the individual is share holder of the group entity and issuing to the director (other person) of the its subsidiary for employee services. This is scoped into the standard. The award will be reflected in *entity G's financial statements and in entity F's consolidated financial statements*.
7. Shares, share options, Bonus shares issued for receipt of services in the capacity of employee. These transactions are within the scope of the standard and come under equity settled share based payment.
8. The counterparty did not act in its capacity as shareholder, but as a supplier of the P&M. It is like, the entity is issuing shares for the receipt of goods (P&M) from another party. This transaction is within the scope of the standard.
9. The transaction meets the definition of a cash-settled share-based payment transaction (that is, entity H has acquired goods in exchange for payment of an amount based on the value of its shares). **However**, the contract **can be settled net and has not been entered into to satisfy entity H's expected purchase**, sale or usage requirements as there is no intention of taking delivery. So the transaction is outside the scope and is instead dealt with under Ind AS 32.
10. As per the definition of share based arrangement is an agreement between the parties. The standard will be applicable only when there is a binding agreement. Moreover, as the arrangement has not even been communicated to the employees, there is nothing to account.
11. It has been mentioned above that this standard is applicable for goods/services whether identified (or) unidentified. Suppose, the value of the goods received has been paid by issuing its own equity shares but if the fair value of the goods received is less than the value of share issued by the entity, then it means that some unidentified goods/services will be received. In case, the difference is to be debited to P&L if it merits to be considered as an expense. Similarly, if the fair value of the goods received is more than the value of the shares issues by the entity, it means that some unidentified goods/services have been received.

    In this case, the difference is to be credited to P&L. The given case falls under this scenario and hence, Ind AS 102 is applicable. However, this treatment is not applicable in case of transactions with those who are considered as employees for tax purpose.

    (*This concept will be clear in the following concept capsules*)

Concept capsule 2

A Ltd. who received services from the employees issued Employee share options. Whether this transaction is to be accounted under this standard?

What if the Company provides Share incentive plans?

Suggested answer

As per Ind AS 102, a share based payment arrangement is an agreement between the entity and another party which entitles the other party to equity instruments as a consideration for receipt of goods/services.

ESOs offer the option holders the right to buy a certain amount of company **shares** at a predetermined price for a specific period of time.

Share incentive plan means encouraging employees at all levels to acquire **shares** in the employer company.

In both the above cases, there is no obligation to settle the transaction with the supplier. But, since this is related to receipt of services and Equity based settlement, this standard applies to this transaction.

Fair value: The amount for which an asset could be exchanged, a liability could be settled, or an *equity instrument granted* could be exchanged, between knowledgeable and willing parties in an arm's length transaction (The definition of "fair value" as per this standard is too different from fair value as per Ind AS 113 - You should not refer to Ind AS 113 for the purpose of this Standard).

Fair value which is required to be used is **not just a quoted price** of any security. There are some market related conditions and/or non-vesting conditions that should be considered in the determination of fair value. Hence to determine such fair value, one has to use valuation techniques. However, there is no specific provision in the Standard to this extent. Black Scholes pricing model and Binomial pricing model are generally accepted and widely used.

Standard specifies the following minimum inputs to be used while calculating the fair value.

(*a*) Exercise price of the option;

(*b*) Life of the option;

(*c*) Current price of the underlying shares;

(*d*) Expected volatility of the share price;

(*e*) Dividend expected on the shares (if appropriate); and

(*f*) Risk-free interest rate for the life of the option.

4. Recognition

An entity shall **recognise** the **goods or services** (*i.e.* enter in the books by debiting the goods/services) in a share-based payment transaction **only when it receives them**. Accounting is based on the method of settlement of the liability.

How is it being settled?	**Journal entry**
Equity-settled share-based payment	Goods/services a/c.... Dr To **Equity** (**Share based payment reserve**) a/c
Cash-settled share-based payment	Goods/services a/c.... Dr To **Payable (Share based payment liability)** a/c

Whether goods/services will be recorded as asset or expense?

Well, this is not under the scope of this Standard. One should refer to the basic definition of asset and conditions to be fulfilled to recognise an asset. If the underlying goods or services satisfy the definition and conditions of an asset - it can recognise as an asset, otherwise it should be charged to P&L as an expense.

