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A guide to accounting for share based payment transactions under the Ind AS framework and analysis of Restricted Stock Units (RSU)

Introduction to share based payment transactions

Shares and share options comprise a significant element of the total remuneration package of senior personnel, a trend encouraged by the current consensus that it is a matter of good corporate governance to promote significant long-term shareholdings by senior management so as to align their economic interests with those of shareholders. Such plans generally take the forms of Employee Stock Option Plans (ESOPs), Employee Stock Purchase Plans (ESPPs) and Stock Appreciation Rights (SARs).

Origin and History of ESOP

San Francisco lawyer and economist Louis O. Kelso created the first employee stock ownership plan (ESOP) in 1956 to transition ownership of Peninsula Newspapers, Inc. from its two founders (both then in their 80s) to their chosen successors, the managers, and employees.

Kelso had long believed that the company's employees should be the logical buyers and the ultimate owners; they were the ones who made the business successful in the first place and knew the ins and outs of the business better than anyone else in the industry.

The two founders had long wanted their employees to inherit ownership. They had promised that when the time came for them to retire, the employees would have the first right of refusal. They had seen too many of their competitors get gobbled up by large newspaper chains, and they had seen the effects of these acquisitions: key employees laid off, the identity of the company obliterated, and quality degradations across the board to cut costs.

An entity may agree to pay for goods/services in the form of its own shares (equity settled) or a cash consideration which is based on the price of its own shares. Share based payments cover not just the shares or share option to employees but also transactions with suppliers of goods/services other than employees, viz. vendors.

Share based payment transactions include:

- Grants to employees (and others providing similar services, e.g., non-executive directors)
- Grants to non-employees, e.g., consultants, suppliers.
- Employee share purchase plan
- Certain share based payments settled by an entity in, or external shareholder of, the same group.

Introduction to accounting for share based payment transactions

In the context of companies following Ind AS, Ind AS 102 prescribes the accounting treatment to be followed in case of share based payment transactions. Ind AS 102 is a converged version of IFRS 2. Ind AS 102 specifies the financial reporting by an entity when it undertakes a share based payment transaction.

It requires an entity to reflect the effects of share based payment transactions in its P&L and balance sheet, including expenses associated with transactions in which share options are granted to employees.

The Guidance Note in Accounting for share based payments issued for entities who prepare financial statements based on the Indian Generally Accepted Accounting Principles (IGAAP) also establishes financial accounting and reporting principles for share based payment plans including, ESOPs, ESPPs, and SARs as well as share based payment arrangement with non-employees.

Scope

Ind AS 102 applies to all share based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including equity-settled share based payment transactions, cash-settled share based payment transactions, and transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.

Vesting Conditions

1. **Services condition:** Required to complete a Specific period of services. Example: Employees will be granted ESOP after a specific period of employment.
2. **Performance Condition:** Market Condition: Service condition and the market condition that is related to the market price of the equity instrument. Example: Share Price must increase by 15%
3. **Non-Market condition:** Service condition and the condition that is Performance Condition, but not market price related.(Internal Activity). Example: Revenue must increase by 10%.

Determining fair value of instruments granted

We should measure employee services indirectly based on the fair value of equity instruments granted. Market prices determine the fair value of equity transactions for instruments with similar terms and conditions.

Further, if market prices are not available, the fair value should be determined as mentioned below:

- Estimate the fair value of the equity instruments
- using a valuation technique
- to estimate the price on the measurement date
- in an arm’s length transaction between knowledgeable, willing parties.

Further, in the case of non-employee based ESOPs, the fair value is determined by the fair value of goods/services instead of the fair value of equity instruments.

Types of share based payment

Equity-Settled Share Based Payment With Non-Employees

Measured directly at the fair value of goods and services received

- If the fair value of goods/services cannot be estimated reliably, measure the fair value of the equity instrument.
- If the fair value of goods/services is not estimated reliably, then equity instruments are measured at intrinsic value.

