

5. ACCOUNTING FOR EMPLOYEE STOCK OPTION PLAN

NO. OF PROBLEMS IN 40e OF CA INTER CLASSROOM - 6, ASSIGNMENT - 9

NO. OF PROBLEMS IN 41e OF CA INTER CLASSROOM - 7, ASSIGNMENT - 8

NO. OF PROBLEMS IN 42e OF CA INTER CLASSROOM - 7, ASSIGNMENT - 8

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC & CA INTER

MODEL	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18(O)	M-18(N)	N-18(O)	N-18(N)
Problems	4	4	-	4	-	-	8	-	8	-	-	-	8	-	5	-	10

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

Problem No. in this material	Problem No. in NEW SM	Problem No. in OLD SM	Problem No. in OLD PM	RTP	MTP	Previous Exams	Remarks
CR 1	PQ - 2	-	3	-	-	-	-
CR 2	ILL - 2	ILL - 2	-	-	-	-	-
CR 3	PQ - 1	-	2	-	M18(N)	-	-
CR 4	PQ - 4	-	5	-	M18(O)	-	-
CR 5	ILL - 6	ILL - 3	-	-	-	-	-
CR 6	-	-	-	M17	-	-	-
CR 7	ILL - 5	-	7	-	-	-	-
ASG 1	PQ - 2	-	3	-	-	-	-
ASG 2	PQ - 3	-	4	-	-	-	-
ASG 3	-	-	-	N15	-	-	-
ASG 4	-	-	-	-	-	-	-
ASG 5	ILL - 5	-	7	-	-	-	-
ASG 6	ILL - 4	-	-	-	-	-	-
ASG 7	-	-	-	-	-	-	-
ASG 8	-	-	-	M18(N),(O)	-	-	-

THEORY

Provision: As per Sec. 62 (1) (b) of the Companies Act 2013, where at any time a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares may be offered to employees under a scheme of employees stock option, subject to a special resolution passed by the company and subject to such conditions as may be prescribed.

Meaning: ESOP is an option given to Directors, Officers or permanent employees of a company to purchase or subscribe the securities offered by the company at a future date, at a pre-determined price.

Importance:

1. Stock options provide an opportunity to employees to participate and contribute in the growth of the company.
2. Stock options create long term wealth in the hands of the employees.
3. They are important means to attract, retain and motivate the best available talent for the company.
4. It creates a common sense of ownership between the company and its employees.

Applicable guidelines:

1. In case of listed companies SEBI (Share based Employee benefits) Regulations, 2014 are applicable.
2. It covers the provisions regarding accounting policies, pricing, disclosures, administration and implementation process of various schemes and other issues.

- These Regulations stipulate to follow the requirements of the Guidance Note on Accounting for employee share based payments or accounting standards as may be specified by the ICAI.

IMPORTANT TERMS IN ESOP:

- Grant:** Grant means issue of option to the employees under ESOS.
- Vesting:** It is the process by which the employee is given the right to apply for shares of the company against the option granted to him in purchase of employee in pursuance of employee stock option scheme (ESOS).
- Vesting Period:** It is the time period during which the vesting of the option granted to the employee on pursuance of ESOS takes place.
- Option:** Option means a right but not an obligation granted to an employee in pursuance of ESOS to apply for shares of the company at a pre-determined price.
- Exercise:** The activity of converting the options granted into shares by paying the required exercise price is known as exercise of options
- Exercise Period:** It is the time period after vesting within which the employee should exercise his right to apply for shares against the option vested in him in pursuance of the ESOS.
- Exercise Price:** It is the price payable by the employee for exercising the option granted to him in pursuance of ESOS.
- Fair value:** A fair value is the amount for which stock option granted or a share offered for purchase could be exchanged between knowledgeable willing parties in an arm's length transaction.
- Intrinsic value:** An intrinsic value is the amount by which the quoted market price of the underlying share in case of a listed enterprise or the value of the underlying share determined by an independent valuer in case of an unlisted enterprise exceeds the exercise price of an option.
- Lapse of options:** Options lose their validity in certain circumstances i.e. expiry of the exercise period. These options then cannot be converted into shares and lose their value. Such options are said to have lapsed.

