IFRS ICAI Presentation

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IFRS 2- Share Based Payments

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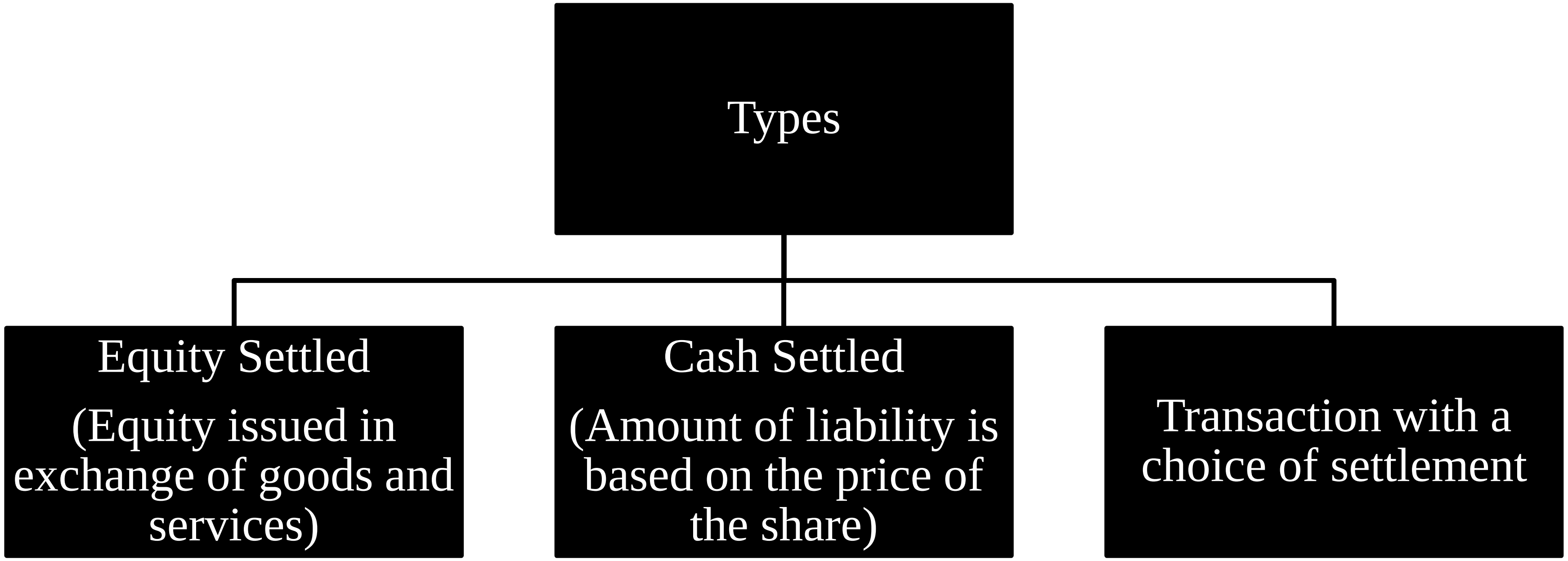
Types


Types
Equity Settled
(Equity issued in exchange of goods and services)
Cash Settled
(Amount of liability is based on the price of the share)
Transaction with a choice of settlement