Illustrative Example:

On 1 April 2025, Company Z Ltd., a chocolate producer, enters into a contract with vendor Y Ltd. according to which, Y has to deliver to Z one tonne of cocoa beans on 31 March 2026 to be used in Z's production of chocolate. The purchase price of one tonne of cocoa beans on 31 March 2026 is Rs. 125,000. Z agrees to pay Y 20,000 shares with FV Rs. 5.00 per share, to be delivered on delivery of the cocoa beans i.e. 31 March 2026. The goods acquired qualify for asset recognition as inventories under IND AS 2 on 31 March 2026.

Z Ltd. accounts for the transaction as follows:

Journal Entry	Dr.	Cr.
1 April 2025 Since goods are not transferred, there is no entry required to be passed		
31 March 2026 Inventories A/c To Equity Share Capital A/c To Securities Premium A/c (To recognise goods received, measure at their fair value at date of receipt)	 1,25,000	 1,00,000 25,000

Equity-Settled Share Based Payment with Employees

In the case of an employee, it is practically not possible to identify the fair value of services rendered. Therefore, the fair value of the equity instrument issued will be used.

Cash Settled Transaction

- Result in payment of cash to the counterparty.
- Payment is based on the value of the equity instrument, e.g., change in shared price
- Result in a liability
- Allocate grant date measurement over the vesting period
- Re-measure the fair value of the liability at the end of each reporting period
- Re-measurement recognized in profit and loss.

Illustrative Example:

ABC Limited granted its employees share options with a fair value of Rs 5,00,000 on 1st April 2020, if they remain in the organization until 31st March 2023. On 31st March 2021, ABC Limited expected only 91% of the employees to remain employed. On 31st March 2022, the company expected 89% of the employees to remain employed. However, 82% of the employees remained in the organization at the end of the 31st Mar 2023 and all of them exercised their options. Show allocation of expenses and relevant journal entries:

FV of share options	5,00,000		
Year ended	31-03-2021	31-03-2022	31-03-2023
Vesting %	91%	89%	82%
Opening		1,51,667	2,96,667
CY expenses	1,51,667	1,45,000	1,13,333
Closing balances	1,51,667	2,96,667	4,10,000

Journal Entry	Dr.	Cr.
31st March 2021 Employee benefits expenses To SBP Reserve (equity) (1/3 of expected vested equity instruments value)	151,667	151,667
31st March 2022 Employee benefits expenses To SBP Reserve (equity) (2/3 of expected vested equity instruments value)	145,000	145,000
31st March 2023 Employee benefits expenses To SBP Reserve (equity) (3/3 of expected vested equity instruments value)	113,333	113,333
SBP Reserve (equity) To Share Capital (re-allocate and issued shares)	410,000	410,000

Share Based Payment Transactions Among Group Entities

The entity receiving the goods or services shall measure the goods or services received as either an equity-settled or a cash-settled share based payment transaction by assessing:

1. the nature of the awards granted, and
2. its own rights and obligations.

The entity receiving the goods or services shall measure the goods or services received as an equity-settled share based payment transaction when:

1. the awards granted are its own equity instruments, or
2. the entity has no obligation to settle the share based payment transaction.

Otherwise, the transaction shall be recognized as a cash-settled share based payment transaction.

Service provided by employees of subsidiary entity have granted ESOP to its employees. The parent company will issue shares to the employees of subsidiary co. if the vesting condition is satisfied.

