IND AS – 102
SHARE BASED PAYMENTS

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(1) SCOPE

Ind AS-102 applies to all share-based payment transactions in which an entity acquires or receives goods or services. Goods include inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets. There are three types of share-based payments:

- Equity-settled share-based payment transactions,
- Cash-settled share-based payment transactions, and
- Share-based payment transaction with cash alternatives.

This Standard does not apply to:

- Share issued as consideration in a business combination (Ind AS-103 "Business Combination") and
- Certain contract transactions falling within Ind AS-32 "Financial Instruments: Presentation" or Ind AS-109 "Financial Instruments".

(2) DEFINITIONS

Fair value - The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

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

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.

Equity instrument granted: The right (conditional or unconditional) to an equity instrument of the entity conferred by the entity on another party, under a **share-based payment arrangement.**

Equity instruments, which means a residual interest in asset & liability of the company will include:

(a) Ordinary shares

(b) Redeemable Preference shares

(c) Written call option or warrants over such ordinary shares

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

(a) cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity, or

(b) equity instruments (including shares or share options) of the entity or another group entity, provided I the specified vesting conditions, if any, are met.

This means that Share based payment should be formed with an agreement i.e., communication of the terms and conditions.

Note: Group does not include Associates & Joint Ventures.

(3) RECOGNITION AND MEASUREMENT

An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received.

The entity shall recognise a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled sharebased payment transaction.

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

Equity-settled share-based payment transactions

Measurement

The general principle in Ind AS-102 is that an entity recognises the goods or services received and the corresponding increase in equity. It should measure these at the fair value of the goods or services received Where the transaction is with parties other than employees, there is a rebuttable presumption that the fair of the goods or services received can be estimated reliably.

If the fair value of the goods or services received cannot be measured reliably, the entity should measure their value by reference of the fair value of the equity instruments granted.

Where the transaction is with a party other than an employee fair value should be measured at the date the entity obtains the goods or the counterparty renders service.

Where shares, share options or the other equity instruments are granted to employees as part of their remuneration package, it is not normally possible to measure directly the services received. For this reason, the entity should measure the fair value of the employee service received by reference to the fair value of the equity instruments granted. The fair value of those equity instruments should be measured at grant date.

(4) EQUITY SETTLED SHARE BASED PAYMENTS

With employees and others providing similar services / shares, share options and other equity instruments granted to employees as part of the remuneration package.

Fair value (at grant date) of the equity instruments granted because fair value of services received cannot be estimated reliably.

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

Equity instruments granted vest immediately: This means, no conditions are to be satisfied for entitlement. It is assumed that services have received. On grant date, the entity shall recognise the services received in full, with a corresponding increase in equity.

(5) VESTING AND NON VESTING CONDITIONS

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

Service condition: A vesting condition that requires the counterparty to complete a specified period of service during which services are provided to the entity. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, it has failed to satisfy the condition. A service condition does not require a performance target to be met.

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

(a) Attaining a specified share price or a specified amount of intrinsic value of a share option; or

(b) Achieving a specified target that is based on the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group) relative to an index of market prices of equity instruments of other entities.

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

Conditions	To include in fair value of SBP (refer note-1)	To include expected equity shares which meet conditions (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. Equity settled share based payment will be measured at fair value on grant date with no subsequent measurement, whereas cash settled share based payment shall be re-measured at each reporting date till its settlement in full.

Note 2: These conditions will have no impact on fair valuation of share based payments. However, they will be considered while estimating the expected number of equity shares at the end of each period for recognition of the share based payment

(6) MODIFICATION, CANCELLATION AND SETTLEMENT

(a) Increase in the fair value of the equity instrument - When there is a modification resulting in reducing the exercise price of equity instruments which means increase in fair value of the equity instrument, the entity shall consider this amount for recognition of services for which equity z instruments are granted.

Incremental Fair Value = FV of the re-prices instrument - grant date FV (both estimated at the date of modification)

If the modification 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 modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instrument, which Is recognised over the remaining period of the original vesting period.