PROVISIONS OF GUIDANCE NOTE ON EMPLOYEE SHARE BASED PAYMENTS

VARIOUS FORMS OF EMPLOYEES SHARE BASED PAYMENTS:

As per provisions of guidance note on employees share based payments, they are of 3 types:

- Employee Stock Option Plan:** It is a plan under which the enterprise grants employees stock option. Employee Stock Option is a contract that gives the employees of the enterprise the right, but not the obligation, for a specified period of time to purchase or subscribe to the shares of the enterprise at a fixed or determinable price.
- Employee Stock Purchase Plan:** It is a plan under which the enterprise grants rights to its employees to purchase its shares at a stated price at the time of public issue or otherwise.
- Stock Appreciation Right:** It is a right that entitles the employees to receive cash for an amount equivalent to any excess of the market value of a stated number of enterprise's shares over a stated price. The form of payment may be specified when the rights are granted or may be determined when they are exercised. However, in some plans, the employee may choose the form of payment.

FOR ACCOUNTING PURPOSES:

Employee share based payment plans are classified into 3 categories

- Equity settled:** Under these plans, the employees receive shares.
- Cash settled:** Under these plans, the employees receive cash based on the price (or value) of the enterprise's shares.
- Employee share based payment plans with cash alternatives:** Under these plans, either the enterprise or the employee has a choice of whether the enterprise settles the payment in cash or by issue of shares.

Note: For the purpose of guidance note, the term employee includes director of the enterprise, whether whole time or not.

ACCOUNTING TREATMENT:

EQUITY SETTLED EMPLOYEE SHARE BASED PAYMENT PLAN:

In respect of options granted during any accounting period, the accounting value of the options shall be treated as another form of employee compensation in the financial statements of the company.

The accounting value of options shall be:

Numbers of options granted X (Market price – Exercise price*)

(* Exercise price means the price payable by the employee for exercising the option granted to him / her in pursuance of ESOS)

- 1. To recognize an appropriate proportion of the total fair value of options/ shares expected to vest as an expense at the end of each accounting period during the vesting period.**

Employee's compensation expenses A/c Dr.

To Employee stock option outstanding A/c

(Being expenses in respect of ESOP recognized during the year)

- 2. To transfer employees compensation expense account to profit & loss Account at the end of each accounting period during the vesting period.**

Profit & Loss A/c. Dr.

To Employees Compensation Expense A/c

(Being the transfer of employees compensation expense A/c to P & L A/c).

- 3. To record the issue of shares when the options are exercised during exercise period.**

Bank Account Dr.[No. of options X Exercise price]

Employee Stock Option Outstanding Account Dr. [Note 1]

To Equity Share Capital A/c [Note 2]

To Securities Premium A/c [Note 3]

(Being options exercised during.....period)

Note 1: No. of options X Fair value of options

Note 2: Face value per share x Number of options exercised

Note 3: (Market price – Face value) x Number of options exercised

- 4. To cancel fair value of options lapsed**

Employee stock option outstanding A/c Dr. (Note 1)

To general reserve

(Being the fair value of options lapsed transferred to general reserve)

Note 1: No of options lapsed X fair value of each option

DISCLOSURE: Employee stock option outstanding accounts will appear in balance sheet as a part of Shareholders Fund, under the head of Reserves and Surplus in notes to accounts till the cancellation of fair value of options lapsed.

Note: No amount is recognized for employee services received if the shares or stock options granted do not vest because of failure to satisfy a vesting condition.

Example 1: X Ltd grants 1,000 options at Rs.60 when the market price is Rs.100. The value of options will be: 1,000 x (Rs.100 - Rs.60) = Rs.40,000

Let us assume that vesting period is two years. It means, the options become exercisable for the first time on expiry of two years.

