INTERNATIONAL FINANCIAL REPORTING STANDARDS
SHARE BASED PAYMENTS – IFRS 2

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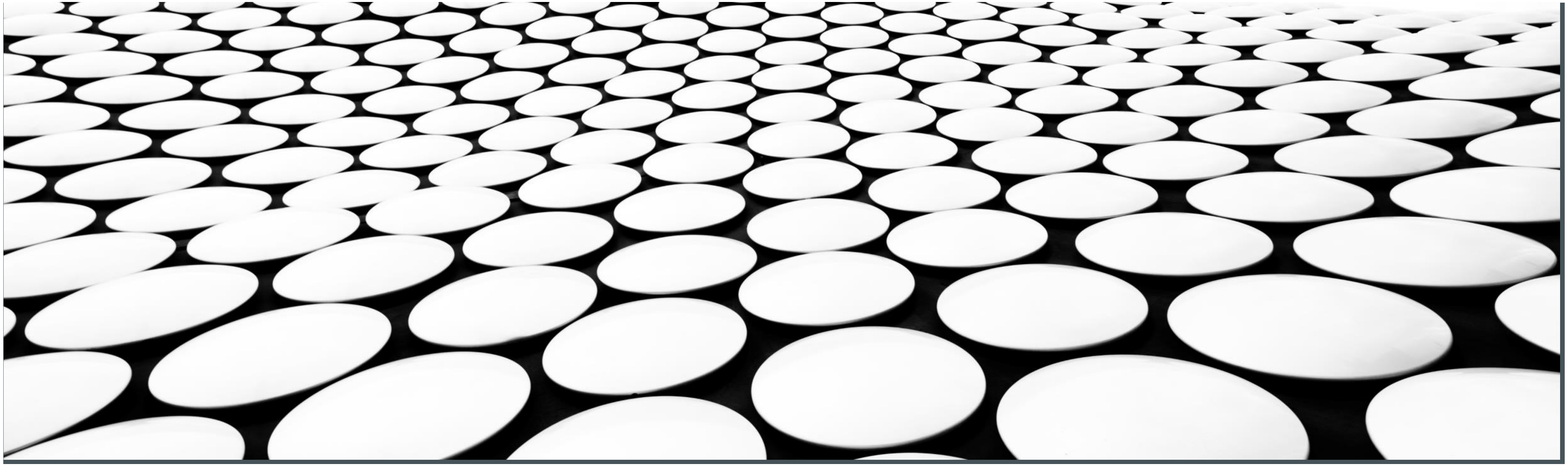

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Learning outcomes

- Understand the term ‘ share based payment’
- Discuss the key issue that measurement of the transaction should be based on fair value
- Difference between cash-settled share-based payments and equity-settled share-based payments transactions
- Principles of measuring cash and equity-settled share-based payment transactions
- Compute the amounts recorded in SOFP and SOCI when an entity carries out a transaction where the payment is share based

SHARE BASED PAYMENTS – IFRS 2

- IFRS 2 applies to all share-based payment transactions other than business combinations (IFRS 3).
- Prescribes the financial reporting by an entity when it undertakes share based payment transaction. It applies to
  - ➢ grant of shares, share options or other equity instruments that had not yet vested at the effective date of the IFRS. Also applies retrospectively to liabilities arising from share-based payment transactions existing at the effective date.
- Specifically covers :
  - ➢ criteria for defining a share based payment
  - ➢ distinction and accounting of
    - a) equity settled share-based payment transaction
    - b) cash settled share-based payment transaction
    - c) share-based payment transactions with cash alternatives
- A share-based payment transaction is a transaction in which the entity receives goods or services as consideration for equity instruments of the entity. It includes transactions where the term of the arrangement provide either the entity or the supplier of those goods and services with a choice of whether the entity settles the transaction in cash (or other assets) or through the issuance of equity instruments

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Understanding share-based payments (IFRS 2 Appendix A)

- A transaction in which the entity

➢ receives goods or services or equity instruments of the entity (including shares or share options) OR

➢ acquires goods or services by incurring liabilities that are based on the price of the entity's shares or other equity instruments of the entity

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Types of share based payments

Equity settled

Cash settled

Or either of the two

Equity actually issued in Return for goods / services

Amount of liability is Based on price of shares

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❑ Equity-settled share-based payment transaction

- Transaction measurement based on fair value of equity instruments granted at grant date. The valuation focuses on specific terms and conditions of a grant of shares or share options to employees.

