Ind AS 102

SHARE-BASED PAYMENT

What is Share based payment (SBP) transaction & arrangement ?

- SBP transaction is a transaction in which the entity

  (a) *receives goods or services from the supplier of those goods or services in a SBP arrangement, or*

  (b) incurs an obligation to settle the transaction with the supplier in a SBP arrangement when another group entity receives those goods or services.

- SBP arrangement is an agreement between the entity (or another group entity or any shareholder of any group entity) and another party 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 of the entity or another group entity, or

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

Scope of Ind AS 102

Ind AS 102 encompasses:

- **I. Equity-settled SBP transactions** in which the entity receives goods or services and as consideration for equity instruments of the entity (e.g., the grant of shares or share options to employees)

- **II. Cash-settled SBP transactions** in which the entity receives goods or services and incurs a liability based on the price (or value) of the entity's shares or other equity instruments of the entity as consideration (e.g., the grant of share appreciation rights to employees, which entitle the employees to future cash payments based on the increase in the entity's share price).

- **III. SBP transactions with cash alternatives** in which the entity receives goods or services and either the entity or the supplier of those goods or services (the counterparty) has a choice of settling the transaction in cash, other assets, or equity instruments

Important Concepts of Accounting for Share-based payments

Grant date

- Grant date is defined as *"the **date on which the Company and employees agree to the terms of an employee share-based payment plan**. At grant date, the Company confers on the employees the right to cash or shares of the Company, provided the specified vesting conditions, if any, being met."*

- In practice, it is not always clear when a mutual understanding of the award (and, therefore, grant date) has occurred. Issues of interpretation can arise as to:
  - how precise the shared understanding of the terms of the award must be and
  - exactly what level of communication between the Company and the counterparty is sufficient to ensure the appropriate degree of 'shared understanding.

Example – Determination of grant date

XYZ Ltd grants 100 stock options to each of its 500 employees. The law governing the Company requires approval of the board / shareholders on any such grant. What is the grant date of ESOP in each of the following scenarios?

- Q. The Company communicates the award to employees first, followed by board / shareholders approval. The award is approved with the same terms as initially communicated to employees.

  A. Grant date is the board/shareholders approval date.

- Q. Shareholder / board approval is obtained first, and later the award is communicated to the employees.

  A. Grant date is the date of communication of the award to the employees as this is the date on which the Company and its employees agree to the terms of the ESOP.

- Q. The award is communicated to the individual employees, but when it goes to the shareholders/board for approval, the shareholders/board changes the original award from how it was initially communicated to employees. The entity then communicates the new terms to employees.

  A. Grant date is the subsequent communication date to employees, as this is the date when the Company and its employees have a shared understanding of the terms and condition of the ESOP plan.

