TOPIC 24

INDAS 102
SHARE BASED PAYMENT

INDEX

Quote:- Dream Big, Start Small, Work Hard,

Stay Focused, Keep Going Forward

This standard covers:

1. Equity settled share based payment transactions with Employees;
2. Cash Settled share based payment transactions with Employees; and
3. **Transactions in which entity receives or acquires goods or services and either the entity or the supplier of goods or services has a choice of settling the transaction in cash, other assets or equity instruments.**

This standard not applies to the following:

1. Transactions with an employee (or other party) in his/her capacity as a holder of equity instruments of the entity. **(i.e. Right Issue of Equity shares)**
2. Transactions in which entity acquires goods as part of the net assets acquired in a **business combination** or the contribution of a business in the formation of **Joint Venture.**

Example:

An entity grants all holders of a particular class of its equity instruments the right to acquire additional equity instruments of the entity at a price that is less than the fair value of those equity instruments. An employee receives such a right because he/she is a holder of equity instruments of that particular class. Whether this transaction is covered under Ind-AS 102?

Sol.: *No. Granting or exercise of that right is not covered under Ind-AS 102.*

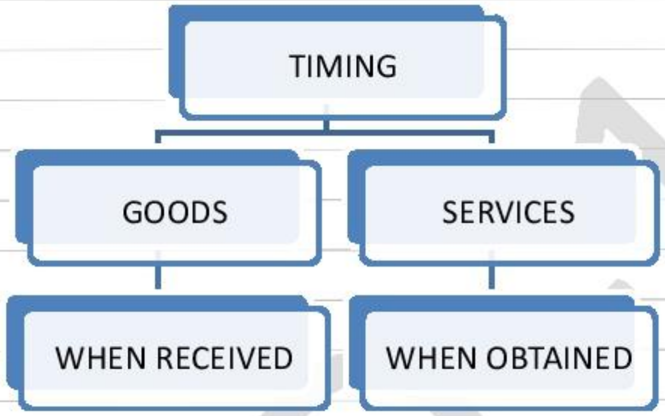
TYPES OF SHARE BASED PAYMENT TRANSACTIONS:

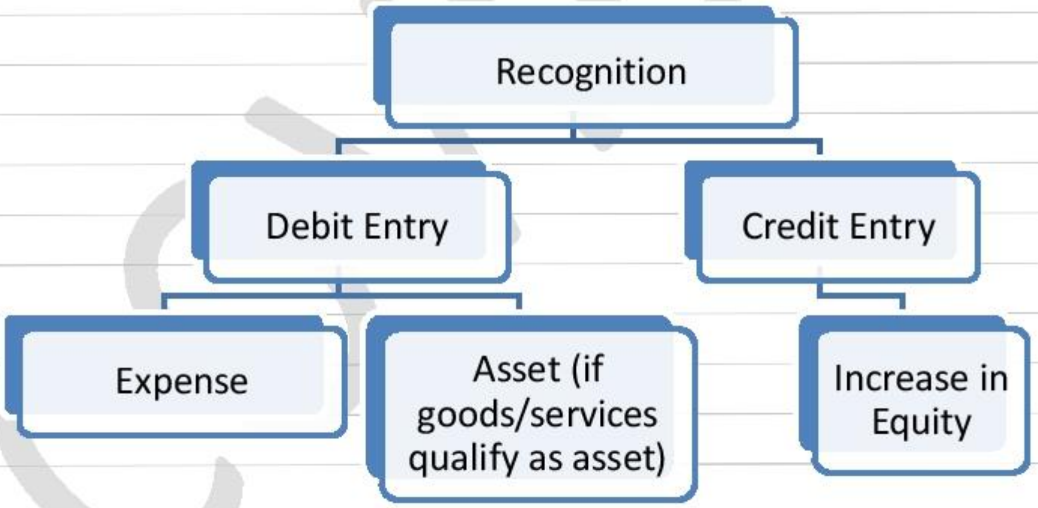
Equity settled share-based payment transactions	Cash settled **share-based** payment transactions	Share-based payment transactions with cash alternatives
↓	↓	↓
Entity receives goods/services as consideration for its own equity instruments (including shares or share options)	**Entity acquires goods or services by incurring a liability to transfer cash/other assets to supplier for amounts that are based on entity's or another group entity share price**	**Entity or the counterparty has choice to settle in equity instruments or in cash/other asset**

HOW TO RECOGNISE?

