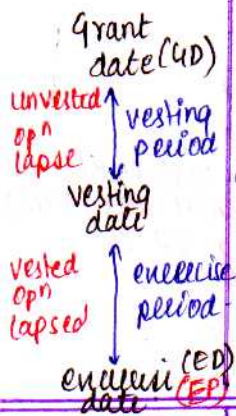


SHARE BASED PAYMENTS

SB-P

Employee Share Based Payments



ESOP
emp. stock op'n plan
Option to buy
X obligation

ESPP
purchase plan
shares @ discounted
price as part of
public issue or otherwise

SAR
Stock appreciation
rights
receive cash/shares
for appreciation
[EMP-EP]

MP(ED) > EP
exercise

MP < EP
X exercise

Classification: Accounting purpose

Guidance note on A/c for ESBP by ICAI [now IFRS-2]

Equity settled
receive shares
ESOP, ESPP

Cash settled
receive cash based
on price
SAR

Cash alternate
option/choice
cash or shares

Accounting Value (AV)

Benefit - employees receive
is co's cost

FV (dependent on)

- EP
 - life of op'n
 - volatility
 - Rf
 - emp div
 - CMP
- (Black
Scholes
model)

Format

Par	Years	1	2	3
Expected * employees				
X op'n per emp				
no. of op'n				
X FV per op'n				
Total cost	a	b	c	
vesting period	3	3	3	
cum cost upto CY	a/3 (1/3)	(2/3)	(3/3)	
= x	y	z		
(-> already recovered	-	(x)	(y)	
Cost for CY [ECC]	x	s	t	

* Securities premium

Cash used x
(+) AV
(service)
(considered)
total z
(-> FV 10/100
S.P
X NDS
= S.P

Cost Recognition

Recog AV over "vesting period"
on SLM basis.

(i) Emp. compensation cost [ECC]
To ESOP o/s
(between Eq Sh cap & R&S)

(ii) P&L
To ECC

(iii) On ED:
Bank A/c EP
ESOP o/s A/c AV
To E. Sh. cap NV
To secu premium

(iv) vested op'n lapse:
ESOP o/s A/c AV X VOL
To general reserve AV X VOL

Graded vesting

V.P is not same. op'n vest on diff dates.
each group = separate plan/scheme (same as ESOP)

Par	Year	1	2	3
Plans	I	II	III	III
(rest is same)				
cost				

no. of exp emp: Be very careful about reduction. If on 1st year 2% dedn then emp = x - 2% - 2% - 2% - ...
emp joins after grant date - not eligible for ESOP
variation in vesting period: keep ECC as expenses on basis of V.P estimated on grant date.
(eg if depn on Ho, profits etc)

E.S.P. P (Purchase plan)

along with public issue.
A/c - same as ESOP.

Modification (scheme)

Δ (no. of emp) $\times$ modification
if EP is Δ $\checkmark$ modif.
 $\downarrow$ FV due to modification
= "IGNORE"
 $\uparrow$ FV of option due to m.
incremental FV recog as
cost over remaining
vesting period.
 $\therefore$ continue with valuation
@ old FV + $\uparrow$ FV (new)
$$\text{Incr FV} = \text{FV of new plan (dom)} - \text{FV old plan estimated on (dom)}$$

on date of modification
value of opⁿ lapsed = old FV + $\uparrow$ FV

SAR (stock appⁿ rights)

cash pymt [excess of m^o over EP]
Accounting: Just like ESOP.
except
(i) instead ESOP O/s $\rightarrow$ provision = SAR
(ii) value per opⁿ - reassessed at every year end
bal in SAR $\rightarrow$ ECC.

Cash alternatives

cash prov (like SAR) equity ESOP O/s (ESOP)
GN: 1st all will exercise cash settlement (liab prov like SAR)
format same as ESOP table.
bal: equity settlement - spread over VP

Cancellation and settlements

generally cash compensation is paid.
Amt settled $>$ FV - record extra cost
Amt settled $<$ FV - may be replaced with new plan + cash pymt.
record $\uparrow$ incremental fair value over remaining VP.
$$\text{Incremental Fair value} = \text{FV of new plan} - \text{NET FV of old plan}$$

$$\downarrow$$

$$[\text{FV of old plan (dom)} - \text{cash settlement paid}]$$

$$\therefore \uparrow \text{FV} = \text{FV (NP)} - [\text{FV of (OP)} - \text{cash paid}]$$

Total cost of new scheme:
Cost at new FV $E \times \text{op}^n \times \text{new FV}$
(+) Incr cost of old pattern $E \times \text{op}^n \times \uparrow \text{FV}$
= Total cost
Vesting period.
ECC. $\nearrow$ cost considered ($\times$ include unamortised)
$$\text{SP (AV)} = \text{new FV} + [\text{old} + \uparrow \text{FV}]$$

dilution of EPS due to ESOP granted EPS = $\frac{\text{Profit}}{\text{Shares}}$

dilution = anticipated fall in EPS (potential equity shares)

calculation of potential equity

Per	Year.	1	2	3
1) actual no of emp		1		
2) op ⁿ per emp		2		
3) Total op ⁿ O/s (1x2)		1x2		
4) unamortised ESOP per op ⁿ				
		$\text{FV} \times \frac{2}{3}$	$\text{FV} \times \frac{1}{3}$	-
		as 1/3 - amt	2/3 amt	full amount
5) EP				
6) Expected EP		3x5		
7) unamortised ESOP cost (total)		3x4		
8) Total proceeds		6+7		
9) FV			8 ÷ 9	
10) no of shares for consideration				
11) Potential shares			01-10	

$$\text{DPS} = \frac{\text{Profit}}{\text{actual + pot shares}}$$