For example

Usually, when any counterparty provides services - it will be expensed in the same year. If the entity receives goods - it should be initially recognised as inventory and later it should be charged to the statement of P&L when inventory is consumed. If these items used for development phase of intangible asset - it will be capitalised along with Intangible asset as per Ind AS 38.

Let us learn this standard in FOUR PARTS

Part I - Equity-settled Share based payment transactions;

Part II - Cash-settled Share based payment transactions;

Part III - Share based payment transactions with cash alternatives;

Part IV - Share-based payment transactions among group entities.

Part I - Equity-settled Share Based payment transactions

As we learnt above, in case of accounting for equity-settled share based payment transactions - Goods/services received will be debited and corresponding credit be given to Equity.

At what value?

First Preference	Record at **Fair Market Value of Goods/Services received;**
Second Preference	Record at Fair Market value of Equity instruments issued; (this is only when FMV of goods/services cannot be measured reliably)

Important points on fair value:

- If employee provides services to the entity : Actually it is not possible to estimate the fair value of the services. Hence one should consider fair value of equity instruments issued; *(This same rule is applicable - even* ***others providing similar services****); (Explained below)*. In case of Employees, Fair value of the equity instruments should be **measured on the grant date**;
- In case of transactions with the **parties other than employees**, Standard's **rebuttable assumption is that fair value of goods/services can be measured reliably**. In **rare cases**, it may not be possible to measure the fair value of goods/services received, in that case, as an alternative, consider fair value of equity instruments issued; Even in this case, **fair value** of equity instruments should be **measured on the date when the entity receives the goods/services** (Not on the date of issue of equity instruments).

What do you mean by "Employees and others providing similar services"?

Individuals who render **personal services** to the entity are either

(*a*) the individuals are regarded as employees for legal or tax purposes;

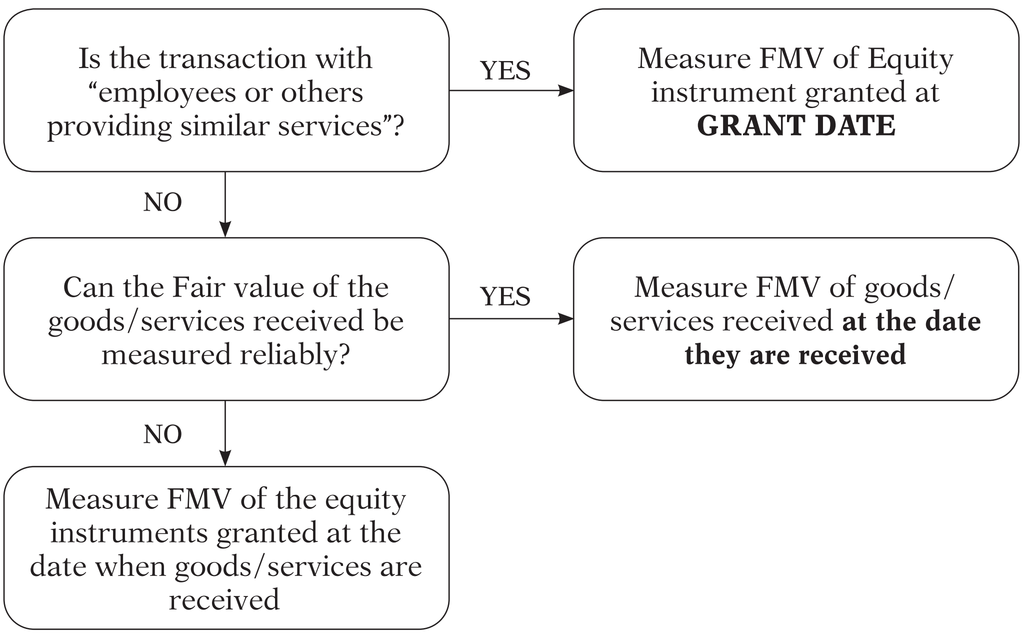
(*b*) the individuals work for the entity under its direction in the same way as individuals who are regarded as employees for legal or tax purposes, or

(*c*) the services rendered are similar to those rendered by employees.