Important Concepts of Accounting for Share-based payments

Vesting and non-vesting conditions

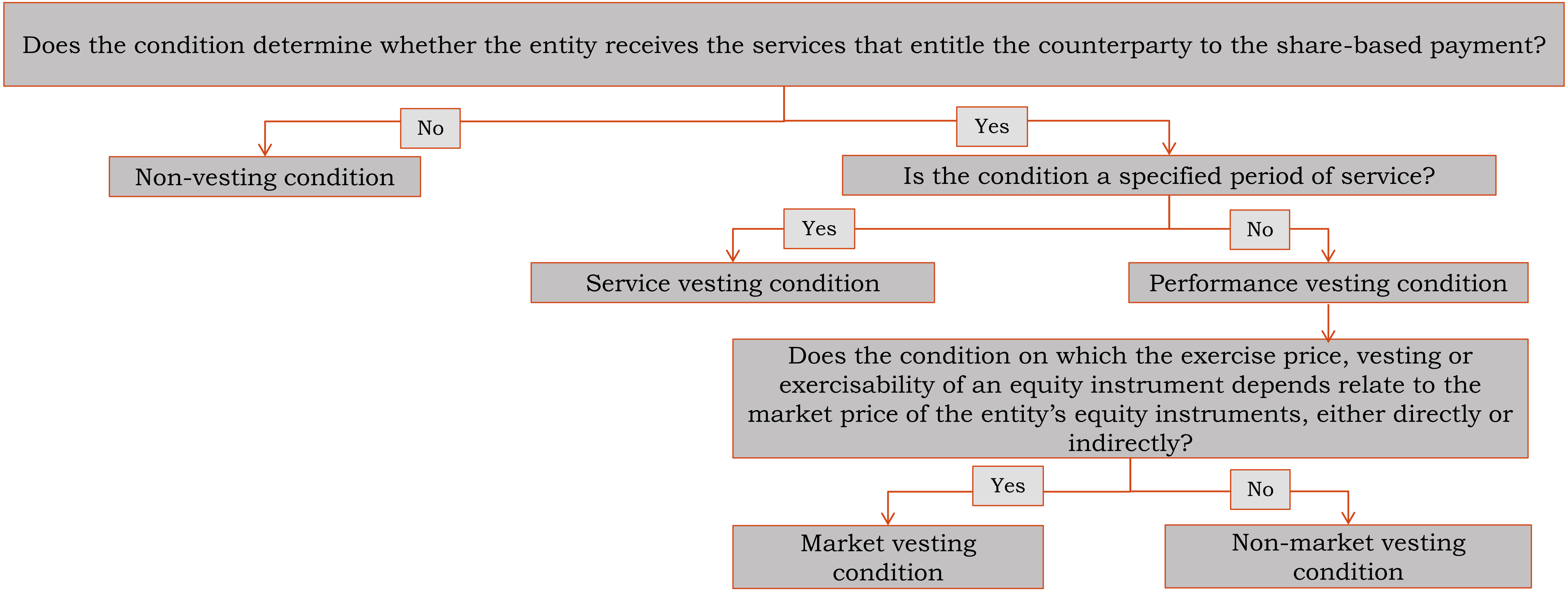
- A share-based payment award generally vests upon meeting specified conditions, such as service conditions (time-based) or performance conditions (e.g., achieving a specified EBITDA target).

- Under Ind AS 102, the nature of the condition affects the timing of when the expense is recognised, and in some cases, the measurement of the expense.

- In addition, if a condition is not met, whether or not the entity may reverse the previously recognised compensation expense depends on the nature of the condition that was not met. Therefore, the classification of a condition is a critical step in accounting for share-based payments.