- Option should be measured
  - on the basis of market price of any equivalent traded options or
  - using an option pricing model in absence of such market prices or
  - at instrinsic value when they cannot be measured reliably on the basis of market prices or on the basis of an option pricing model.

- The entity should recognize an asset (e.g. inventory) or an expense and a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction.

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- **Equity-settled share-based payment transaction**

➢ An entity recognizes an asset or expense and a corresponding increase in equity
  - on grant date if there is no vesting conditions of if the goods or services have already been received
  - as the services are rendered in non-employee services are rendered over a period
  - over the vesting period for employee and other share-based payment transactions where there is a vesting period. On vesting date the amount recognized is the exact number of securities that can be issued as of that date measured by the fair value of those securities at grant date.

➢ **vesting conditions** are service conditions and performance conditions only. Other features of share-based payment are not vesting conditions. Features of a share-based payment that are not vesting conditions should be included in the grant date fair value of the share-based payment.

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❑ Cash-settled share-based payment transaction

- ➢ The entity should recognize an asset or an expense and a liability if the goods or services were received in a cash-settled share-based payment transaction

- ➢ Until the liability is settled the entity should remeasure the fair value of the liability at each reporting date and the date of settlement, with any changes in fair value recognized in profit or loss for the period

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❑ 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 by issuing equity instruments , the entity should account that transaction as **a cash-settled share-based payment transaction**, if the entity has incurred liability to settle in cash or other assets. If no such liability is incurred it should be **equity-settled share-based payment transaction**

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❑ Share-based payment transactions with cash alternatives

- IASB issued amendments on IFRS 2 to clarify the accounting the accounting for group cash-settled share-based payment transactions. In these arrangements the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay those suppliers.

➢ An entity that receives goods and services in a share based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash

➢ In IFRS 2 a " group " has the same meaning as in IAS 27 consolidated and separate financial statements that is it includes only a parent and its subsidiaries.

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- Accounting for Share-based payment transactions
- Credit will depend on whether it is cash settled or equity settled :

Dr. Expenses / Asset	x	
Cr. Asset / Liability / Equity		x

- Equity settled share-based payments – measured at fair value at grant date

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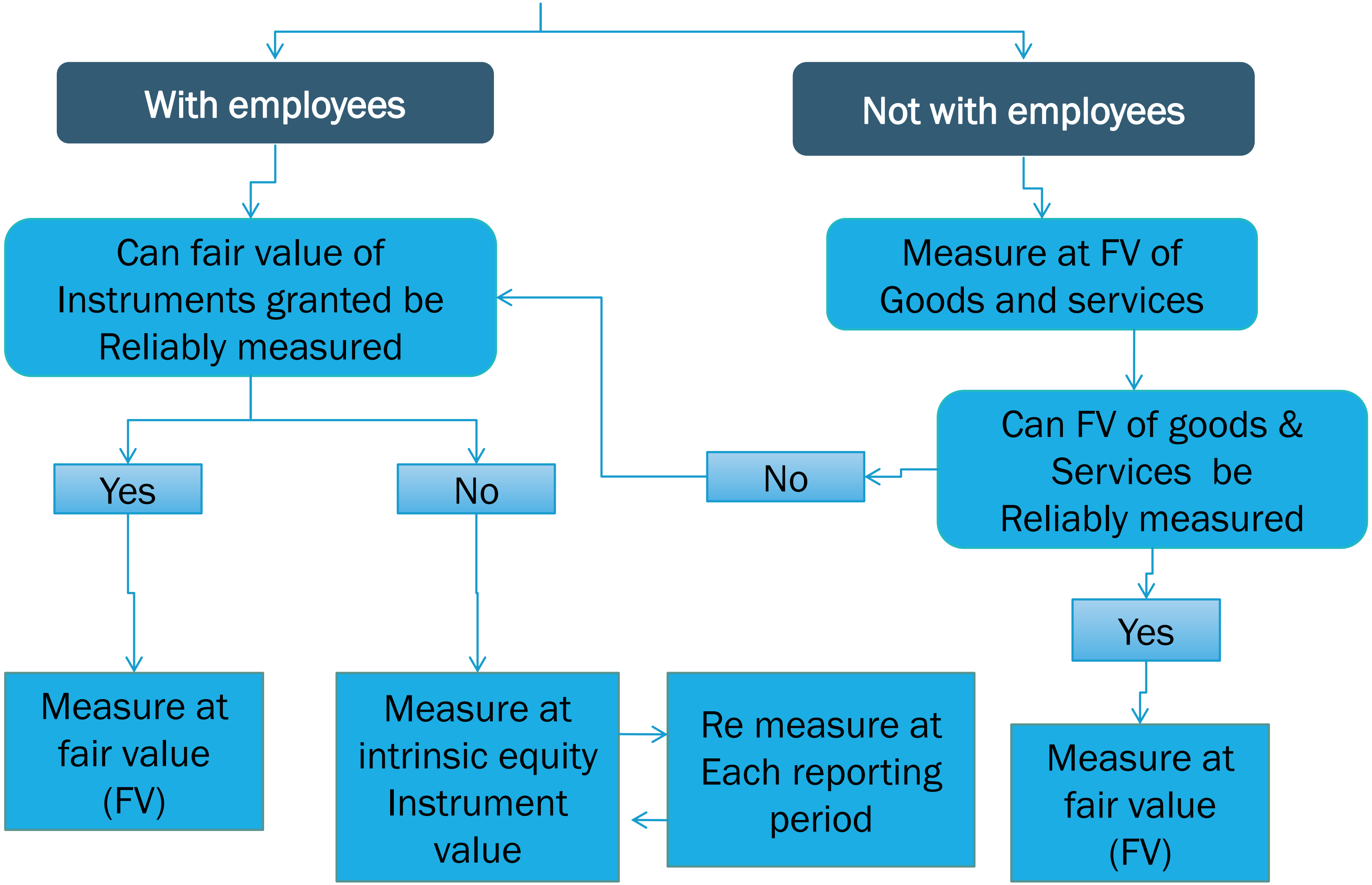
Measurement of equity settled transactions