Vesting Conditions

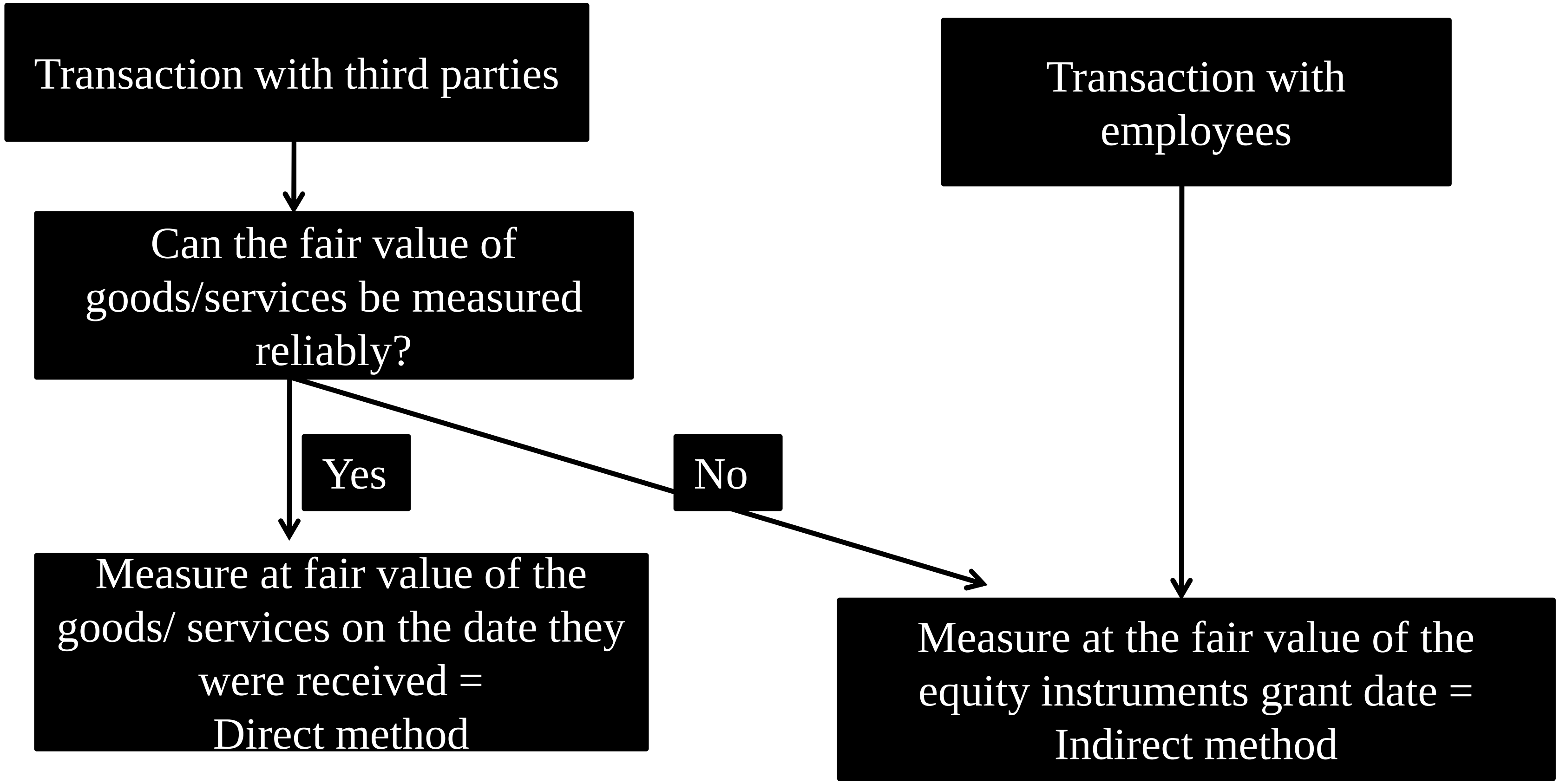
- Non market based vesting conditions eg:
  - Employee completing minimum period of service (Service Condition)
  - Achievement of minimum sales or profit or EPS.
  - Successful completion of flotation
  - Completion of a particular project