For example, the term includes all management personnel, *i.e.*, those persons having authority and responsibility for planning, directing and controlling the activities of the entity, including non-executive directors.

In this standard, Employees **include** "Others providing similar services"

The following diagram summarises the above discussion



Concept capsule 3

Indian Inc. issued 995 shares in exchange for purchase of an office building. The title was transferred in the name of Indian Inc. on 1st February, 2021 and shares were issued. Fair value of the office building was ₹ 2,00,000 and face value of each share of Indian Inc was ₹ 100 on that date. Pass the journal entries.

Suggested answer

As per Ind AS 102, in case of equity-settled share based payment transactions - Goods/services received will be debited and corresponding credit will be given to Equity. The entity should record the goods/services at its fair value as it is very clearly available.

1st February, 2021	₹	₹
Office Building Dr.	2,00,000	
To Share capital (995 x 100)		99,500
To Securities premium (balance)		1,00,500
(Recognition of equity option and cash settlement option)		

Concept capsule 4

An oil business hires an external consultant to assess its oil reserves. The service is provided over a five-month period; it will be settled by issuing 100 shares to the consultant, which was valued at ₹ 40 lakh when the contract was awarded. The entity estimates the cash fair value of the service to be ₹ 36 lakh, based on bids from other consultants. What would be the accounting treatment in the following cases:

Case 1: The consultant is considered an employee for tax purposes.

Case 2: The consultant is NOT considered as employee for tax purposes.

Suggested answer

As per Ind AS 102, if the identifiable **consideration received (if any) by the entity appears to be less than the fair value of the equity instruments granted or liability incurred,** typically this situation indicates that other consideration (*i.e.* **unidentifiable goods or services**) has been (or will be) **received** by the entity.

The value of unidentifiable goods/services = Fair value of equity instruments issued - Fair value of goods/ services.

Case 1: The consultant is considered an employee for tax purposes:

As discussed above, services of the employees are measured at fair value of equity instruments issued, hence above discussion on unidentifiable services is not applicable.

Considering the above, the consultant is considered an employee for the purpose of this standard. So management should recognise the service at the fair value of the equity instruments granted *i.e.*, ₹ 40 lakh.

Employee benefits a/c … Dr ₹ 40 lakh

To Equity Share capital ₹ 40 lakh

Case 2: The consultant is NOT considered an employee for tax purposes:

When the entity receives the services from other than employees, it should be measured at the fair value of the services on the date of receipt.

Considering the above discussion, recognise the services at its fair value *i.e.* ₹36 lakh and the difference between fair value of equity instruments and services received as unidentifiable services *i.e.* ₹4 lakh (₹ 40 lakh - ₹ 36 lakh). These unidentifiable services should be charged to P&L statement immediately.

Consultancy expenses a/c … Dr ₹ 36 lakh

Unidentifiable services (P&L).. Dr ₹ 4 lakh

To Equity Share capital ₹ 40 lakh

Concept capsule 5

Entity M receives consultancy services from Entity F and the consideration will be paid in the form of entity M's ordinary shares. The agreed rate is two shares for one hour of consultancy service. Entity F has a schedule of rates. They charge ₹ 10,000 per hour for a similar project. At the grant date the fair value of one share is ₹ 5,000 (No unidentified G/S's). How should this be accounted for if there are change in scale rate over the life of the contract or changes in equity?

Suggested answer

Measurement of fair value by Direct method

In the given case, Entity M should debit the expense a/c and Credit the equity a/c by ₹10,000 for each hour of consultancy services received. Here, there is no scope for unidentified services as there is no difference between the value of goods or services received and equity shares issued.

If the scale rate changes over the life of the contract, this means that it could be either above (or) below ₹10,000 and it is not necessary that the fair value of its share also should change in similar direction. Hence, it could potentially lead to a situation wherein the fair value of service charges and fair value of its share could differ which then gives rise to the recognition of unidentifiable services as illustrated in previous concept capsule. Changes to the share price over the life of the contract will **not affect** the amounts to be recognized as an expense but obviously it could affect the amount of unidentifiable services.

Note that the counterparty is an entity rather than an individual that is providing services; and so it does not fall within the category of employees/others providing similar services.