Date	Particulars	Debit	Credit
End of First Year	Employee compensation expenses A/c Dr. To Employee stock option outstanding A/c (Being expenses in respect of ESOP recognized during year)	20,000	20,000
End of First year	Profit and Loss A/c Dr. To Employee compensation expenses A/c (Being employee compensation exp. transferred to P & L A/c.)	20,000	20,000
End of 2 nd year	Employee compensation expenses A/c Dr. To Employee stock option outstanding A/c (Being expenses in respect of ESOP recognized during year)	20,000	20,000
End of 2 nd year	Profit and Loss A/c Dr. To Employee compensation expenses A/c (Being employee compensation exp. transferred to P & L A/c.)	20,000	20,000
End of 3 rd year	Bank A/c Dr. Employee compensation expenses A/c Dr. To Equity share capital A/c To Securities premium A/c (Being employees availed the option during the exercised)	60,000 40,000	10,000 90,000

VARIATION IN VESTING PERIOD:

Whenever the vesting period, (i.e. the time taken to satisfy the vesting conditions) is uncertain, Allocation of option value for recognition as an expense in a particular accounting period should be based on estimated vesting period.

1. The initial estimate of vesting period on grant date should be reviewed and revised if necessary, at the end of each accounting period.
2. In case of revision of vesting period, the basis of allocation of option value to a particular accounting period should be based on revised estimate of vesting period.

Example 1: The options will vest to employees serving continuously for 3 years from vesting date, provided the company achieves a 40 % market share, the vesting period can be known only when the market share of company reaches the specified 40 % level.

GRADED VESTING:

1. Graded vesting refers to a situation where options under a plan vest on different dates.

For example, a plan may provide that shares offered to an employee shall vest in proportion of 1:2:3 in three years commencing from fourth year. Thus if an employee is offered 60 shares under the plan, 10 shares shall vest in year 4, 20 shares shall vest in year 5 and 30 shares shall vest in year 6.

2. Accounting Treatment:

- In these cases, based on vesting dates, the plan is segregated into different groups.
- Each of these groups is then treated as a separate plan with specific vesting period and expected life.

3. **STEP1:** Segregate the original plan into different groups on the basis of vesting dates.

STEP2: compute the fair value for each group separately since expected life affects Fair value of an option.

NOTE: Intrinsic value of option per share shall be same for each group since expected life does not affect intrinsic value of an option.

STEP3: Recognize expense for the period with reference to vesting period for the group.

PROBLEMS FOR CLASSROOM DISCUSSION

PROBLEM 1: S Ltd. grants 1,000 options to its employees on 1.4.2010 at Rs.60. The vesting period is two and a half years. The maximum exercise period is one year. Market price on that date is Rs.90. All the options were exercised on 31.7.2013. Journalize, if the face value of equity share is Rs.10 per share.

(B) (NEW SM) (SOLVE PROBLEM NO 1, 2 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 2: ABC Ltd grants 1,000 employees stock options on 1.4.2010 at Rs.40, when the market price is Rs.160. The vesting period is 2½ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2012. 600 options are exercised on 30.6.2013. 100 vested options lapse at the end of the exercise period. Pass Journal Entries giving suitable narrations

(A) (NEW SM, N14) (SOLVE PROBLEM NO 3, 4 ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 3: Basic level: X Co. Ltd. has its share capital divided into equity shares of Rs.10 each. On 1.4.2012 it granted 20,000 employees' stock option at Rs. 50 per share, when the market price was Rs.120 per share. The options were to be exercised between 15th March, 2013 and 31st March, 2013. The employees exercised their options for 16,000 shares only and the remaining options lapsed. The company closes its books on 31st March every year. Show Journal entries (with narration) as would appear in the books of the company up to 31st March, 2013.

(A) (NEW SM)

(SOLVE PROBLEM NO 5 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 4: on 1st April, 2012, a company offered 100 shares to each of its 500 employees at Rs.50 per share. The employees are given a year to accept the offer. The shares issued under the plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company on the grant date is Rs.60 per share. Due to post - vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at Rs.56 per share.

On 31st March, 2013, 400 employees accepted the offer and paid Rs.50 per share purchased. Nominal value of each share is Rs.10.

Record the issue of share in the books of the company under the aforesaid plan.

(A)

(NEW SM, MTP M17, SIMILAR: M18 (N) - 5M)

Note: _____

PROBLEM 5: Choice Ltd. grants 100 stock options to each of its 1,000 employees on 1.4.2009 for Rs.20 depending upon the employees at the time of vesting of options. Options would be exercisable within a year it is vested. The market price of the share is Rs.50. These options will vest at the end of year 1 if the earning of Choice Ltd is 16%, or it will vest at the end of the year 2 if the average earning of two years is 13% or lastly it will vest at the end of the third year if the average earning of 3 years will be 10%. 5,000 unvested options lapsed on 31.03.2010, 4,000 unvested options lapsed on 31.3.2011 and finally 3,500 unvested options lapsed on 31.03.2012.