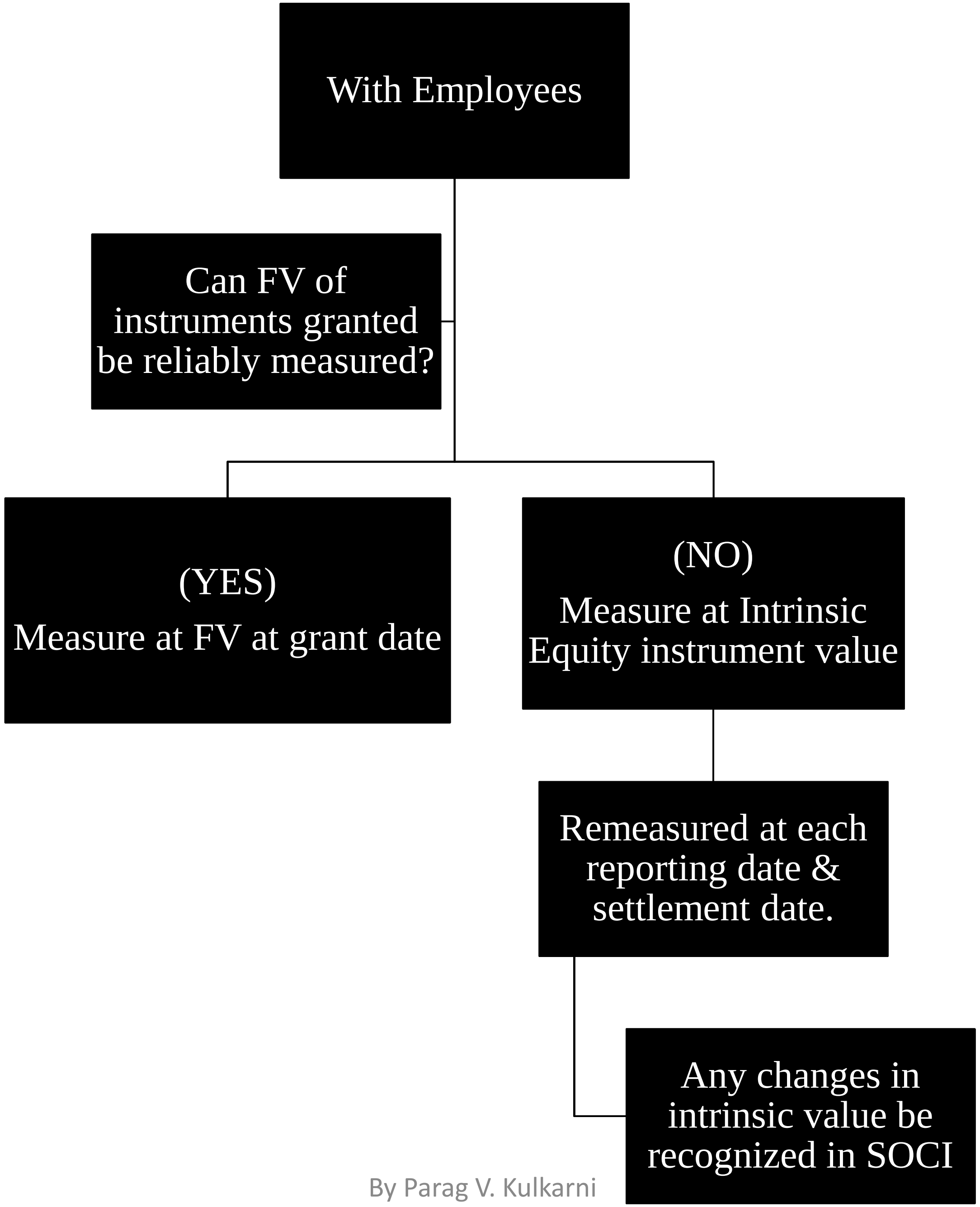
Not Included in FV of Option as of Grant Date