Recognition of EQUITY SETTLED Share Based Payments - at **FAIR VALUE:**

- ***Transactions with suppliers: Fair value of goods or services received.*** *(However if value of goods or services cannot be estimated reliably then measure their value by reference to the fair value of the equity instruments granted).*
- ***Transactions with employees: Fair value of equity instruments awarded***





Recognition of CASH-SETTLED share-based payment transactions

Typical examples of cash-settled share-based payment transactions are:

- ***Share appreciation rights:*** employee is entitled to the cash payment in the future based on the increase of entity's share price over specified period of time from a specified level;
- ***Rights to redeemable shares:*** employee will receive the shares in the future that are redeemable in cash.

Similarly as in the equity-settled share-based payment transaction, the goods or services received are measured at the ***fair value of the liability***.

The fair value of the liability has to be ***remeasured at each reporting date*** until this liability is settled and any changes of fair value are recognized in profit or loss.

Vesting conditions are treated in the similar manner as in the equity-settled share-based payment transactions.

HOW TO DETERMINE FAIR VALUE?

There's whole guidance on how to determine the fair value in ***IND AS 113 – Fair Value Measurements.***

HOW TO DEAL WITH CHANGES?

Sometimes, an entity might change the terms of the share-based payment transaction.

(a) Modification:

If the fair value of the new instrument is ***greater*** than the fair value of the old instrument, then the incremental amount is recognized ***over the remaining vesting period***. (or immediately if modification happens after the vesting period)

If the fair value of the new instrument is ***lower*** than the fair value of the old instrument, the original fair value of the equity instruments granted should ***be expensed*** as if the modification never occurred.

(b) Cancellation:

If an entity ***cancels or settles*** the equity instruments, then it is recognized as an acceleration of the vesting period and any remaining unrecognized amount is recognized ***immediately***.

VESTING CONDITION

Some share-based payment transactions include ***vesting conditions*** that must be met before any payment is made.

IND AS 102 recognizes 2 types of vesting conditions:

1. ***Service conditions***: They require the counterparty to complete a specified period or service;
2. ***Performance conditions***: They require the counterparty to complete a specified period of services **AND** specified performance targets to be met.

A performance condition might include ***a Market Condition*** upon which upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price of the entity's equity instruments such as attaining a specified share price or a specified amount of intrinsic value of a share option.

How to deal with vesting conditions?

Here, the principal question is whether vesting condition exists or not.

- **NO:** If the share-based payment ***IS vested immediately***, or there are no vesting conditions, then INDAS 2 regards this transaction as granted in return for the supplier's (employee's) service in the past.

  Therefore, an entity needs to recognize the services received ***immediately in full at the grant date***, with the corresponding increase in equity.

- **YES:** If the share-based payment ***DOES NOT vest until the counterparty meets some vesting conditions***, then IFRS 2 regards this transaction as granted in return for the supplier's (employee's) service ***rendered during the vesting period***. In this case, an entity should recognize an amount for the goods or services received during the vesting period ***based on the best available estimate of the number of equity instruments expected to vest***.

Vesting Condition Not Satisfied?

No Amount is recognised for goods or services received on a cumulative basis if the equity instruments granted do not vest because of such failure.

All Vesting Conditions Satisfied except Market Condition?

Recognition shall be done, when all other vesting conditions are satisfied *irrespective of whether that Market Condition is satisfied.*

Q351 –Share-based payment - Purchase of goods (ICAI Module)

Indian Inc. issued 995 shares in exchange for purchase of an office building. The title was transferred in the name of Indian Inc. on Feb 20X1 and shares were issued. Fair value of the office building was INR 2,00,000 and face value of each share of Indian Inc was INR 100.

Pass the journal entries?

Solution

1 February, 20X1	INR	
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)		

Q352 – Share-based payment – Services (ICAI Module)

Reliance limited hired a maintenance company for its oil fields. The services will be settled by issuing 1,000 shares of Reliance. Period for which the service is to be provided is 1 April 20X1 to 1 July 20X1 and fair value of the service was estimated using market value of similar contracts for INR 1,00,000. Nominal value per share is INR 10.