If the modification occurs after vesting date, the incremental fair value granted is recognised immediately or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

(b) Increase in the number of equity instruments granted - The entity shall include the fair value of the additional equity instruments granted, measured at the date of the modification, in the measurement of the amount recognised for services received as consideration for the equity instruments granted, consistency with the requirements in (a) above.

(c) Modifies the vesting conditions in a manner that is beneficial to the employees - For example, by reducing the vesting period or by modifying or eliminating a performance condition other than a market condition, changes to which are accounted for in accordance with (<z) above, the entity shall take the modified vesting conditions into account when applying the requirements of treatment of vesting and non-vesting conditions.

If an entity or counterparty can choose whether to meet a non-vesting condition, the entity shall treat the entity's or counterparty's failure to meet the non-vesting condition during the vesting period as a cancellation. If an entity repurchases vested equity instruments, the payment made to the employee shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments repurchased, measured at the repurchase date. Any such excess shall be recognised as an expense.

(d) **Modifications those are not beneficial to the employee -** Furthermore, if the entity modifies the terms or conditions of the equity instruments, granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification has not occurred other than a cancellation of some or all the equity instruments granted, which shall be accounted for as if cancelled or settled during the vesting period. For example:

(i) if the modification reduces the fair value of the equity instruments granted, measured immediately before and after the modification, the entity shall not take into account that decrease in fair value and shall continue to measure the amount recognised for services received as consideration for the equity instruments based on the grant date fair value of the equity instruments granted.

(ii) If the modification reduces the number of equity instruments granted on an employee, that reduction shall be accounted for as a cancellation / of that portion of the grant, during the vesting period.

(iii) If the entity modifies the vesting conditions in a manner that is beneficial to the employee, for example, by increasing the vesting period or by modifying or adding a performance condition (other than a market condition changes to which are accounted for in accordance with (z) above), the entity shall not take the modified vesting conditions into, account when applying the requirements of treating vesting conditions.

CANCELLATION

(A) Recognise immediately the amount that would have been recognised for services over the remainder of the vesting period.

(B) Any payment made in this case is considered as repurchase of an equity interest i.e., deduction from equity, except payment exceeds fair value of the Equity instruments granted at the repurchase date which is recognised as expense.

Reverse i.e., if share based payment include liability components, the entity shall remeasure the FV of the liability at the date of cancellation or settlement. Payment made for this is accounted as extinguishment of liability.

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

(7) 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. Until the liability is settled, the entity shall re-measure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

Examples of this type of transaction include:

- Share appreciation rights granted to employees: the employees becomes entitled to the future cash payment (rather than an equity instrument), based on the increase in the entity's share price from a specified level over a specified period of time; or
- An entity might grant to its employees a right to receive a future cash payment by granting to them a right to shares that are redeemable.

  The entity should recognise the services received and a liability to pay for those services, as the employees render service. For example, shares appreciation rights do not vest until the employees have completed specified period of service, the entity should recognise the services received and the related liability over that period.

(8) SHARE BASED PAYMENT TRANSACTIONS WITH CASH ALTERNATIVES

For share-based payment transactions in which the terms of the arrangement provide either the entity or the counterparty with:

- ✍ the choice of whether the entity settles the transaction in cash (or other assets) or
- ✍ by issuing equity instruments,

The entity shall account for:

- ✍ that transaction or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or
- ✍ as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred

If an entity has granted the counterparty the right to choose whether a share-based payment transaction is settled in cash or by issuing equity instruments, the entity has granted a compound financial instrument, which includes:

- ✍ A debt component fie., the counterparty's right to demand payment in cash) and
- ✍ An equity component (i.e., the counterparty's right to demand settlement in equity instruments rather than in cash).

