

3. ACCOUNTING FOR EMPLOYEE SHARE BASED PAYMENTS

PROBLEM NO:1

Journal Entries:

DATE	PARTICULARS	DEBIT (Rs.)	CREDIT (Rs.)
15.03.2013	Bank A/c (9,500X40) Dr.	3,80,000	
To	Employee Compensation Expenses A/c (W.N.1) Dr.	8,55,000	
31.03.2013	To Equity Share Capital A/c (9,500 X 10)		95,000
	To Securities Premium A/c (9,500 X 120)		11,40,000
	(Being allotment to employees of 9,500 Equity Share of Rs. 10 each at a premium of Rs. 120 per share in exercise of stock options by employees)		
31.03.2013	Profit & Loss A/c Dr.	8,55,000	
	To Employee Compensation expenses A/c		8,55,000
	(Being transfer of employee compensation expenses to P & L A/c)		

WORKING NOTES:

1. Market Price per Share	Rs. 130
Exercising price per option	Rs. 40
Intrinsic Value of each option	Rs. 90
No.of Options exercised by employees	Rs. 9,500
Value of Compensation expenses to be recognized = 9500 X Rs. 90	
	= Rs. 8,55,000.

PROBLEM NO: 2

In the Books Of Cauvery Software Ltd:

a) Value of Option = Market price – Exercising Price
= Rs. 150 – Rs. 50 = Rs. 100

Total value of Options = No. of options granted X Rs. Value of each option
= 2000 X Rs. 100 = Rs. 2,00,000

b) The above employee compensation expenses are to be amortized on straight line basis during the vesting period of 2 years.

Amount to be amortized every year = Rs. 2,00,000 / 2 years = Rs. 1,00,000

Journal Entries:

DATE	PARTICULARS	DEBIT (Rs.)	CREDIT (Rs.)
31.03.2008	Employee Compensation Expenses A/c Dr.	1,00,000	
	To Employee Stock options outstanding A/c		1,00,000
	(Being the compensation expenses recognized on stock options granted to employees)		
31.03.2008	P & L A/c Dr.	1,00,000	
	To Employee Compensation expenses A/c		1,00,000
	(Being the Compensation expenses transferred to P & L A/c)		

31.03.2009	Employee Compensation expenses A/c	Dr.	1,00,000	
	To Employee Stock options outstanding A/c			1,00,000
	(Being the Compensation expenses recognized in the second year)			
31.03.2009	P & L A/c	Dr.	1,00,000	
	To Employee Compensation expenses transferred to P & L A/c)			1,00,000

Note: As the information regarding no. of options exercised by the employees is not provided. Journal entries for exercising options on 31.03.2009 are not provided.

PROBLEM NO:3

Journal Entries in the Books of 'S' Ltd.

DATE	PARTICULARS	DEBIT (Rs.)	CREDIT (Rs.)
31.03.2011	Employees Compensation exp. A/c	Dr. 12,000	
	To Employee Stock Options O/S A/c		12,000
	(Being Compensation exp. Recognized in respect of 1000 options granted to employees on SLM basis over 2 ½ years)		
31.03.2011	P & L A/c	Dr. 12,000	
	To Employees Compensation exp. A/c		12,000
	(Being Compensation exp. Transferred to P & L A/c)		
31.03.2012	Employees Compensation exp. A/c	Dr. 12,000	
	To Employee Stock Options O/S A/c		12,000
	(Being Compensation exp. Recognized)		
31.03.2012	P & L A/c	Dr. 12,000	
	To Employees Compensation expenses A/c		12,000
	(Being Compensation expenses transferred to P & L A/c)		
31.03.2013	Employees Compensation expenses A/c	Dr. 6,000	
	To Employees stock options outstanding A/c		6,000
	(Being balance of compensation expenses amortized)		
31.03.2013	P & L A/c	Dr. 6,000	
	To Employees Compensation expenses A/c		6,000
	(Being Compensation expenses transferred to P & L A/c)		
31.07.2013	Bank A/c (1000 X Rs. 60)	Dr. 60,000	
	Employees stock options O/S A/c (1,000 X Rs.30)		30,000
	To Equity share capital A/c (1,000 X Rs.10)		10,000
	To Securities Premium A/c (1,000 X Rs.80)		80,000
	(Being 1000 options exercised at a price of Rs.60)		

WORKING NOTES:

Value of each option market price – exercising price = Rs.90- Rs.60 = Rs.30

Value of total options = 1000 X Rs.30 = Rs.30,000

The above expenses were written off over 2 ½ years on SLM Basis

First year = Rs.12,000 ; Second year = Rs.12,000

Third year =Rs.6,000.