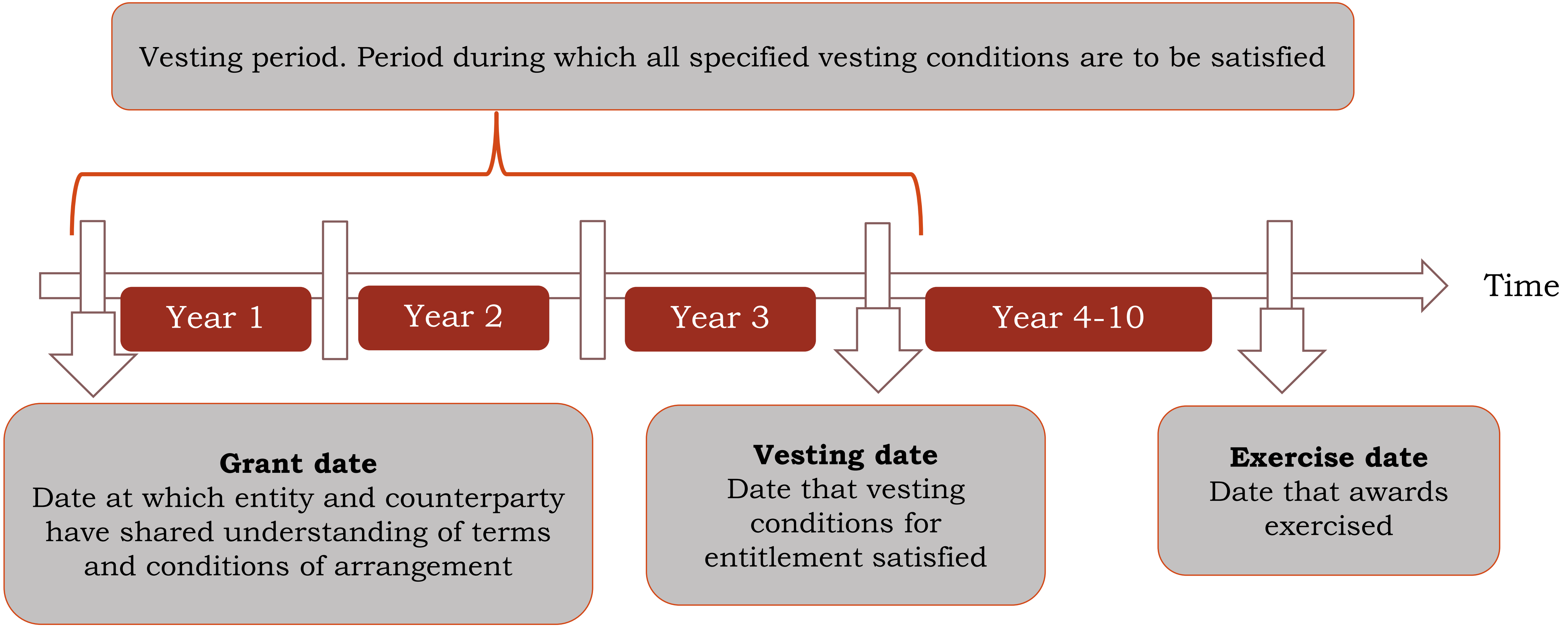
Important Concepts of Accounting for Share-based payments

Classification of conditions to receive share-based payments



Important Concepts of Accounting for Share-based payments

Timeline of a share option award



Overview of Equity and Cash settled - Measurement

Counterparty	Measurement basis	Initial Measurement date	Recognition date	Subsequent Measurement Basis and date
Equity Settled Awards				
Employee	Fair value of equity instruments awarded	Grant date	Date goods or services received	No re-measurement
Non-employee	Fair value of goods or services received	Date goods or services received		
Cash Settled Awards				
Employee	Fair value of Liability	Grant date	Date goods or services received	Re-measurement of fair value at each reporting date.
Non-employee	Fair value of Liability	Date goods or services received		

Recognition principle

- Timing
  - Goods → when received
  - Services → when obtained
- Recognition (debit entry)
  - Expense
  - Asset (if goods/services qualify as asset)
- Recognition (credit entry)
  - Increase in equity (for equity-settled SBP)
  - Liability (for cash-settled SBP)

Impact of conditions

Calculating total expected charge

Total value at grant date	=	Total number of options	×	Grant date fair value of options *	×	Percentage expected to vest

Accounting for conditions

Grant date fair value of options	Percentage expected to vest
Non-vesting Condition Market Condition	Service conditions Non-market performance conditions
Do not true up during vesting period or on vesting date	True up estimates during vesting period and on vesting date

** Re-measured at each reporting date in case of cash settled SBP*

Examples of impact of various conditions

Example: Award with market condition only

Q. An entity granted share options to a director on the condition that the market price of the related shares increases by at least 15% each year over the next five years. At the end of year five, this target was not met.

A. The entity cannot reverse the expense recognised in the current or previous years and cannot revise the grant date fair value since the condition is market-based.

Example: Award with non-vesting condition only

Q. An 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 grant, including the effect of the 'non-compete' clause, is Rs. 150,000.

A. The 'non-compete' clause is a non-vesting condition, because the entity does not receive any services. On the grant date, the entity immediately recognises a cost of Rs. 150,000, as the 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, because the condition is a non-vesting condition.