Indirect Method: In the above case, if Entity F receives additional 100 shares for other services which cannot be measured directly, the value should be arrived at measuring the fair value of 100 shares at the date the counterparty renders service.

Concept capsule 6

An entity grants shares, with a total fair value of ₹ 1,00,000, to parties other than employees who are from a particular section of the community. The economic benefits derived from enhancing its corporate image could take a variety of forms, such as increasing its customer base, attracting or retaining employees (who might prefer to work for an entity that supports such 'good causes'), and improving or maintaining its ability to tender successfully for business contracts. Is this covered by Ind AS 102? And if Yes, how to recognise and measure?

Suggested answer

In the given case, the entity cannot identify the specific consideration received. For example, no cash was received and no service conditions were imposed. So the identifiable consideration (*nil*) is less than the fair value of the equity instruments granted (₹ 1,00,000). The circumstances indicate that unidentifiable goods or services have been (or will be) received, and so this standard applies.

Generally, as per the standard, there is a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. But in the given case, it does **not apply**. So, the entity should instead measure the goods or services received by reference to the fair value of the equity instruments granted.

It should record the following journal entry

Unidentifiable services (sales promotion exp) (P&L).. Dr ₹ 1 lakh

To Equity Share capital ₹ 1 lakh

Let us learn few more words before getting into the subject little deeper

What do you mean by "Vesting"?

Vesting means **becoming entitled**. That is, the **counterparty** (employees/any other party) is **entitled to receive cash, other assets or equity** instruments of the entity. Usually, vesting is subject to certain conditions which are discussed below at length.

What are "Vesting conditions"?

These are the conditions mentioned in the share-based payment arrangement which need to be satisfied by the counterparty to become entitled. A vesting condition is either a **service condition** or a **performance condition**.

Vesting period: Refers to the period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.

What do you mean by "Service condition" & "Performance condition"?

Service condition:

It is a vesting condition that requires the **counterparty to complete a specified period of service**. If the counterparty ceases to provide service during the vesting period (regardless of the reason), it has failed to satisfy the condition. A service condition **does not require to meet a performance target**.

Example

An entity issued shares options to its existing employees who remain in service for next 3 years and the benefit will be settled in cash of an equivalent amount of share price.

Performance condition:

A vesting condition that requires

(*a*) the counterparty to **complete a specified period of service** (*i.e.*, a service condition); the service requirement can be explicit (precisely communicated) or implicit (Implied); and

(*b*) specified performance target should be met while the counterparty is rendering the services as per point (a) above. *Examples include* - Achieving sales target, Profit target, Market price target, etc. These targets may be pertaining to the entity **or** any other entity in the same group **or** partly related to entity and remaining related to another entity in the group.

What is "Grant date"?

The **date** on which **both the parties** (the entity & counterparty) **agreed to SBP arrangement**.

At grant date the entity grants the counterparty the right to cash, other assets, or equity instruments of the entity subject to satisfaction of specified vesting conditions mentioned in the agreement. If that agreement is subject to an approval process (for example, by shareholders), **grant date is the date when that approval is obtained**.

Read the above words once again carefully and then get into the next topic. There are few situations, let us handle separately.

Concept capsule 7

Entity initiated a share based payment agreement in its board meeting and directed the supervisors to communicate the agreement to the employee. Consider the following scenarios and determine grant date:

(1) Employees have not yet given his/her consent either implicitly or explicitly. However, entity has taken approval of the agreement in its General Meeting.

(2) Employees have agreed to the terms implicitly/explicitly. However, the approval process is under finalization.

(3) Certain terms have not been specifically mentioned since they are based on some subjective conditions in future.

Suggested answer

Grant date is the **date** on which **both the parties** (the entity & counterparty) **agreed to share based arrangement**. If the agreement is subject to an approval, the grant date is the date on which such approval is obtained.

(1) Even when the approval has been obtained in general meeting, no consent has been given by an employee/counterparty; therefore, grant date cannot be determined.

(2) Even when the employee/counterparty has agreed to the terms but approval process is still not complete, hence the grant date should be the date when approvals are obtained.

(3) Terms/conditions mentioned in the agreement must be objectively defined and should not be based on subjective outcome. Mutual understanding is crucial which essentially means that all terms/clauses and calculation related to the equity prices must be clear and objectively defined.

