PASSFR.EU

A Digital Learning Platform for Generation Z:
Passport to IFRS®

IFRS® Standard 2 Share-based Payment

Co-funded by the
Erasmus+ Programme
of the European Union

SCOPE OF IFRS 2

PURCHASES of GOODS or SERVICES

PAYMENT

CASH

GOODS

SHARES and/or SHARE-BASED AMOUNT OF CASH

KEY DEFINITIONS

1 **Share-based payment arrangement**

2 Share-based payment transaction

3 Cash-settled share-based payment transaction

4 Equity-settled share-based payment transaction

KEY DEFINITIONS

1 Share-based payment arrangement

2 **Share-based payment transaction**

3 Cash-settled share-based payment transaction

4 Equity-settled share-based payment transaction

KEY DEFINITIONS

1 Share-based payment arrangement

2 Share-based payment transaction

3 Cash-settled share-based payment transaction

4 Equity-settled share-based payment transaction

KEY DEFINITIONS

1 Share-based payment arrangement

2 Share-based payment transaction

3 Cash-settled share-based payment transaction

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

KEY TERMS: VEST and VESTING CONDITION

Vest = to become an entitlement.

Vesting condition = either a service condition or a performance condition.

Vesting period = the period during which all the specified vesting conditions are to be satisfied.

RECOGNITION AND MEASUREMENT

Recognition criteria in share-based transactions

<u>Equity-settled</u> share-based payment transactions

Increase in equity

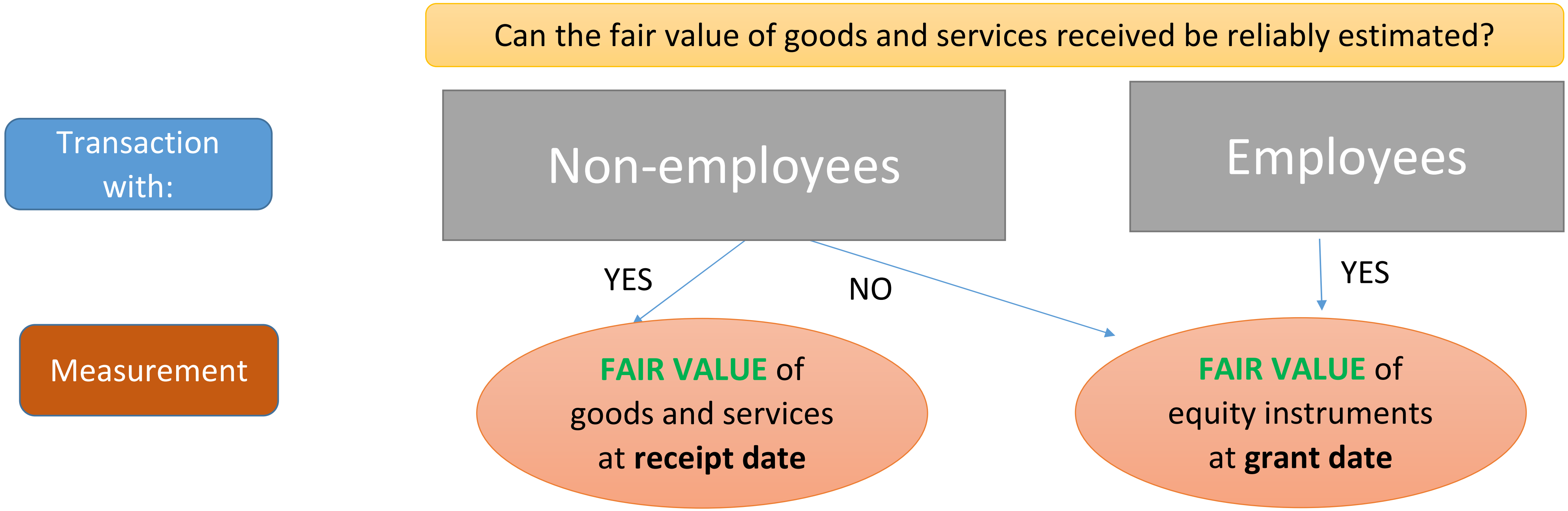
<u>Cash-settled</u> share-based payment transactions