PROBLEM NO: 4In The Books of 'ABC' Ltd.Journal Entries:

Date	Particulars	Debit (Rs.)	Credit (Rs.)
31.03.2011	Employees Compensation exp. A/c Dr. To Employee Stock Options O/S A/c	48,000	48,000
	(Being Compensation exp. Recognized in respect of employees stock options i.e.; 1000 options granted to employees at a discount of Rs.120 each, amortized on SLM over 2 1/2 years. 1000 X Rs.120/2.5)		
31.03.2011	P & L A/c Dr. To Employees Compensation exp. A/c	48,000	48,000
	(Being Compensation exp. Transferred to P & L A/c)		
31.03.2012	Employees Compensation exp. A/c Dr. To Employee Stock Options O/S A/c	48,000	48,000
	(Being Compensation exp. Recognized)		
31.03.2012	P & L A/c Dr. To Employees Compensation expenses A/c	48,000	48,000
	(Being Compensation expenses transferred to P & L A/c)		
31.03.2013	Employees Stock Options O/s A/c Dr. To General Reserve A/c	12,000	12,000
	(Being excess of employees compensation expenses transferred to General Reserve A/c)		
30.06.2013	Bank A/c (600 X Rs. 40) Dr. Employees stock options O/S A/c	24,000	72,000
	To Equity share capital A/c (600 X Rs.10)		6,000
	To Securities Premium A/c (600 X Rs.150)		90,000
	(Being 600 employees stock options exercised at an exercise price of Rs.40 each)		
01.10.2013	Employees Stock Options O/s A/c Dr. To General Reserve A/c (WN 2)	12,000	12,000
	(Being ESOS O/s A/c on lapse of 100 options at the exercise of option period transferred to General Reserve A/c)		

WORKING NOTES:

1.	Total No.of options given to employees	1,000
	(-) No. of options unvested lapsed on 01.05.2012	(300)
	No.of options vested	700
	Amount of expenses already recognized (48000+48000)	Rs.96,000
	(-) Amount required for 700 options (700 X 120)	(84,000)
	Excess expenses transferred to General Reserve A/c	Rs.12,000
2.	No.of options exercised on 30.06.2013	600
	Amount available in Employees Stock options A/c	Rs.84,000
	(-)Amount required for 600 options @ Rs.120 each	Rs.72,000
	Excess expenses transferred to General Reserve A/c	Rs.12,000

Note: Balance outstanding in Employees Stock options outstanding A/c Will appears in shareholder's funds as part of Net worth. In Balance sheet.

PROBLEM NO:5In The Books Of 'P' Ltd.Journal Entries:

Date	Particulars	Debit (Rs.)	Credit (Rs.)
31.03.2011	Employees Compensation exp. A/c Dr.	80,000	
	To Employee Stock Options O/S A/c		80,000
	(Being Compensation exp. Recognized for 6 months in respect of employees stock options on SLM basis) [8000 x (170-80)/4 ½ years X 6m/12m=80,000]		
31.03.2011	P & L A/c Dr.	80,000	
	To Employees Compensation exp. A/c		80,000
	(Being Compensation exp. Transferred to P & L A/c)		
31.03.2012	Employees Compensation exp. A/c Dr.	1,60,000	
	To Employee Stock Options O/S A/c		1,60,000
	(Being Compensation exp. Recognized for the full year)		
31.03.2012	P & L A/c Dr.	1,60,000	
	To Employees Compensation expenses A/c		1,60,000
	(Being Compensation expenses transferred to P & L A/c)		
31.03.2013	Employees Compensation expenses A/c Dr.	80,000	
	To Employee Stock Options O/S A/c		80,000
	(Being Compensation expenses recognized in respect of 4000 options for full year) [4000 x (170-80)/4 ½ years X Full year]		
31.03.2013	P & L A/c Dr.	80,000	
	To Employees Compensation expenses A/c		80,000
	(Being Compensation expenses transferred to P & L A/c)		
31.03.2013	Employees Stock Options O/s A/c Dr.	1,20,000	
	To General Reserve A/c		1,20,000
	(Being excess compensation expenses transferred to General Reserve A/c) [(80,000 + 1,60,000) X 4,000 / 8,000 = 1,20,000.]		
31.03.2014	Employees Compensation expenses A/c Dr.	80,000	
	To Employee Stock Options O/S A/c		80,000
	(Being Compensation expenses recognized in respect of stock options of 4000)		
31.03.2014	P & L A/c Dr.	80,000	
	To Employees Compensation expenses A/c		80,000
	(Being Compensation expenses transferred to P & L A/c)		
31.03.2015	Employees Compensation expenses A/c Dr.	80,000	
	To Employee Stock Options O/S A/c		80,000
	(Being Compensation expenses recognized in respect of stock options of 4000)		
31.03.2015	P & L A/c Dr.	80,000	
	To Employees Compensation expenses A/c		80,000
	(Being Compensation expenses transferred to P & L A/c)		

30.09.2015	Bank A/c (3000 X Rs. 80)	Dr.	2,40,000	
	Employees stock options O/S A/c (3000 X Rs.90)		2,70,000	
	To Equity share capital A/c (3000 X 10)			30,000
	To Securities Premium A/c (3000 X 160)			4,80,000
	(Being 3000 employees stock options exercised at an exercise price of Rs.80 each)			
30.09.2015	Employees Stock Options O/s A/c	Dr.	90,000	
	To General Reserve A/c			90,000
	(Being balance in ESOS transferred to General Reserve A/c)			

WORKING NOTES :

1. Fair value of each option Rs.170 - Rs.80 = Rs.90
2. Amount Transferred to General Reserve

$$\begin{aligned} \text{On 01.12.2012 4000 Unvested options} &= (80,000 + 1,60,000) \times \frac{4000}{8000} \\ &= \text{Rs. 1,20,000} \end{aligned}$$

On 30.09.2015 1000 Unexercised lapsed options = 1000 X Rs.90 = Rs.90,000.

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To **MASTER MINDS**, Guntur

THE END