In all of the above cases, grant date cannot be determined.

Situation 1

Equity instruments which are granted vest immediately

This means, no vesting conditions are to be satisfied for entitlement. In other words, the counterparty need not fulfil either service or performance conditions. It is assumed that services have been received.

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

Concept capsule 8

Management of an entity decides to declare bonus to certain key employees for their past services amounting to ₹ 20 lakh which is payable by the issue of shares. Account for the transaction.

Suggested answer

In the given case, there are no conditions are to be satisfied for entitlement. Hence, the amount equivalent to the shares will be recognised immediately as cost of employees because there are no conditions to be fulfilled for vesting.

Employee benefits a/c … Dr ₹ 20 lakh

To Equity Share capital ₹ 20 lakh

Situation 2

Equity instruments which are granted upon completion of specific period of service by counterparty

In this case,

Services to be rendered during the vesting period by the counterparty = Consideration for Equity instruments to be issued.

The entity shall account for (Debit) those services as they are rendered by the counterparty during the **vesting period**, with a corresponding increase in equity (Credit).

For example

(*a*) If an employee is granted share options conditional upon service conditions (*E.g., complete three years' service)* - the specified service period itself becomes the vesting period. In this case, consideration for share options granted by the entity is services to be rendered by the employees during the vesting period and hence, expense for the service received will be recognised over the vesting period. (In fact, vesting shall take place only upon completion of specified 3 years in this case, however, we cannot postpone recognition of service expense until then and moreover, it is prudent and also in line with generally accepted accounting principles to accrue the expense based on management's best estimate of how many of the staff are going to fulfil the vesting period condition.)

Concept capsule 9 - Service condition

Entity A grants **share options** to employees with a service condition of 3 years. The estimated Fair value of the share options on the grant date is ₹ 6,00,000. What is the amount charged if none of the employees leave the entity during the vesting period.

Suppose, on the grant date, management has estimated that 5% employees will leave the entity and further, in the second year the estimate gets changed to only 3% but at the end of 3rd year, the options that are actually vested are only 93%. Account for this share based transaction for each year.

Suggested answer

In case of equity-settled share based payment transactions - Goods/services received will be debited and corresponding credit be given to Equity. Generally, equity instruments are valued at the fair value of goods/ services received, but in case of services received from employees - as it is not possible to measure the fair value of services reliably, we should recognise at fair value of equity instruments.

If none of the employees leave the entity:

The services are rendered for a period of 3 years which is the vesting period. In this period, the employees become entitled for the share options.

Fair value of the options on the grant date = ₹ 6,00,000; We need not consider any movements in the entity's share price.

This will be recognised over the vesting period of 3 years equally *i.e.* ₹ 2,00,000 p.a. this is charged to the statement of P&L as expense. This charge will be unchanged.

The following Journal entry is recorded every year

Employee benefit expense a/c … Dr ₹ 2 lakh

To Equity Share capital ₹ 2 lakh

If the employees leave the entity during the vesting period:

At the end of the Period	Proportion to be amortised	Fair value	To be vested	Cumulative expenses	Expenses
	a	b	c	d= b x c x a	e = d-previous period d
Year 1	1/3	6,00,000	95%	1,90,000	1,90,000
Year 2	2/3	6,00,000	97%	3,88,000	1,98,000
Year 3	3/3	6,00,000	93%	5,58,000	1,70,000

Journal entries:

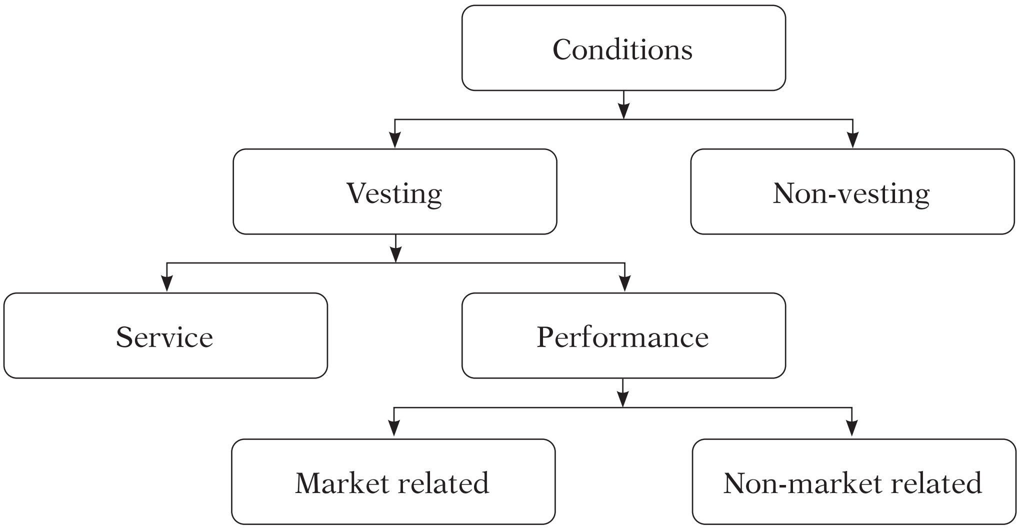
31st March, Year 1		
Employee benefits expenses Dr.	1,90,000	
To Share based payment reserve (equity)		1,90,000
(being 1/3 of expected vested equity instruments value)		
31st March, Year 2		
Employee benefits expenses Dr.	1,98,000	
To Share based payment reserve (equity)		1,98,000
(Being 2/3 of expected vested equity instruments value)		
31st March, Year 3		
Employee benefits expenses Dr.	1,70,000	
To Share based payment reserve (equity)		1,70,000
(Being Final vested equity instruments value)		

Share based payment reserve (equity) Dr.	5,58,000	
To Share Capital		5,58,000
(Being re-allocated and issued shares)		

Vesting conditions

Before learning the point (b) - You need to understand the types of vesting conditions. Timing and measurement (amount) of expense varies based on the type of vesting conditions. Based on the type of conditions, the entity may reverse previously recognised expense - if the conditions are not met.

Let us focus on classification of conditions. *Read carefully*



Service conditions:

It is a vesting condition that requires the **counterparty (employee) to complete a specified period of service** to be eligible for employee share based payment. Irrespective of the reasons, if the employee fails to provide services during the specified period - they are not eligible for share based payments. Here, employee only needs to provide services and not achieve any specific performance targets pertaining to his field of work like level of production, PAT, etc.

For example

As per the agreement an entity issues 100 shares each to its 1,000 employees if they remain in service with the entity for next 3 years. This would be considered to be a service condition; 3 years being the period over which employee would be required to be in service as a vesting condition.

Performance conditions:

A vesting condition that requires:

(*a*) the **counterparty to complete a specified period of service** (*i.e.* a service condition); the service requirement can be explicit or implicit; **and**

(*b*) **specified performance target(s) to be met** while the counterparty is rendering the above service.

Note that every performance condition is attached with a service condition.

A **performance condition** is further classified into two categories:

1. Non-market related condition; and
2. Market related condition.

Non-market related condition includes a performance target with reference to the **entity's own operations** (or activities); or its group entity*; like achieving specific percentage growth in profits/ EPS; Completion of Research project, etc.;*

For example,

An entity issued some stock options to employees with a condition that they have to remain in the organisation for next 2 years and EBITA of the entity should rise to ₹ 10 Crore. Here, the EBITA target is non-market related condition.

Market related condition includes a performance target with reference to price of equity instruments (share price/share option price) of the entity or its group entity;

For example,

An entity issues stock options to its employees who will serve the organization for next 2 years and ***till*** *the time* ***the share price reaches to ₹ 100.*** *The target price to reach ₹ 100 is one of the market related condition.*

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.

Non-vesting conditions:

This is not defined by the Standard. One can understand that these are other than vesting conditions. It can be understood that these conditions **do not have any impact on eligibility to have share based payments**. These are neither service nor performance conditions.