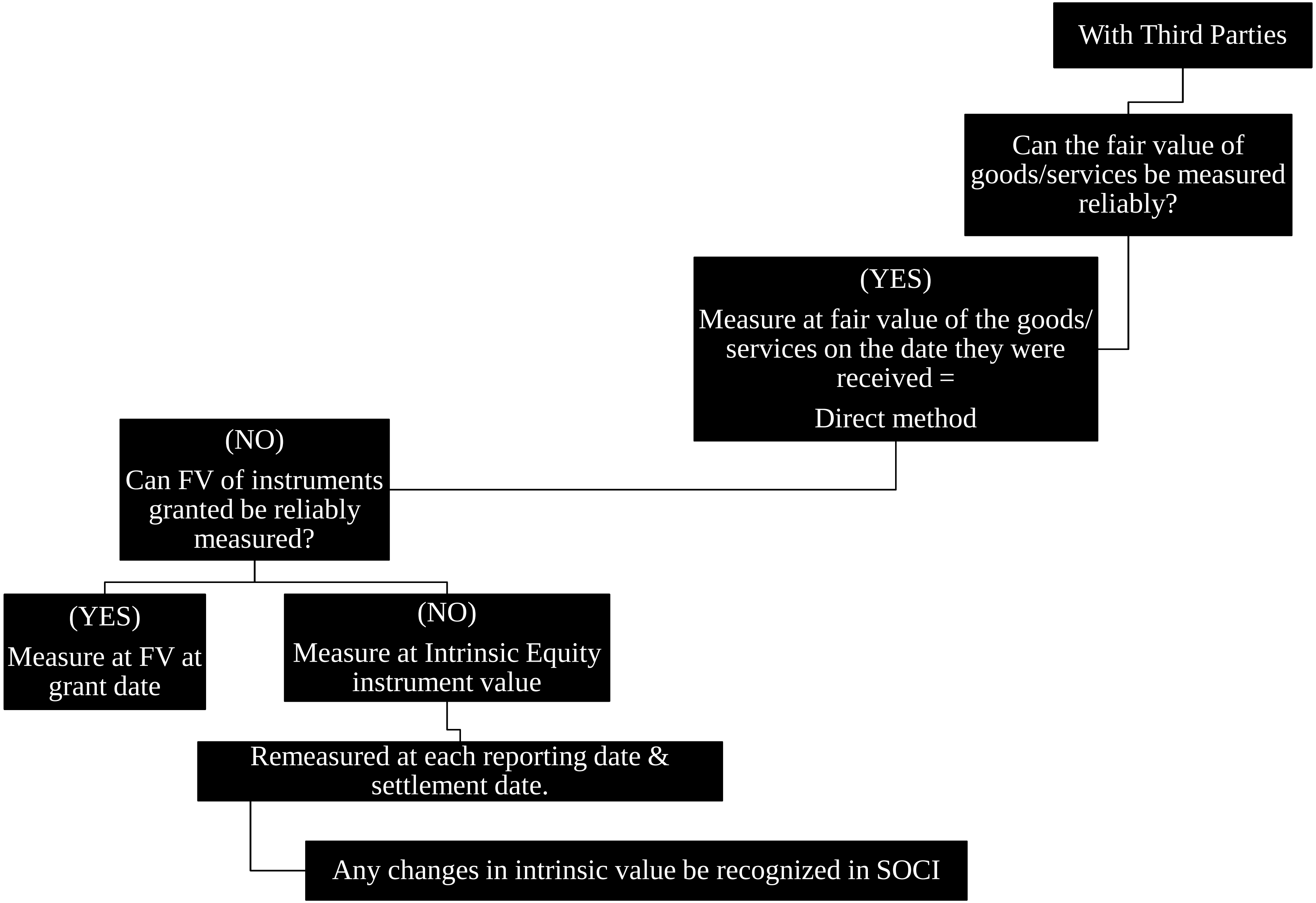
- Market based vesting conditions – Linked to market price of share in some way eg:
  - Minimum increase in share price
  - Minimum increase in shareholders return
  - Company target share price relative to Index of Market prices

Included in FV of Option as of Grant Date

MEASUREMENT OF EQUITY SETTLED TRANSACTIONS




With Employees
Can FV of instruments granted be reliably measured?
(YES)
Measure at FV at grant date
(NO)
Measure at Intrinsic Equity instrument value
Remeasured at each reporting date & settlement date.
Any changes in intrinsic value be recognized in SOCI


With Third Parties
Can the fair value of goods/services be measured reliably?
(YES)
Measure at fair value of the goods/ services on the date they were received =
Direct method
(NO)
Can FV of instruments granted be reliably measured?
(YES)
Measure at FV at grant date
(NO)
Measure at Intrinsic Equity instrument value
Remeasured at each reporting date & settlement date.
Any changes in intrinsic value be recognized in SOCI

Question on Equity Settled

This is one of the simplest area of calculation. Estimate, recognise expense. For Eg.

X ltd. Offers 100 option to its 200 employees on 1st Jan 20x4 subject to continued service upto 31.12.20x5 (ie. Vesting period of 2 years). Fair Value of option granted is $1. Compute Equity component and expense for each of the two years.