Record the transactions?

Solution

Fair value of services	1,00,000
No. of months	3
Monthly expense	33,333.33

30-Apr-20X1	INR	
Repair & Maintenance Dr.	33,333.33	
To Share based payment reserve (equity)		33,333.33
(Recognition of Equity settled SBP using fair value of services rendered)		
31-May-20X1		
Repair & Maintenance Dr.	33,333.33	
To Share based payment reserve (equity)		33,333.33
(Recognition of Equity settled SBP using fair value of services rendered)		
30-Jun-20X1		
Repair & Maintenance Dr.	33,333.33	
To Share based payment reserve (equity)		33,333.33

(Recognition of Equity settled SBP using fair value of services rendered)		
1-Jul-20X1		
Share based payment reserve (equity) Dr.	1,00,000	
To Equity Shares (1000 x 10)		10,000
To Securities premium (balancing figure)		90,000

Q353 - Equity Settled Shared Based Payment- Service conditions (ICAI Module)

ABC Limited granted to its employees, share options with a fair value of INR 5,00,000 on 1 April 20X0, if they remain in the organization upto 31st March 20X3. On 31st March 20X1, ABC limited expects only 91% of the employees to remain in the employment. On 31st March 20X2, company expects only 89% of the employees to remain in the employment. However, only 82% of the employees remained in the organisation at the end of March, 20X3 and all of them exercised their options. Pass the Journal entries?

Solution

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

Journal Entries

30-Jun-20X1		
Employee benefits expenses Dr.	1,51,667	
To Share based payment reserve (equity)		1,51,667
(1/3 of expected vested equity instruments value)		
30-Jun-20X2		
Employee benefits expenses Dr.	1,45,000	
To Share based payment reserve (equity)		1,45,000
(2/3 of expected vested equity instruments value)		
30-Jun-20X3		
Employee benefits expenses Dr.	1,13,333	
To Share based payment reserve (equity)		1,13,333
(Final vested equity instruments value)		
Share based payment reserve (equity) Dr.	4,10,000	
To Share Capital		4,10,000
(re-allocated and issued shares)		

Q354 - Cash Settled Shared Based Payment-Service conditions (ICAI Module)

XYZ issued 10,000 Share Appreciation Rights (SARs) that vest immediately to its employees on 1 April 20X0. 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 INR 95. SAR can be exercised any time upto 31 March 20X3. At the end of period on 31 March 20X1 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	INR
31-Mar-20X1	112
31-Mar-20X2	109
31-Mar-20X3	114

Solution

Period	Fair value	To be vested	Cumulative	Expense
	a	b	c= a x b x 10,000	d= c-prev. period c
Start	95	100%	9,50,000	9,50,000
Period 1	112	95%	10,64,000	1,14,000
Period 2	109	92%	10,02,800	(61,200)
Period 3	114	89%	10,14,600	11,800
				10,14,600

Journal Entries

1-Apr-20X0		
Employee benefits expenses Dr.	9,50,000	
To Share based payment liability		9,50,000
(Fair value of the SAR recognized)		
31-Mar-20X1		
Employee benefits expenses Dr.	1,14,000	
To Share based payment liability		1,14,000
(Fair value of the SAR re-measured)		
31-Mar-20X2		
Share based payment liability Dr.	61,200	
To Employee benefits expenses		61,200
(Fair value of the SAR re-measured & reversed)		
31-Mar-20X3		
Employee benefits expenses Dr.	11,800	
To Share based payment liability		11,800
(Fair value of the SAR recognized)		
Share based payment liability Dr.	10,14,600	

To Cash		10,14,600
(Settlement of SAR)		

Q355 – Share-based payment - Cash & equity alternatives (ICAI Module)

Tata Industries issued share-based option to one of its key management personal which can be exercised either in cash or equity and it has following features:

Option I	**Period**	**INR**
No of cash settled shares		74,000
Service condition	3 years	
Option II		
No of equity settled shares		90,000
Conditions:		
Service	3 years	
Restriction to sell	2 years	
Fair values		
Equity price with a restriction of sale for 2 years		115
Fair value grant date		135
Fair value 20X0		138
20X1		140
20X2		147

Pass the Journal entries?