Following is the earning of Choice Ltd:

Year ended on	Earning (in %)
31.03.2010	14%
31.03.2011	10%
31.03.2012	7%

850 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life. Pass Journal entries for the above. (A) (NEW SM, SIMILAR: N18 (N) - 10M)

(SOLVE PROBLEM NO 7 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 6: (PRINTED SOLUTION AVAILABLE) At the beginning of year 1, an enterprise grants 10,000 stock options to a senior executive, conditional upon the executive remaining in the employment of the enterprise until the end of year 3. The exercise price is Rs. 40. However, the exercise price drops to Rs. 30 if the earnings of the enterprise increase by at least an average of 10 per cent per year over the three-year period.

On the grant date, the enterprise estimates that the fair value of the stock options, with an exercise price of Rs. 30, is Rs. 16 per option. If the exercise price is Rs. 40, the enterprise estimates that the stock options have a fair value of Rs. 12 per option. During year 1, the earnings of the enterprise increased by 12 per cent, and the enterprise expects that earnings will continue to increase at this rate over the next two years. The enterprise, therefore, expects that the earnings target will be achieved, and hence the stock options will have an exercise price of Rs. 30. During year 2, the earnings of the enterprise increased by 13 per cent, and the enterprise continues to expect that the earnings target will be achieved.

During year 3, the earnings of the enterprise increased by only 3 per cent, and therefore the earnings target was not achieved. The executive completes three years' service, and therefore satisfies the service condition. Because the earnings target was not achieved, the 10,000 vested stock options have an exercise price of Rs. 40. Calculate the amount to be charged to Profit and Loss Account every year on account of compensation expenses. (C) (RTP M17, SIMILAR: RTP N18 (N&O))

(ANS.: YEAR 1-53,333, YEAR 2-53,333, YEAR 3 – 13,334)

Note: _____

PROBLEM 7: (PRINTED SOLUTION AVAILABLE) You are provided with the following details in respect of ABC Limited:

- i) 10,000 equity shares of nominal value of Rs.10 each were issued on 31st March, 2014:
- ii) Exercise price of equity shares granted under ESOP was Rs.160 per share:
- iii) Market price of share was Rs. 400 each on
- iv) on the date of the grant:
- v) Vesting of share was in the ratio of 30%, 60% and 100% after 1 year, 2 year and 3 year respectively from the date of grant:
- vi) Vested options can be exercised up to 1 year from the date of vesting:
- vii) The number of shares expired and exercised are as under:

Particulars	Year Ended		
	31.03.2015	31.03.2016	31.03.2017
Vested options Lapsed during the year	-	200	600
Unvested Options Lapsed during the year	400	600	1,000
Options Exercised during the year	-	2,500	2,000

From the above details you are required to calculate:

- a) Employee Compensation expense for the year ending 31st March, 2015, 31st March, 2016 and 31st March, 2017
- b) Balance of Employee Stock Option outstanding Account as on 31st March, 2015, 31st March 2016 and 31st March 2017

Entries relating to ESOP lapsed and options exercised were passed at the end of the respective financial year. (A) (N17 - 8M)

ASSIGNMENT PROBLEMS

PROBLEM 1: Basic Level: A company has its share capital divided into shares of Rs.10 each. On 1-4-2012, it granted 10,000 employees stock option at Rs.40, when the market price was Rs.130. The options were to be exercised between 15-03-2013 and 31-03-2013.

The employees exercised their options for 9,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Show Journal Entries.

(B) (NEW SM, SIMILAR: MTP M18 (N))

PROBLEM 2: Basic Level: A company has its share capital divided into shares of Rs.10 each. On 1-4-2012, it granted 5,000 employees stock option at Rs.50, when the market price was Rs.140. The options were to be exercised between 15-03-2013 and 31-03-2013. The employees exercised their options for 4,800 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Show Journal Entries.