Answer:

For SOFP – (Equity)

20x4 = 100 x 200 x $1 x ½ = $10,000

20x5 = 100 x 200 x $1 = $20,000

For SOCI – (Expenditure)

20x4 = $10,000

20x5 = $20,000 - $10,000 = $10,000

Cash Settled Transactions

Question on Cash Settled Transactions

<u>Calculate Amt. to be recognised in P or L and Liability to be recognised in SOFP for each of the 5 years.</u>

On 1st January 20x4, an entity grants 100 cash Share Appreciation Rights to each of its 500 employees, on a condition that the employees continue to work for the entity until 31st December, 20x6.

During 20x4, 35 employees leave. The entity estimates that the a further 60 will leave during 20x5 and 20x6.

During 20x5, 40 employees leave and the entity estimates that further 25 will leave during 20x6.

During 20x6, 22 employees leave.

At 31st December, 20x6, 150 employees exercised their SAR. Another 140 employees exercised their SAR on 31st December, 20x7 and the remaining 113 employees exercised their SAR at the end of 20x8.

The Fair Value of SAR for each of the year in which liability exists are:

Year	Fair Value	Intrinsic Value
20x4	14.4	
20x5	15.5	
20x6	18.2	15
20x7	21.4	20
20x8		25

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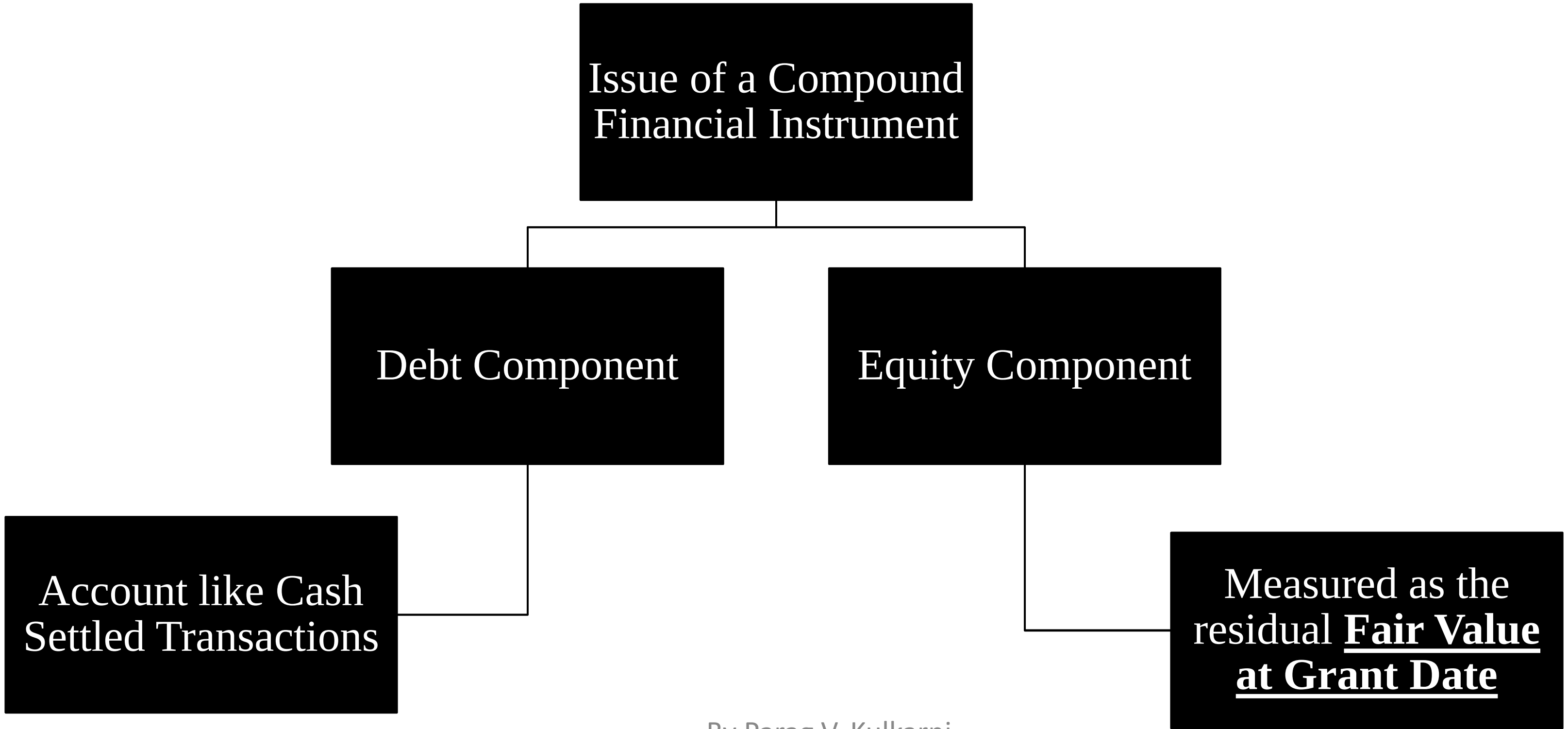
Particulars	20x4	20x5	20x6	20x7	20x8
No. of Employees Expected to Vest	405	400	253	113	113
	(500 - 35 -60)	(500 -35 -40 -25)	(500 -35 -40 -22 -150)	remaining employees	remaining employees
No. of SAR/ Employee	100	100	100	100	100
Fair Value of Option as of reporting date	14	16	18	21	
Exercise Price			15	20	25
Cumulative Liability for Expected Vesting	583200	620000			
To be recognised in SOFP	**194400**	**413333**	**460460**	**241820**	**0**
To be recognised in P/L	194400	218933	47127	-218640	-241820
Exercised in given Year (no. of employees)			150	140	113
Yet expected to vest from above			253	113	0
Liability on Exercise @ Intrinsic Price			**225000**	**280000**	**282500**
Liability for expected Vesting @ FV			**460460**	**241820**	**0**
Thus, Cumulative Liability			685460	521820	282500
			47127		
To be recognised in SOFP			685460	521820	282500
To be recognised in SOCI					
i) On Exercise			225000	280000	282500
ii) On Account of Expected Vesting (From Above)	194400	218933	47127	-218640	-241820
Thus, to be recognised in SOCI	**194400**	**218933**	**272127**	**61360**	**40680**