Solution

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

Journal Entries

31/12/20X0	INR	
Employee benefit expenses Dr.	35,24,000	
To Share based payment reserve (equity) (3,60,000/3)		1,20,000
To Share based payment liability (138 x 74,000) / 3		34,04,000
(Recognition of equity option and cash settlement option)		
31/12/20X1		
Employee benefits expenses Dr.	36,22,667	
To Share based payment reserve (equity) (3,60,000/3)		1,20,000
To Share based payment liability (140 x 74,000) 2/3 - 34,04,000		35,02,667
(Recognition of equity option and cash settlement option)		
31/12/20X2		
Employee benefits expenses Dr.	40,91,333	
To Share based payment reserve (equity) (3,60,000/3)		1,20,000
To Share based payment liability		39,71,333
(147 x 74,000) 3/3 - (34,04,000 + 35,02,667) (Recognition of equity option and cash settlement option)		
Upon cash alternative chosen		
Share based payment liability (147 x 74,000) Dr.	1,08,78,000	
To Bank/ Cash		1,08,78,000
(Being settlement made in cash)		
Upon equity alternative chosen		
Share based payment liability (147 x 74,000) Dr.	1,08,78,000	
To Share capital		1,08,78,000
(Being settlement made in equity)		

Q356 – Share-based payment with cash alternative (ICAI Module)

On 1 January 20X1, ABC limited gives 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:	INR
Share alternative fair value (with restrictions)	120
Grant date fair value on 1 Jan 20X1	113
Fair value on 31 Dec 20X1	120
Fair Value on 31 Dec 20X2	132
The employees exercise their cash option at the end of 20X2. Pass the journal entries.	

Solution

	1-Jan-20X1	31-Dec-20X1	31-Dec-20X2
	INR	INR	INR
Equity alternative (1,500 x 102)	1,53,000		
Cash alternative (1,000 x 113)	1,13,000		
Equity option (1,53,000 - 1,13,000)	40,000		
Cash Option (cumulative) (using period end fair value)		(1,000 x 120 x ½) 60,000	1,32,000
Equity Option (cumulative)		(40,000 x ½) 20,000	40,000
Expense for the period			
Equity option		20,000	20,000
Cash Option		60,000	72,000
Total		80,000	92,000

Journal Entries

31-Dec-20X1	INR	
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		

31-Dec-20X2		
Employee benefits expenses Dr.	92,000	
To Share based payment reserve (equity)		20,000
To Share based payment liability		72,000
(Recognition of Equity option and cash settlement option)		
Share based payment liability Dr.	1,32,000	
To Bank/ Cash		1,32,000
(Settlement in cash)		

Q357. - Equity settled – Non market conditions (Reversals) (ICAI Module)

ACC limited granted 10,000 share options to one of its managers. In order to get the options, the manager has to work for next 3 years in the organization and reduce the cost of production by 10% over the next 3 years.

Fair value of the option at grant date was INR 95

Cost reduction achieved-

Year 1	12% Achieved
Year 2	8% Not expected to vest in future
Year 3	10% Achieved

How the expenses would be recorded?

Solution

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

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

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

Q358. - Equity Settled – Non market conditions (ICAI Module)

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 INR 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, 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.

Required:

Determine the expense for each year and pass appropriate journal entries?

Solution

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

Workings:

	20X1	20X2	20X3
Total employees	500	500	500
Employees left (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 3/3	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

31-Dec-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)			
31-Dec-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)			
31-Dec-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)			

Q359 - Equity Settled - Market based conditions (ICAI Module)

Apple Limited has granted 10,000 share options to one of its directors for which he must work for next 3 years and the price of the share should increase by 20% over next 3 years.

The share price has moved as per below details -

Year 1	22%
Year 2	19%
Year 3	25%

At the grant date, the fair value of the option was INR 120.

How should we recognize the transaction?

Solution

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

Even if the required market condition as required is not fulfilled, there is no requirement to reverse the expense previously booked.

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

MODIFICATIONS/REPRICING

Repricing means decline in the exercise price of options, so as to make options more attractive. In such case:

1. Calculate fair value as on the date of Repricing before the effect of modification
2. Calculate fair value on the date of repricing after the effect of modification
3. Calculate incentive due to repricing (1-2)
4. Such incentive should be written off over the remaining vesting period.