For example

1. *An entity issued some stock options to its employees wherein they are required to serve minimum period of next 2 years and from the end of 2nd year there will further be* ***waiting time*** *till next 1 year within which the entity should achieve revenue of ₹ 100 Crore. However, the employee will not lose the entitlement even if he leaves the entity after the end of 2nd year. During the waiting time of 1 year, there isn't any service condition. Hence, is neither a service condition nor a performance condition. Hence the condition of achieving revenue target is a non-vesting condition.*
2. A*n entity grants share options to a director on the condition that the director* ***does not compete with the reporting entity for a period of at least three years****. The fair value of the award at the date of the grant, including the effect of non-compete clause is ₹ 15 million.* ***The 'non-compete' clause is a non-vesting condition because the entity does not receive any services.*** *On the grant date,* ***the entity immediately recognizes a cost of ₹ 15 million*** *because director is not providing any future services.* ***The entity cannot reverse the expense recognised, even if the director goes to work for a competitor and loses the share options.***

In point (a) we learnt - service period

Let us learn the **point (b)** *i.e.* related to vesting condition.

(*b*) If the share options are granted to employees based on **a performance condition (Non-Market condition) and** employee should **remain in employment** until that performance condition is satisfied.

The entity should **estimate** the vesting period on the grant date based on most likely outcome of the performance condition. The vesting period could vary depending on the performance condition. It means, the entity shall revise the vesting period based on the subsequent information. The expense should be recognised over the estimated vesting period.

If the performance condition is **a market condition,** the entity estimates the length of vesting period on the grant date BUT it **does NOT revise the fair value** of the options granted **subsequently**.

Treatment of vesting/non-vesting conditions

Vesting conditions	Where to consider?
Non-Market conditions	◆ Don't consider in Fair value of the shares/options on the measurement date; ◆ Consider in estimating the number of equity instruments expected to be vested; ◆ If any of the non-market vesting conditions is **not satisfied**, NO amount is recognised; ◆ Say 1st year expense is recognised as conditions are satisfied, But next year conditions are not satisfied - **Reverse the entire amount earlier recognised**. ◆ If the performance condition is not a market condition, the entity shall revise its estimate of the length of the vesting period based on the subsequent information.
Market conditions	◆ Market conditions are considered while determining the **Fair value of the option** at the grant date; ◆ **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** (since, this is considered for price). ◆ 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.
Non-vesting conditions	◆ 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**.

Note:

The amount recognised in equity remains same. The entity can choose to transfer this to **retained earnings.**

Below mentioned table further summarizes the impact of various conditions:-

Conditions	**Impact of vesting condition while determining the FV of option (Refer Note 1)**	**Impact to be considered in determining the number of shares vest. (Refer Note 2)**
Service condition	No	Yes
Performance condition - Market related	Yes	No
Performance condition - Non-market related	No	Yes
Non-vesting condition	Yes	No

Note 1:

- Share based payment (SBP) will be measured at fair value on initial recognition which will include the effect of these conditions.
- In case of **Equity settled** SBP will be measured at fair value on grant date **with no subsequent measurement (No revision).**

- **But in case of cash settled** SBP, fair value shall be **re-measured at each reporting date till its settlement in full.**

Note 2:

- No impact on fair valuation of SBP.
- However, consider while estimating the expected number of equity shares at the end of each period for recognition of the share based payment.

Important points

- 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.
- 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.

Read all the above points once again before taking up the concept capsules.

Following concept capsules will make you understand this better.

Concept capsule 10

An entity issued 100 shares each to its 1000 employees under share based payment upon the condition to serve the organization for at least next 2-years subject to the below scenarios:- (Treat each scenario as independent)

1. EBIDTA of the entity shall be ₹ 10 million in next 2 years.
2. Share price of the entity shall be ₹150 in next 2 years.
3. Employee is required to serve additional 4 months from the end of 2 years but will have no impact on vesting rights at the end of 2nd year.

Explain the conditions and what to be considered while recognising the share based payment transactions?

Suggested answer

Remaining in service for minimum 2 years is a 'service related condition', it will be considered in the calculation of expected number of shares which will satisfy the conditions attached.

1. **EBIDTA** is one of the performance conditions which is non-market related, hence will be considered while making an **estimation of number of shares** which will satisfy the condition attached.
2. **Share price target** is one of the market related condition and hence it will be considered in the measurement **of fair value at initial recognition** (equity & cash settled) and at subsequent dates (in case of cash settled).
3. **Additional 4-months** requirement does not have any impact on eligibility to get share based payment. Therefore, it is a non-vesting condition and will be considered in fair value of the share based payment.