Increase in liability

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

MEASUREMENT of the goods or services received, and the corresponding increase in equity, at **FAIR VALUE.**

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS



EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – example non-employees

For example, an entity agrees to issue shares to its lawyers in exchange for their services related to a lawsuit. The entity receives from lawyers an invoice for the fair value of the services rendered, e.g., for CU20,000.

How will the entity measure the transaction?

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – employees

At the beginning of year 1, an entity enters into an agreement with its 10 managers to grant them 100 share options each, on the condition to each stay in service for 3 years. The estimated fair value of a share option at the beginning of year 1 is CU6. However, 2 managers leave the entity during the second year.

How should this transaction be recognized?

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – employees

FAIR VALUE = 10 managers * 100 share options each * CU6
= CU6,000

Dr. Expense 2,000 (1/3 of CU 6,000)
Cr. Equity 2,000 (1/3 of CU 6,000)

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – employees

In year 2, only 8 managers remain in service, and therefore the agreement is applicable only to them.

FAIR VALUE = 8 managers * 100 share options each * CU6
= CU4,800

Dr. Expense 1,200 (4,800 *2/3 = CU3,200 – 2,000 recognized in Year 1)
Cr. Equity 1,200 (4,800 *2/3 = CU3,200 – 2,000 recognized in Year 1)

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – employees

If there are no changes in year 3, the entity will recognize the remaining CU1,600 (CU4,800 – CU3,200 recognized in the first two years) as an expense and an increase in equity.

Dr. Expense 1,600

Cr. Equity 1,600

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – employees with internal criteria

An entity employs 50 people in its sales department, and grants share options to each, under the following conditions: the employees must remain employed for three years and contribute to increase in sales.

(i) If the average sale increase is below 5%, each employee receives 50 share options.

(ii) If the average sale increase is higher than 5%, each employee receives 100 share options. The fair value of a share option is CU30.

The data from the human resources department indicate a 20% employee turnaround, which leads to an estimate of 40 employees to remain in service until the end of the period.

Additional information:

The annual sale growth is 4% in year 1 and 7% in year 2. In year 3 the sale growth is 6%, and the actual number of employees remaining in service is 42.

How should this transaction be recognized?

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – employees with internal criteria

Computations for an equity-settled share-based transaction with internal performance criteria

Year	Calculation for total fair value	Expense for the period	Cumulative expense
Year 1	**50 employees** * 80% * **50 share options/employee** * CU30/share option = CU60,000	CU60,000/3 yrs = CU20,000	CU20,000

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – employees with internal criteria

Computations for an equity-settled share-based transaction with internal performance criteria

Year	Calculation for total fair value	Expense for the period	Cumulative expense
Year 1	**50 employees** * 80% * 50 share options/employee * CU30/share option = CU60,000	CU60,000/3 yrs = CU20,000	CU20,000
Year 2	**50 employees** * 80% * **100 share options/employee** * CU30/share option = CU120,000	CU80,000 – CU20,000 = CU60,000	CU120,000 * 2/3 = CU80,000

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – employees with internal criteria

Computations for an equity-settled share-based transaction with internal performance criteria

Year	Calculation for total fair value	Expense for the period	Cumulative expense
Year 1	50 employees * 80% * 50 share options/employee * CU30/share option = CU60,000	CU60,000/3 yrs = CU20,000	CU20,000
Year 2	50 employees * 80% * 100 share options/employee * CU30/share option = CU120,000	CU80,000 – CU20,000 = CU60,000	CU120,000 * 2/3 = CU80,000
Year 3	42 employees * 100 share options/employee * CU30/share option = CU126,000	CU126,000 – CU80,000 = CU46,000	CU126,000

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – employees with market criteria

An entity grants 100 share options to each of its 5 managers, under the following conditions: the managers must remain employed for three years and the share price should increase by 25% at the end of the three years. The fair value of a share option is CU15.