Transaction with Choice of Settlement

Where counterparty or recipient, rather than the issuing party has the right to choose the form settlement will take, IFRS 2 regards the transaction as a compound financial instrument to which split accounting must be applied.



Question on Compound Fin. Instrument + Share Based Payment

On 1st Jan 20x4 an entity grants an employee a right under which she can, if she is still employed on 31st December 20x6, elect to receive either 8000 shares or cash to the value, on that date, of 7000 shares.

The market price of the entity's share is $21 at the date of grant, $27 at the end of 20x4, $33 at the end of 20x5 and $42 at the end of 20x6, at which time employee elects to receive the share.

The entity estimates the fair value of the share route to be $19.

Show the accounting treatment!

Answer

1. Computation of Fair Value of Equity Element in the Compound Financial Instrument.

   Fair Value of Share Route = Fair Value of Cash Route + Fair Value of Equity

   Thus,

a. Fair Value of Cash Route = 7000 x $21 = $147,000
b. Fair Value of Share Route = 8000 x $19 = $152,000
c. Thus, Fair Value of Equity = $152,000 -$147,000 = $ 5,000

2. Accounting Entries

Year	Particulars	Liability	Equity	Expense
20x4	7000 x 27 x 1/3	63000		63000
	5000 x 1/3		1667	1667
20x5	7000 x 33 x 2/3	154000		91000
	5000 x 1/3		1667	1667
20x6	7000 x 42	294000		140000
	5000 x 1/3		1667	1667

Modification

- <u>Increase in FV</u>
  - ➢ Remeasure the revised FV on the modification date. Difference is accounted.
- <u>Increase in No of Equity Instrument Granted</u>
  - ➢ FV of new EI is included in the measurement and the FV of new EI will be the FV on the new date.
- <u>Modification in Vesting Conditions</u>
  - ➢ New vesting conditions to be considered for measurement purposes

Cancellation

- If the equity instrument is **cancelled or settled** during the vesting period, it is treated as if the vesting date had been brought forward, and the **balance of the fair value not yet expense is charged to income immediately**.
- If compensation is paid for the cancellation or settlement, any cash paid upto the fair value of the options at the date of the cancellation is deducted from equity and any amount paid in excess of the fair value is treated as an expense.

THAN Q ?

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