Q360.

At the beginning of year 1, an entity grants 100 share options to each of its 500 employees. Each grant is conditional upon the employee remaining in service over the next three years. The entity estimates that the fair value of each option is Rs. 15. On the basis of a weighted average probability, the entity estimates that 100 employees will leave during the three-year period and therefore forfeit their rights to the share options.

Suppose that 40 employees leave during year 1. Also suppose that by the end of year 1, the entity's share price has dropped, and the entity reprices its share options, and that the repriced share options vest at the end of year 3. The entity estimates that a further 70 employees will leave during years 2 and 3, and hence the-total expected employee departures over the three-year vesting period is 110 employees. During year 2, a further 35 employees leave, and the entity estimates that a further 30 employees will leave during year 3, to bring the total expected employee departures over the three-year vesting period to 105 employees: During year 3, a total of 28 employees leave, and hence a total of 103 employees ceased employment during the vesting period. For the remaining 397 employees, the share options vested at the end of year 3.

The entity estimates that, at the date of repricing, the fair value of each of the original share options granted (ie before taking into account the repricing) is Rs. 5 and that the fair value of each repriced share option is Rs. 8. Calculate option expense.

(Answer: Rs. 195000, 259250 260350)

Solve here:

Q361. – Modifications – Equity-settled share based payment (ICAI Module)

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

Year 1:

35 employees left and further 60 employees are expected to leave

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

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

Year 2:

30 employees left and further 36 employees are expected to leave

Year 3:

39 employees left

How the modification/ re-pricing will be accounted?

Solution

The re-pricing has been done at the end of year 1, and hence the increased expense would be spread over next 2 years equally.

Total increased value due to modification is	INR 30		(1/2 weight each years)
	Year 1	**Year 2**	**Year 3**
No. of employees	1,000	1,000	1,000
Employee left	(35)	(65)	104
Expected to leave	(60)	(36)	-
Net employees	905	899	896
Options per employee	150	150	150
Fair value of the option	129	129	129
Period weight	1/3	2/3	3/3
Modification		30	30
Expense (original)	58,37,250	57,59,850	57,40,500
Modification	Nil	20,22,750	20,09,250
		(899x150x30x1/2)	(896x150x30x2/2)-20,22,750)

Q362 - Cancellation- Equity Settled Share based payment (ICAI Module)

Anara Fertilizers Limited issued 2000 share options to its 10 directors for an exercise price of INR 100.The directors are required to stay with the company for next 3 years.

Fair value of the option estimated INR 130
Expected no of Directors to vest the option 8
During the year 2, there was a crisis in the company and Management decided to cancel the scheme immediately. It was estimated further as below-
Fair value of option at the time of cancellation was INR 90
Market price of the share at the cancellation date was INR 99
There was a compensation which was paid to directors and only 9 directors were currently in employment. At the time of cancellation of such scheme, it was agreed to pay an amount of INR 95 per option to each of 9 directors.
How the cancellation would be recorded?

Solution

	Year 1	**Year 2**	
A)			
Expected directors to vest	8	9	
Fair value of option	130	130	
No. of options 2,000	2,000	2,000	
Total	20,80,000	23,40,000	
Expense weightage	1/3		Full, as it is cancelled

Expense for the year	6,93,333	16,46,667	Remaining amount since cancelled
B) Cancellation compensation			
No. of directors			9
Amount agreed to pay			95
No. of options/ director			2,000
Compensation amount (9 x 95 x 2,000)Also refer working notes 1 and			217,10,000

Working Notes:

1. Amount to be deducted from Equity

No. of directors	9
Fair value of option (at the date of cancellation)	90
No. of options/ director	2,000
Total	16,20,000

2. Amount transferred to Profit and Loss

Total cancellation compensation	17,10,000
Less: To deduct from Equity	(16,20,000)
Balance transferred to Profit and Loss	90,000

Q363. (RTP MAY19)

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

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

Year 1	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

Q364. (MTP – MARCH 19)

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 transactions as on 31st March, 2017.

Solution:

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

If the repricing increases the fair value of the equity instruments granted paragraph B43 (a) of Appendix B requires the entity to include the incremental fair value granted (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

Student Notes:-

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