Parent Entity:

During vesting period:

Receivable from Subsidiary Entity A/c

To Share based premium Reserve A/c

(Being, ESOP accured for employees of Subsidiary Company)

For issue of ESOP:

Share based premium reserve A/c

To Equity Share Capital A/c

To Securities Premium A/c

(Being, shares issued to employees of subsidiary)

Subsidiary Entity:

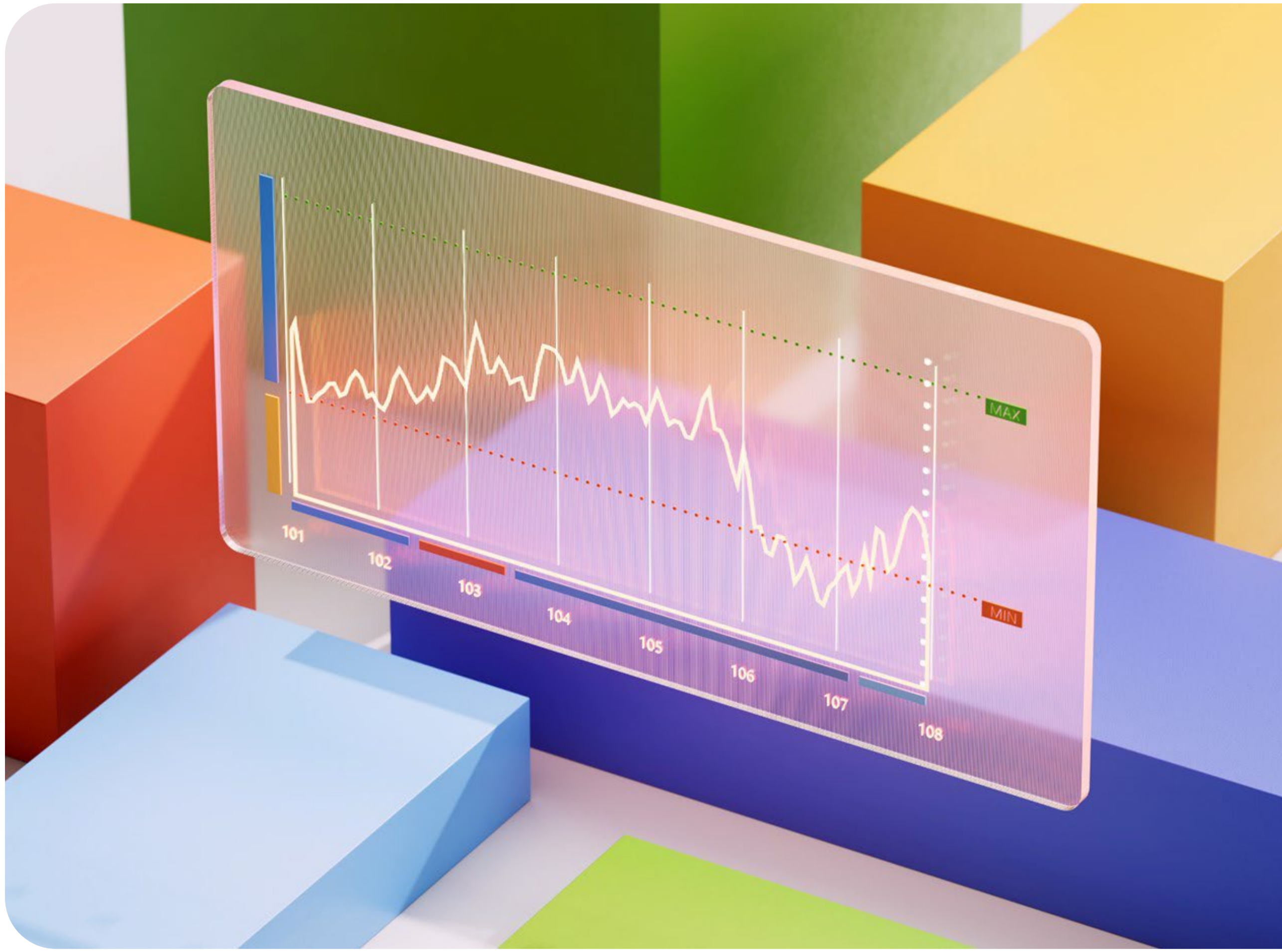
Employee Benefit expenses

To Payable to Parent Entity

(Being, amount payable for ESOP issued by Parent Entity)