(B) (NEW SM, RTP N17, SIMILAR: MTP M18(O))

PROBLEM 3: On 1st April, 2014, a company offered 100 shares to each of its 400 employees at Rs.25 per share. The employees are given a month to accept the shares. The shares issued under the plan shall be subject to lock-in on transfer for three years from the grant date i.e. 30th April, 2014. The market price of shares of the company on the grant date is Rs.30 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at Rs.28 per share.

Up to 30th April, 2014, 50% of employees accepted the offer and paid Rs.25 per share purchased. Nominal value of each share is Rs.10. Record the issue of share in the books of the company under the aforesaid plan.

(B) (RTP N15)

PROBLEM 4: Exercises of options: HCL grants 1,250 options on 1st April, 2012 at Rs.80 when the market price is Rs.200 and the face value is Rs.10. the vesting period is 3 years. The maximum exercise period is one year. 450 unvested options lapse on 1st May, 2014, 800 options are exercised on 31st August, 2015. Pass necessary journal entries to record the above transactions and Employee Stock Options Outstanding Account and state how these accounts will be shown in the Balance Sheet.

(B) (SIMILAR: M11)

PROBLEM 5: P Ltd. granted option for 8,000 equity shares of nominal value of Rs.10 on 1st October, 2010 at Rs. 80 when the market price was Rs.170. The vesting period is 4½ year, 4,000 unvested options lapsed on 1st December, 2012, 3,000 options are exercised on 30th September, 2015 and 1,000 vested options lapsed at the end of the exercise period. Pass Journal Entries for above transactions.

(A) (NEW SM)

PROBLEM 6: Ajanta grants 120 share options to each of its 460 employees. Each grant is conditional on the employee working for Ajanta over the next three years. Ajanta has estimated that the fair value of each share option is Rs.12. Ajanta estimates that 25% of employees will leave during the three-year period and so forfeit their rights to the share options. Everything turns out exactly as expected.

Required: Calculate the amounts to be recognized as expense during the vesting period. (B) (NEW SM)

(ANS.: YEAR 1-1, 65,600, YEAR 2- 1, 65,600, YEAR 3 - 1, 65,600)

PROBLEM 7: At the beginning of year 1, an enterprise grants 300 options to each of its 1,000 employees. The contractual life (comprising the vesting period and the exercise period) of options granted is 6 years. The other relevant terms of the grant are as below:

Vesting Period	3 years
Exercise Period	3 years
Expected Life	5 years
Exercise Price Rs.	50

Market Price Rs.	50
Expected forfeitures per year	3%

The fair value of options, calculated using an option pricing model, is Rs.15 per option. Actual forfeitures, during the year 1, are 5 per cent and at the end of year 1, the enterprise still expects that actual forfeitures would average 3 per cent per year over the 3-year vesting period. During the year 2, however, the management decides that the rate of forfeitures is likely to continue to increase, and the expected forfeiture rate for the entire award is changed to 6 per cent per year. It is also assumed that 840 employees have actually completed 3 years vesting period.

200 employees exercise their right to obtain shares vested in them in pursuance of the ESOP at the end of year 5 and 600 employees exercise their right at the end of year 6 Rights of 40 employees expire unexercised at the end of the contractual life of the option, i.e., at the end of year 6, Face value of one share of the enterprise is Rs.10. Give necessary journal entries.

(C) (ANS.: EXPENSE TO BE RECOGNIZED IN YEAR 1: 13,69,010; YEAR 2: 11,22,740; YEAR 3: 12,88,250; AMOUNT TO BE TRANSFER TO GENERAL RESERVE 1, 80,000)

PROBLEM 8: PQ Ltd. grants 100 stock options to each of its 1,000 employees on 1-4-2015, conditional upon the employee remaining in the company for 2 years. The fair value of the option is Rs.18 on the grant date and the exercise price is Rs. 55 per share. The other information is given as under:

- Number of employees expected to satisfy service condition are 930 in the 1st year and 850 in the 2nd year.
- 40 employees left the company in the 1st year of service and 880 employees have actually completed 2 year vesting period.

You are required to calculate ESOP cost to be amortized by PQ Ltd. in the years 2015-2016 and 2016-2017.