Example - Equity-settled awards

ABC Limited 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;

<u>First year</u> if the company's earnings increase by 12%;
<u>Second year</u> if the company's earnings increase by more than 20% over the two-year period;
<u>Third year</u> if the entity's earnings increase by more than 22% over the three-year period.

The fair value per share at the grant date is Rs. 122. In 20X1, earnings increased by 10%, and 29 employees left the organisation. The company expects that earnings will continue at a similar rate in 20X2 and expects that the shares will vest at the end of the year 20X2. The company also expects that additional 31 employees will leave the organisation in the year 20X2 and that 440 employees will receive their shares at the end of the year 20X2.

At the end of 20X2, company's earnings increased by 18%. Therefore, the shares did not vest. Only 29 employees left the organization during 20X2. Company believes that additional 23 employees will leave in 20X3 and earnings will further increase so that the performance target will be achieved in 20X3.

At the end of the year 20X3, only 21 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met. Determine the expense for each year and pass appropriate journal entries?

Example - Equity-settled awards (contd…)

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.

- **The entity recognises the employee benefit expense as follows:**

Year	Calculation of Expense*
20X1	440 employees x 100 shares x Rs 122 x ½ = Rs 26,84,000
20X2	(419 employees x 100 shares x Rs 122 x 2/3) – Rs 26,84,000 = Rs 7,23,867
20X3	(421 employees x 100 shares x Rs 122 x 3/3) – Rs 34,07,867 = Rs 17,28,333

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

- **Journal Entries to be passed are as follows:**

Particulars	Year 20X1	Year 20X2	Year 20X3
Employee Benefit Expenses…..Dr	26,84,000	7,23,867	17,28,333
To Share based payment reserve (equity)	26,84,000	7,23,867	17,28,333

Entry at the end of 3rd year (Issue of Equity Shares)

Share based payment reserve (equity)	Dr	51,36,200	
To Share Capital	Cr		51,36,200

SBP plan administered through a trust

- An entity may administer a share-based payment plan through a trust constituted for this purpose.

- The trust may have different kinds of arrangements, for example,
  - the entity allots shares to the trust as and when the stock options are exercised; or
  - the entity provides finance to the trust for subscription to the shares issued by the entity at the beginning of the plan; or
  - the entity provides finance to the trust to purchase shares from the market at the beginning of the plan.

- Since the trust administers the plan on behalf of the entity, it should be evaluated whether it is an extension of the entity as a branch/agent. In such cases, the financial statements of the entity shall be prepared as if the entity itself is administering the plan.

- The shares held by the trust shall be reflected in the separate financial statements of the sponsor entity as follows;

Issued Share Capital	
Equity shares of Rs. XX each	XXXX
Less: Equity shares of Rs. XX each held in Trust for employees under ESOP	(XXX)