In case the ESOP/RSU of the Parent Entity have been issued to employees of the subsidiary entity:

In the books of Parent	In the books of Subsidiary
Grant date: No entry	**Grant date:** No entry
Every year-end (over the vesting period): Subsidiary Account To ESOP of Subsidiary Reserve A/c (Being, amount receivable from the subsidiary entity on account of ESOPs/RSUs granted to the employees and corresponding credit for equity share reserve created)	**Every year-end (over the vesting period):** Employee Benefit expenses To Parent Company A/c (in case of cross charge) or Deemed Capital Contribution A/c (if there is no cross-charge.) (Being, expenses recorded for the ESOPs/RSUs issued to its employees based on the FV on the grant date)
Bank A/c To Subsidiary Account (Being, cross charge amount received for the ESOPs/RSUs granted to the employees of the Subsidiary entities based on the FV on the grant date)	Parent Company A/c To Bank A/c (Being, cross amount paid for the ESOPs/RSUs granted to its own employees)
Employees of Subsidiary A/c (Shareholders) To Share Capital A/c (Being ESOPs/RSUs issued to the employees of the Subsidiary entities)	



Restricted Stock Units

- Restricted Stock Units are a non-ESOP based employee benefit scheme regulated specifically by the SEBI (Share Based Employee Benefits) Regulations, 2014, along with other applicable general laws and regulations.
- RSUs can be granted in the form of shares or given as cash equivalents. This decision may be left to the employer or the employee based on the terms and conditions of each RSU issue. Furthermore, such stock units can come with different types of restrictions, as outlined below.
- RSUs are stocks that companies offer their employees as a form of compensation. They may be given as a part of a job offer, or offered to existing employees. The employees receiving RSUs from the employing company must hold the shares for a certain vesting period. Once the vesting period is over, the employees can they sell their holdings for a profit if they choose to.

Time-oriented restrictions

Some RSUs can only be sold after a specific period, as mentioned above. These are time-sensitive restrictions that require the employee to be a part of the organization during the vesting period to unlock the RSUs allotted to them.

Milestone-oriented restrictions

Some RSUs come with milestone-based limits, where they can only sell their holdings after achieving a specific milestone in the company. This encourages employees and acts as an incentive for them to perform better.

Time-oriented and milestone-oriented restrictions

As you may have guessed, these restrictions include a specific vesting period and a milestone. Only after the employee has achieved the milestone, and the said vesting period is complete, can the RSUs be sold.

Example:

Madeline receives a job offer. To value Madeline's skill set and retain her for as a long-term employee, the company offers her 1,000 RSUs in addition to a salary and other benefits.

The company's stock is worth $10 per share, making the RSUs potentially worth an additional $10,000. The company incentivizes Madeline to remain in the company and receive the 1,000 shares by putting the RSUs on a five-year vesting schedule.

Madeline receives 200 shares after one year with the company, another 200 shares after the second year, and so on until she acquires all 1,000 shares at the end of the vesting period.

Depending on the company's stock performance, Madeline may receive more or less than $10,000.

Key Difference between ESOP and RSU:

Particulars	ESOPs	RSUs
Nature of issue	Options are issued.	Stocks are issued.
Pricing	A grant price is fixed when the ESOPs are issued.	No specific price is set for RSUs.
Voting rights for shareholders	Shares purchased via ESOPs come with voting rights.	RSUs allotted to employees do not carry any voting rights.
Dividends	Shares purchased via ESOPs may offer dividends to shareholders.	RSUs do not give shareholders any dividend benefits. Since dividends are not paid to shareholders, RSUs may be structured to provide dividend equivalent.