(A) (RTP M18) (ANS.: 2015-16: 8,37,000; 2016-17: 7,47,000)

PRINTED SOLUTIONS TO SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 6, 7

PROBLEM NO: 6

Since the exercise price varies depending on the outcome of a performance condition which is not a market condition the effect of that performance condition (i.e. the possibility that the exercise price might be Rs.40 and the possibility that the exercise price might be Rs.30) is not taken into account when estimating the fair value of the stock options at the grant date. Instead, the enterprise estimates the fair value of the stock options at the grant date under each scenario and revises the transaction amount to reflect the outcome of that performance condition at the end of every year based on the information available at that point of time.

Calculation of compensation expenses to be charged every year

Year	Calculation	Compensation expenses for the period (Rs.)	Cumulative compensation expense (Rs.)
1	10,000 options × Rs. 16 × 1/3	53,333	53,333
2	(10,000 options × Rs. 16 × 2/3) - Rs. 53,333	53,334	1,06,667
3	(10,000 options × Rs. 12 × 3/3) - Rs. 1,06,667	13,333	1,20,000

PROBLEM NO: 7

- Calculation of employee compensation expense for the year ended 31st March, 2015, 31st March, 2016 and 31st March, 2017 (Refer working note)

Vesting date as on 31 st March	Cost to be recognized in the year ending 31 st March		
	2015	2016	2017
2015	6,24,000		
2016	2,88,000		

2017	2,40,000		
Cost for the year	11,52,000	5,28,000	2,40,000
Cumulative cost	11,52,000	16,80,000	19,20,000

ii) **Balance of ESOP Outstanding account as on 31st March, 2015, 31st March, 2016 and 31st March, 2017**

	Total	2015	2016	2017
ESOP Outstanding A/c at the end of first year	11,52,000	11,52,000		
Less: Vested options lapsed during the year (200X240)	(48,000)			
Less: Vested options exercised during the year (2,500X240)	(6,00,000)			
Add: ESOP credited in the second year	5,28,000			
ESOP Outstanding A/c at the end of 2 nd year	10,32,000		10,32,000	
Less: Vested options lapsed (600X240)	(1,44,000)			
Less: Vested options exercised (2000X240)	(4,80,000)			
Add: ESOP credited in the third year	2,40,000			
ESOP Outstanding at the end of 3 rd Year	6,48,000			6,48,000

Working note:

Determination of number of options expected to vest under each group

Vesting date (Year-end) 31 st March		Shares expected to vest	Value per share (Rs.) (400-160)	Compensation expense (Rs.)
2015	(10000 shares X 30%) – 400 shares	2,600 shares	240	6,24,000
2016	(10000 shares X 30%) – 600 shares	2,400 shares	240	5,76,000
2017	(10000 shares X 40%) – 1000 shares	3,000 shares	240	7,20,000
				19,20,000

Total compensation expense of Rs.19,20,000, determined at the grant date, is attributed to 3 years.

Note: The solution can be given in the following alternative manner:

i) **Calculation of Employee compensation expense for the year ended 31st March, 2015, 31st March, 2016 and 31st March, 2017**

Particulars	Year ended 31.3.15	Year ended 31.3.16	Year ended 31.3.17
No. of options in vesting ratio (30%/30%/40%)	3,000	3,000	4,000
Less: Unvested options lapsed during the year	(400)	(600)	(1000)
Net options vested during the year (A)	2,600	2,400	3,000
Per option expenses (Rs. 400 – Rs.160) (B)	240	240	240
Employee compensation expense for the year (AXB)	6,24,000	5,76,000	7,20,000

ii) **Balance of ESOP Outstanding Account**

Particulars	As on 2015	As on 2016	As on 2017
Opening balance		6,24,000	5,52,000
Amount transferred from employee compensation expense	6,24,000	5,76,000	7,20,000
Less: Expenses of options vested and lapsed @ 240 per option (transferred to general reserve)	-	(48,000) (200X240)	(1,44,000) (600X240)
Less: Utilized for issue of shares @ 240 per option	-	(6,00,000) (2500X240)	(4,80,000) (2000X240)
Closing balance	6,24,000	5,52,000	6,48,000

Note: In the absence of estimated figures regarding lapse of unvested options, it is assumed that actual lapses were in accordance with the estimation.

THE END