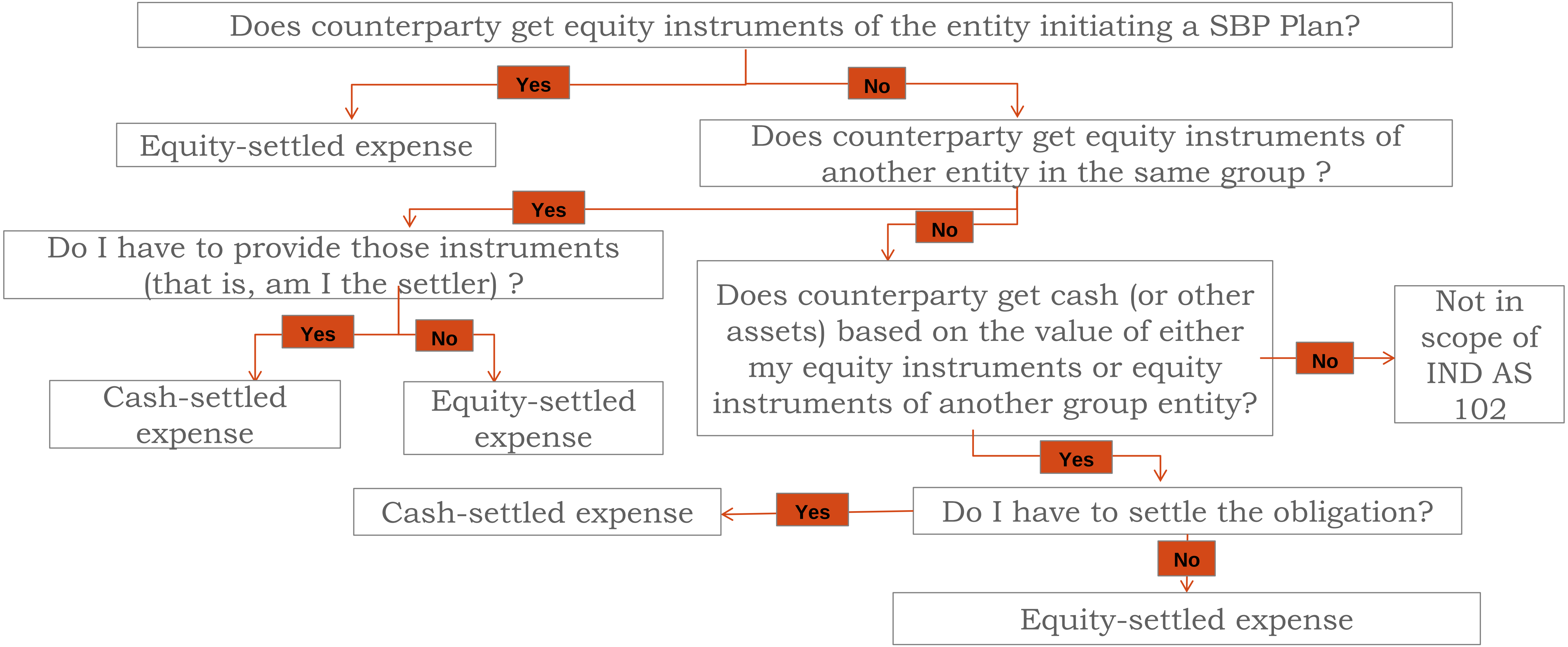
SBP plan administered through a trust – Separate FS of Sponsor

- If the transfer of cash to the trust is treated as a 'loan and receivable' asset under Ind AS 109, an impairment charge could often be required; this is because the asset may not recoverable. If the transfer of cash to the trust is treated as a capital contribution, any 'investment in trust' balance generated would also be subject to impairment review.

- An impairment could result in a 'double debit'; this is because the entity recognises both the SBP charge and an impairment charge.

- Where the sponsor retains the majority of the risks and rewards relating to the funding arrangement, the trust has, in substance, acted as an agent for the sponsor. It would be acceptable for the sponsor to account for the issue of shares to the trust as the issue of treasury shares; this would eliminate the problem of the 'double debit'

Classification of share-based payment transactions in group arrangements



Group share-based payment plans (Scenarios)

Below given scenarios assume that:
- the shareholder is not a group entity; and
- the subsidiary is directly owned by the parent company

Scenario	Who grants & settles the award?	Which entity receives the goods or services?	On which entity's shares is award based?	Settled in shares or cash?
1	Parent	Subsidiary	Parent	Shares
2	Shareholder	Subsidiary	Parent	Shares
3	Subsidiary	Subsidiary	Parent	Shares
4	Subsidiary	Subsidiary	Subsidiary	Shares
5	Parent	Subsidiary	Subsidiary	Shares
6	Parent	Subsidiary	Parent	Cash
7	Shareholder	Subsidiary	Parent	Cash

Group share-based payment plans (Scenarios)