The entity employs a model to determine the fair value of the share option, which considers the probability that the share price increases by at least 25%.

How should this transaction be recognized?

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – employees with market criteria

Computations for an equity-settled share-based transaction with market performance criteria

Year	Calculation for total fair value	Expense for the period	Cumulative expense
Year 1	5 managers * 100 share options/manager * CU15/share option = CU7,500	CU7,500/3 = CU2,500	CU2,500
Year 2	5 managers * 100 share options/manager * CU15/share option = CU7,500	CU7,500/3 = CU2,500	CU5,000
Year 3	5 managers * 100 share options/manager * CU15/share option = CU7,500	CU7,500/3 = CU2,500	CU7,500

Dr. Expense 2,500

Cr. Equity 2,500

CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

An entity issued share appreciation rights (SARs) to 10 managers, on the condition that they remain employed for 3 years. SARs give the right to employees to receive a cash payment equal to the increase of the share price above CU100.

The **fair value of SARs** expected to vest are:

CU1,500 at the end of year 1
CU1,800 at the end of year 2
CU2,000 at the end of year 3

How should this transaction be recognized?

CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Computations for a cash-settled share-based transactions

Year	Total fair value	Expense for the period	Cumulative expense
Year 1	CU1,500	CU1,500/3 = CU500	CU500

Dr. Expense 500
Cr. Liability 500

CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Computations for a cash-settled share-based transactions

Year	Total fair value	Expense for the period	Cumulative expense
Year 1	CU1,500	CU1,500/3 = CU500	CU500
Year 2	CU1,800	CU1,200 – CU500 = CU700	CU1,800*2/3 = CU1,200

Dr. Expense 700
Cr. Liability 700

CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Computations for a cash-settled share-based transactions

Year	Total fair value	Expense for the period	Cumulative expense
Year 1	CU1,500	CU1,500/3 = CU500	CU500
Year 2	CU1,800	CU1,200 – CU500 = CU700	CU1,800*2/3 = CU1,200
Year 3	CU2,000	CU2,000 – CU1,200= CU800	CU2,000

Dr. Expense	800	
Cr. Liability		800

SHARE-BASED PAYMENT TRANSACTION 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 other assets) or by issuing equity instruments, the entity shall account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

SHARE-BASED PAYMENT TRANSACTION WITH CASH ALTERNATIVES

An entity grants 100 share appreciation rights (SARs) to a manager, subject to a three-year employment condition. The manager can choose between a CASH PAYMENT equal to the increase in share price between the grant date and the VESTING DATE (end of the three years) FOR 100 SHARES.

Alternatively, the manager can exercise **100 share options at an exercise price equal to the share price at the grant date**.

The fair value of the share option and SAR at the grant date are identical, CU10.

How should this transaction be recognized?

SHARE-BASED PAYMENT TRANSACTION WITH CASH ALTERNATIVES

In this case, the value of the equity component is CU10 * 100 share options = CU1,000. Moreover, the fair value of the cash alternative is: CU10*100 SARs = CU1,000.

Therefore, in this case, the value of the debt component is CU1,000 and the value of the equity component is 0 (CU1,000 fair value – CU1,000 debt component).

Dr. Expense 1,000

Cr. Liability 1,000

DISCLOSURE

- ✓a description of each type of each share-based payment arrangement – including vesting requirements, method of settlement (cash or equity),
- ✓number of instruments and exercise prices,
- ✓option prices model used,
- ✓volatility,
- ✓expenses arising from various method of settlement etc.

PASSFR.EU

A Digital Learning Platform for Generation Z:
Passport to IFRS®

Co-funded by the
Erasmus+ Programme
of the European Union