

IFRS2 - Share Based Payments

Share-based payments are payments where an entity receives goods / services and pays for these by one of 2 methods namely:

1. Issuing of its own equity instruments (equity-settled).
2. Incurring Liabilities based on the price of the entity's equity instruments. (cash settled).

Recognition: A share-based payment is recognized once the goods / services are received. Generally, the following journals arises:

1. **Equity-settled:**

Dt Asset / expense (SFP / PL)	Rxxx	
		Ct Equity (SCI) Rxx

1. **Cash-settled:**

Dt Asset / expense(SFP / PL)	Rxxx	
		Ct Liability(SCI) Rxx

Keynote: Assess the good obtained against the asset definition and if this definition is not met then the good will be recognized as an expense.

Equity-settled share-based payments:

Measurement: 2 main methods are applied namely:

1. FV of goods or services received (If reliably measurable).
2. FV of the equity instruments granted (Cannot be reliably measured / options granted to employees).

Golden Rule: Always assess whether there is a vesting period in place as this will affect the portion of the transaction that you can recognize in each period.

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Adjustments: For share-based payments either the FV of the option is adjusted or the amount of options / employees are adjusted as follows:

1. Market Condition (Condition linked to share price) - Adjust the FV.
2. Non-Market Condition (Condition not linked to share price) - Adjust the amount of options / employees based on conditions.

Value: Apply the FV at grant date of the equity instruments to the amount of options at reporting date end.

Modifications: In addition to the usual accounting entries an additional entry will be made to account for the effects of the modification on the fair value of the share-based payment.

Cancellation / Early Settlement:

1. Immediately recognize the remaining portion as if the shares vest on that date.
2. Payments to employees will be accounted for as a **reduction** of equity and any excess above the **fair value** of those shares on that date will be recognized as an **expense**.

Key Notes:

1. If your vesting period is 3 years, then the following occurs over the 3 years:
 - Year 1: Calculated Amount x 1/3.
 - Year 2: Calculated Amount x 2/3.
 - Year 3: Calculated Amount x 3/3.
2. Assess the case study with general logic as you need to apply a best estimate for non-market conditions.
 - For service periods: The process is simple. **First**, consider how many employees received the option. **Second**, consider how many employees left. **Thirdly**, consider how many employees are expected to leave.

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Cash-settled share-based payments:

Measurement: At the **FV** of the liability which will be remeasured at the end of each reporting period through **profit / loss**.

Vesting rules: The same rules for equity-settled applies.

The counterparty has a choice to settlement method:

Measurement: 2 methods of measurement are available such as:

1. Non-employee transactions: $\text{Equity Component} = \text{FV of Goods / Services} - \text{FV of debt component}$.
2. Employee transactions: FV at measurement date.

General Notes:

1. The most important part of this topic is to practice as many questions as possible as it can only be examined in a set number of ways.
2. Always draw a timeline to understand your vesting and you **reporting periods**.
3. Show **all** your calculations as your thought process is examined.