Scenario	Separate financials statements of Parent	Financial statement of Subsidiary	Consolidated financials statements of Parent
1	Equity-settled transaction	Equity-settled transaction	Equity-settled transaction
2	Not dealt by IND AS 102	Equity-settled transaction	Equity-settled transaction
3	Not dealt by IND AS 102	Cash-settled transaction	Equity-settled transaction
4	NA	Equity-settled transaction	Equity-settled transaction
5	Cash-settled transaction	Equity-settled transaction	Equity-settled transaction
6	Cash-settled transaction	Not dealt by IND AS 102	Cash-settled transaction
7	Not dealt by IND AS 102	Not dealt by IND AS 102	Not dealt by IND AS 102

Example – Group SBP Arrangements

A parent grants its shares directly to the employees of subsidiaries A and B. The shares will vest immediately, and the parent will issue new shares directly to the employees. The parent will not charge subsidiaries A and B for the transaction.

How will the parent and the subsidiaries record the transaction?

- **In the subsidiaries' accounts**, the award is treated as an equity-settled share-based payment; this is because the subsidiaries do not have an obligation to settle the award. **An expense for the grant date fair value of the award is recognised over the vesting period; and a credit is recognised in equity.** The credit to equity is treated as a capital contribution, because the parent is compensating the subsidiaries' employees with no recharge to the subsidiaries. In this example, the shares vest immediately; so an expense is recognised in the subsidiaries' income statement in full (based on the grant date fair value), and there is a credit to equity.

- **In the separate financial statements, the parent entity records a debit, recognising an increase in the investment in the subsidiaries, and a credit to equity**; this is because the employees are not providing services to the parent. These accounting entries are recognised over the award vesting period (immediately in this example).

- **In the consolidated financial statements**, the transaction is treated as an equity-settled share-based payment; this is because the group has received services in consideration for the group's equity instruments. **An expense is recognised in the group income statement for the grant date fair value of the share-based payment over the vesting period (immediately in this example); and a credit is recognised in equity.**

Modification, cancellation or settlement

Modifications:

- **Entity to recognise, <u>as a minimum</u>, services received measured at the grant date at fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date**. This applies irrespective of any modifications to the terms and conditions on which the equity instruments were granted, or a cancellation or settlement of that grant of equity instruments.
- The entity shall also recognise the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the Employee.
- If the modification increases 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
- If the entity modifies the vesting conditions in a manner that is beneficial to the employee, for example, by reducing the vesting period or by modifying or eliminating a performance condition (other than a market condition), the entity shall take the modified vesting conditions into account.
- 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 had not occurred (other than a cancellation of some or all the equity instruments granted.

Modification, cancellation or settlement

Cancellation or Settlement:

- If a grant of equity instruments is cancelled or settled during the vesting period:
  - **Entity shall recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.**
  - Any payment made to the employee on the cancellation or settlement shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date.
  - If new equity instruments are granted to the employee and entity identifies the new equity instruments granted as replacement equity instruments for the cancelled equity instruments, the entity shall account for in the same way as a modification of the original grant of equity instruments.

Example on Modification

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.

By the end of year 1, the entity's share price has dropped, and the entity reprices its share options. The repriced share options vest 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 (i.e. before taking into account the repricing) is Rs 5 and that the fair value of each repriced share option is Rs 8. 40 employees leave during year 1. The entity estimates that a further 70 employees will leave during years 2 and 3, so that there will be 390 employees at the end of year 3 (500 – 40 – 70).

During year 2, a further 35 employees leave, and the entity estimates that a further 30 employees will leave during year 3, so that there will be 395 employees at the end of year 3 (500 – 40 – 35 – 30).During year 3, 28 employees leave, and hence a total of 103 employees ceased employment during the original three year vesting period, so that, for the remaining 397 employees, the original share options vest at the end of year 3.

Example on Modification (contd…)

Ind AS 102 requires the entity to recognise:

- the cost of the original award at grant date (Rs15 per option) over a three-year vesting period beginning at the start of year 1, plus
- the incremental fair value of the repriced options at repricing date (Rs 3 per option, being the Rs 8 fair value of each repriced option less the Rs 5 fair value of the original option) over a two-year vesting period beginning at the date of repricing (end of year 1).