Particulars	ESOPs	RSUs
Option to purchase shares	ESOPs give employees an option to purchase the shares after the vesting period.	RSUs are directly allotted to the employees as shares once the restrictions are met.
Nature of limitations	ESOPs typically come with a vesting period, after which employees can purchase the shares.	The limitations associated with RSUs can be time-based, milestone-based or a combination of the two.
Nature of settlement	Shares or cash equivalents	Shares or cash equivalents
Type of companies that issue these shares	High-growth startups and young companies	Mature and more established companies

Audit Check points for RSU validation

For RSU validation, the following approach ensures accuracy and completeness.

Requirements:

1. Data required, 2. Validation of data, 3. Accounting, 4. Disclosures

Data required

a. RSU award plan (the plan specifies the vesting conditions and units a stock units)

b. Employment agreement

c. Form16 of eligible employees

Validation of data

a. The RSU plan will be helpful to determine the plan of RSUs to be allotted to employees - Verify the units granted and vested on proportionate time basis

b. Employment agreement specifies the conditions of vesting and value of issued

c. Validate the taxability of the eligible employee if RSUs are taxed as perquisites

Accounting

a. No accounting will be done for issue of shares, in the books of Indian entity who's employees have been issued RSU’s i.e. Indian entity will not record transfer/grant of shares of parent entity.

b. In most of the cases, the entity will cross-charge for RSUs granted to its employee.

c. In case of a cost-plus entity, the same will be recovered by invoice charged amount (expense) along with the margin.

Conclusion

Ind AS 102, share based payment, plays a crucial role in the accounting and reporting of share based payment transactions. With the guidance provided in this standard, entities can ensure consistent and accurate recognition, measurement, and disclosure of these transactions. Ind AS 102 also enhances transparency and enables stakeholders to make informed decisions based on a comprehensive understanding of a company’s share based payment arrangements.

As RSUs are increasingly growing and being regulated, auditors should perform the appropriate audit procedures to ensure completeness, accuracy and presentation accordingly.

Annexure

Key Terms as defined under Ind AS 102

Share based payment is a transaction in which the entity

- receives or acquires goods or services either
- as consideration for its equity instruments or
- by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity.

Employee Stock Option Plan (ESOP)

ESOP are plans under which enterprises grant the option to its employee to purchase its shares at a predetermined price and for a specific period.

Employee Share Purchase Plans (ESPP)

ESPPs are plans in which the enterprise grants the right to its employees to purchase its shares at a stated fair value at the time of public issue or otherwise (such ESPP are outside the scope of shared-based payment plan under this Guidance Note.)

Stock Appreciation Right (SAR)

SAR is a form of employee share based payments whereby the employee is entitled to a future cash payment or share based payment calculated on the increasing share price from a specified level over a specified period.

Grant date

It is the date on which the entity and the supplier agree to the share based payment arrangement, and both the parties have a shared understanding of the terms and conditions of the arrangement.

Vesting Period

It is the period during which all the specific vesting conditions are to be satisfied.

Vesting conditions

It determines whether the entity receives the services that entitles the supplier to receive the share based payment. A vesting condition is either a service condition or a performance condition.

Non-Vesting conditions

Non-vesting conditions are all conditions that, while necessary for the counterparty to receive the share based payment, do not represent service or performance conditions, but which have to met in order for counterparty to receive the share based payment.

Fair Value

The amount at which assets could be exchanged, a liability settled, or an equity instrument's granted could be exchanged, between knowledgeable, willing parties in arm length price.

Intrinsic Value

Intrinsic value is the difference between the fair value of the shares to which the counterparty has the right to subscribe or which it has right to receive and the price (if any) the counter party will be required to pay for those shares.

Measurement Date

The date on which the fair value of the equity instruments granted is measured for the purpose of the Ind AS.

i. For transaction with employees and others providing similar services-

Measurement date is the grant date with reference to FV of equity instruments - indirectly.

ii. For transactions with parties other than employees-

Measurement date is the date on which the goods and services are received or acquired, with references to FV of goods or services- directly.

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