If the fair value of the goods or services received can be measured directly and easily, the equity element is determined by taking the fair value of the goods or services less the fair value of the debt element of this instrument. The debt element is essentially the cash payment that will occur. If the fair value of the goods or services is measured by reference to the fair value of the equity instruments given, the whole of the compound instrument should be fair valued. The equity element becomes the difference between the fair value of the equity instruments granted less the fair value of the debt component.

(9) SHARE BASED PAYMENT PLAN WITH ENTITY OWN EQUITY INSTRUMENT:

The first issue is whether the following transactions involving an entity's own equity instruments should be accounted for as equity-settled or as cash-settled in accordance with the requirements of this Standard:-

(a) An entity grants to its employees rights to equity instruments of the entity (eg: share options), and either chooses or is required to buy equity instruments (i.e., treasury shares) from another party, to satisfy its obligations to its employees; and

(b) an entity's employees are granted rights to equity instruments of the entity (eg: share options), either by the entity itself or by its shareholders, and the shareholders of the entity provide the equity instruments needed.

(10) SHARE BASED PAYMENT WITH PARENTS EQUITY INSTRUMENTS

Share-based payment transactions between two or more entities within the same group involving an equity instrument of another group entity. For example, employees of a subsidiary are granted rights to equity instruments of its parent as consideration for the services provided to the subsidiary.

Therefore, the second issue concerns the following share-based payment arrangements:

(a) a parent grants rights to its equity instruments directly to the employees of its subsidiary: the parent (not the subsidiary) has the obligation to provide the employees of the subsidiary with the equity instruments; and

(b) a subsidiary grants rights to equity instruments of its parent to its employees: the subsidiary has the obligation to provide its employees with the equity instruments.

A parent grants rights to its equity instruments to the employees of its subsidiary:

The subsidiary does not have an obligation to provide its parent's equity instruments to the subsidiary's employees. The subsidiary shall measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, and recognise a corresponding increase in equity as a contribution from the parent.

The parent has an obligation to settle the transaction with the subsidiary's employees by providing the parent's own equity instruments. Therefore, in accordance with paragraph 42C, the parent shall measure its obligation in accordance with the requirements applicable to equity-settled share-based payment transactions.

A subsidiary grants rights to equity instruments of its parent to its employees:

Because the subsidiary does not meet either of the conditions in paragraph 43B, it shall account for the transaction with its employees as cash-settled. This requirement applies irrespective of how the subsidiary obtains the equity instruments to satisfy its obligations to its employees.

QUESTIONS

Q.1. A parent grants 200 share options to each of 100 employees of its subsidiary, conditional upon the completion of two years' service with the subsidiary. The fair value of the share options on grant date is ₹ 30 each. At grant date, the subsidiary estimates that 80 percent of the employees will complete the two-year service period. This estimate does not change during the vesting period. At the end of the vesting period, 81 employees complete the required two years of service. The parent does not require the subsidiary to pay for the shares needed to settle the grant of share options.

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

(May - 19)

Q.2. 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 the appreciation in the entity's share price since the grant date. All of the rights vest on 31st December 20X6; and they can be exercised during 20X7 and 20X8. Management estimates that, at grant date, the fair value of each SAR is ₹ 11; and it estimates that overall 10% of the employees will leave during the two-year period. The fair values of the 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 ₹ 10), six employees exercised their options; and the remaining 30 employees exercised their options at the end of 20X8 (when the intrinsic value of each SAR was equal to the fair value of ₹ 12).

How much expense and liability is to be recognized at the end of each year? Pass Journal entries. **(May – 20)**

Q.3. 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 31st March, 20X2 and further amended to 1,840 employees on 31st March, 20X3.

On 1st April, 20X1, the fair value of an option was ₹ 1.20. The fair value increased to ₹ 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 0.90, the Directors repriced the option and this caused the fair value to increase to ₹ 1.05. Trading conditions improved in the second half of the year and by 31st March, 20X3 the fair value of an option was ₹ 1.25. QA Ltd. decided that additional cost incurred due to repricing of the options on 30th September, 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. **(Nov. 19)**