<u>Recognition of Expense will be as under;</u>

Year	Calculation of cumulative expense under original award	Modified award	Cumulative expense	Expense for Period
1	390 employees × 100 options ×15 × 1/3		195,000	195,000
2	395 employees × 100 options ×15 × 2/3	395 employees × 100 options × 3 × 1/2	454,250	259,250
3	397 employees × 100 options × 15	397 employees × 100 options × 3	714,600	260,350

Staged Vesting

- In some share-based payment plans, awards vest in stages or instalments over the vesting period. For example, an employee is granted 100 options, with 25% of the options vesting annually over four years. This is known as ‘staged’ vesting (or ‘tranched’ or ‘graded’ vesting). Where the share-based payment is subject to different vesting periods, each of these instalments is accounted for as a separate award.

- In the above example, 25% of the award is recognised over one year, 25% recognised over two years, 25% recognised over three years, and 25% recognised over four years.

Disclosures

Ind AS 102 requires entities to disclose the following:

- The type and scope of agreements existing during the reporting period.
- Description of agreements (settlement methods, vesting conditions, etc.).
- The number and weighted-average exercise price of share options by category (outstanding at the beginning of the reporting period and at the end of the reporting period, granted, vested, exercised and forfeited).
- Average share price of exercised options
- Range of exercise prices and remaining contractual life of options outstanding at the end of the reporting period.
- Valuation method used to estimate the fair value of the awards (model and input values, etc.).
- The impact on the income statement (i.e., total expense) and the financial position (e.g., carrying amount of liabilities) of share-based payment awards.

Difference between IGAAP and Ind AS 102

IGAAP	Ind AS 102
Share-based payment to employees have an option to measure based on the grant date fair value or intrinsic value of the equity instruments issued.	Share-based payment to employees are measured based on the grant-date fair value of the equity instruments issued. Intrinsic value approach is permitted only when the fair value of the equity instruments cannot be estimated reliably.
For measuring share-based payment to non-employees there is no specific guidance.	Share-based payment to employees are generally, measured based on the fair value of the goods or services received.

Difference between IGAAP and Ind AS 102 (Contd.)

IGAAP	Ind AS 102
In case of graded vesting i.e. where share options or other equity instruments granted vest in instalments over the vesting period, entity may choose to measure on a straight-line basis as a single award or an accelerated basis as though each separately vesting portion of the award is a separate award.	Awards with graded vesting is measured as, in substance, multiple awards.

Ind AS 40

INVESTMENT PROPERTY

Classification of Property as Investment Property or owner-occupied property

Nature of Investment

Investment Property	Owner-Occupied Property
• Is held to earn rentals or for capital appreciation or both • Generates cash flows largely independently of the other assets held by an entity. • Covered by Ind AS 40 – Investment Property • **<u>Examples</u>** ➢ Land held for a currently undetermined future use. ➢ A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases. ➢ Property that is being constructed or developed for future use as investment property	• Is used in production or supply of goods or services or the use of property for administrative purposes • Generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process • Covered by Ind AS 16-Property, Plant and Equipment • **<u>Examples</u>** ➢ Sale of ordinary course of business – Inventories as per Ind AS 2. ➢ Owner-occupied/employee occupied property – Property, Plant & Equipment as per Ind AS 16.