EMPLOYEE SHARE COMPENSATION

Topic	Indian Accounting standards	IFRS / IAS	US GAAP
Employee share compensation	Guidance note issued by ICAI requires measurement of cost of benefits arising from employee share compensation plans on fair value. Alternatively the guidance note allows use of the intrinsic value method	Expenses for services purchased is recognized. Corresponding amount recorded either as a liabilityor an increase in equity, depending on whether transaction is determined to be cash or equity-settled. Amount to be recorded is measured at fair value of shares or share options granted	With the adoption of FAS 123R, similar model to IFRS. Compensation expense is generally recognized based on fair value of awards at grant date.

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Illustration I

- Alpha Ltd offers a bonus scheme to its employees. Under this scheme subject to their meeting fixed targets, the employees will be issued shares of the entity. Does this transaction qualify as an equity settled share-based payment transaction ?

Solution :

- Here the transaction involves exchange of services and it is against the equity instruments of the entity. Therefore the transaction qualifies as an equity-settled share-based payment transactions.

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Illustration 2

- Beta Ltd grants 50 share appreciation rights to each of its 100 employees to be settled in cash on the condition that the employees will remain in employment for the next three years.
  Required : Does the transaction qualify as a cash-settled share-based payment transaction ?

Solution

- Here the transaction involves exchange of "services" and the amount of consideration is based on the value of the shares of Beta Ltd. Hence this qualifies as a cash-settled share-based payment transaction

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Illustration 3

XYZ Ltd offers 200 shares to each of its 1000 staff if they stay for 3 years.
FV of the option at grant date is Rs. 30. At the end of the 1st year 15 employees
Leave and the entity estimates 25% will have left at the end of the vesting
Period. During the 2nd year a further 15 employees leave and the entity
revises its estimate of total departures over the vesting period from 25%
To 27%. During the 3rd year a further 15 employees leave.

Required :

Calculate the amounts are to be recognized in the financial statements.

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Solution

- **Step I : Fair value on grant date :**

  = 200 X 1000 X Rs.30 = Rs. 6000000

- **Step II : Cumulative charge to statement of comprehensive income**

  Year I : 200 shares x Rs.30 x (1000x75%) x 1/3 = Rs. 1500000

  Year II: 200 shares x Rs. 30 x (1000x73%) x 2/3 = Rs. 2920000

  Year III: 200 shares x Rs. 30 x 955 x 3/3 = $ 5730000 **(W1)**

- **Step III: Expenses for the vesting period**

  Year I : Rs.1500000 - 0 = Rs. 1500000

  Year II: **Rs.**2920000 – Rs. 1500000 = Rs. 1420000

  Year III: Rs. 5730000 – Rs. 2920000 = Rs. 2810000

W1 = Total employees in the beginning – total employees left during 3 years

= 1000 – (15 (yr-1)+ 15 (yr-2) +15 (yr-3))

= 955

THANK YOU!