Investment Property - Examples

Sr. No.	Property	Does it meet the definition of Investment Property	Which Ind AS is applicable
1.	Owned by a Co and leased out under an Operating lease	Yes	Ind AS 40
2.	Held under Finance Lease and leased out under an Operating Lease	Yes	Ind AS 40
3.	Property acquired with a view for development and resale	No	Ind AS 2
4.	Property partly owner occupied and partly leased out under Operating Lease	Depends	Ind AS 16 Ind AS 40
5.	Land held for currently undetermined use	Yes	Ind AS 40
6.	Property occupied by Employees paying rent at less than market rate	No	Ind AS 16
7.	Investment Property held for sale	No	Ind AS 105
8.	Existing Investment Property that is being redeveloped for continued use as Investment Property	Yes	Ind AS 40

Property held for more than one purpose, Property leased to other group members & Ancillary Services

Property held for more than one purpose –

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes.

- If these portions could be sold separately, entity accounts for the portions separately.
- If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Property leased to other group members -

- Property leased to, and occupied by, its parent or another subsidiary. It does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the group.
- However, from the perspective of the entity that owns it, the property is investment property if it meets the definition of investment Property.
- Therefore, the lessor treats the property as investment property in its individual financial statements.

Ancillary Services –

- Provides ancillary services to the occupants of a property it holds and treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example is when the owner of an office building provides security and maintenance services to the lessees who occupy the building.

Examples

A. Sun Ltd owns a building having 15 floors of which it uses 5 floors for its office; the remaining floors are leased out to tenants under operating leases. According to law company could sell legal title to the 10 floors while retaining legal title to the other 5 floors.

B. The owner of an office building provides security and maintenance services to the lessees who occupy the building.

C. An entity owns a hotel, which includes a health and fitness centre, housed in a separate building that is part of the premises of the entire hotel. The owner operates the hotel and other facilities on the hotel with the exception of the health and fitness centre, which can sold or leased out under a finance lease. The health and fitness centre will be leased to an independent operator. The entity has no further involvement in the health and fitness centre.

How should the management classify these facilities?

Solutions

A. In the given scenario, the remaining 10 floors should be classified as investment property since they are able to split the title between the floors.

B. In the given scenario, since the services provided are insignificant, the property would be treated as an Investment property.

C. In this scenario, management should classify the hotel and other facilities as property, plant and equipment and the health and fitness centre as investment property. If the health and fitness centre could not be sold or leased out separately on a finance lease, then because the owner-occupied portion is not insignificant, the whole property would be treated as an owner-occupied property.

Recognition, Initial measurement & Subsequent measurement

Recognition

Investment property shall be recognised as an asset when, and only when:

- It is probable that the future economic benefits associated with the investment property will flow to the entity; and
- The cost can be measured reliably

Recognition involves considering all costs incurred relating to investment property, both costs incurred initially to acquire investment property and costs incurred subsequently

Initial measurement

- Cost Elements
  1. Purchase Costs – Purchase Price, Import duties/ non refundable taxes, deduct trade discounts/rebates.
  2. Directly attributable costs – Cost of Employee benefits, Cost of site preparation, Initial delivery and handling costs, Transport handling charges, Installation and assembly costs, cost of testing and professional fees.
- Exclusions
  1. Start up costs
  2. Operating losses incurred before the investment property achieves the planned level of occupancy
  3. Abnormal wastage incurred in developing

Subsequent measurement

Cost Model

- Ind AS 16 requirements for cost model shall be applied
- Fair value shall be disclosed

Disclosures

- An entity should disclose:
  - Its accounting policy for measurement of investment property.
  - The criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.

- The amounts recognised in profit or loss for rental income from investment property

- The existence and amounts of restrictions on the realizability of investment property or the remittance of income and proceeds of disposal.

- In addition to the general disclosures required above, an entity is required to disclose:
  - The depreciation methods used;
  - The useful lives or the depreciation rates used;
  - The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;

- An entity is also required to provide a reconciliation of the carrying amount of investment property at the beginning and end of the period.

- An entity is also required to disclose the fair value of investment property. In the exceptional cases when an entity cannot measure the fair value of the investment property reliably, it should disclose:
  - A description of the investment property;
  - An explanation of why fair value cannot be measured reliably; and
  - If possible, the range of estimates within which fair value is highly likely to lie.

Thank You

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