

ESOP - Employee Stock Option Plan

ESOP is a share based payment to the employees.

- Incentive Scheme
- It is a 'right' but not an 'obligation'.
- Conditions → Fulfilled ✓

• It is given for free or at a concessional rate.

Vesting Conditions

Service

Performance

Be an employee for a certain period.
For e.g. 2 yrs, 3 yrs

The employee will be given certain targets to achieve

Market-based Condition

Non-Market based Condition

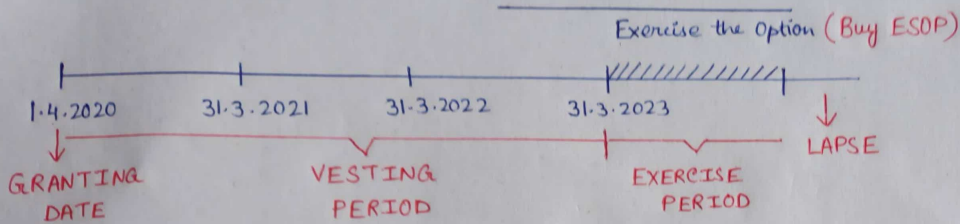
Employee will be eligible for ESOP

He/She can exercise the right to

Buy ESOP

Not buy & let it lapse

ESOP Timeline



(Be an employee for 3 years)

Granting Date - Date at which the ESOP is offered.

Vesting Condition - Conditions which the employee has to fulfill to be eligible for ESOP

Exercise Price - Concessional price at which ESOP is offered.

VALUATION OF EMPLOYEE STOCK OPTIONS

1. Fair Value of Option = ₹60
(Directly given by the examiner)

2. Intrinsic Value of Option

Market Price per share = ₹150

(-) Exercise Price per share = ₹100

Value of Option = ₹50

Mostly ESOP will not be free, Employees have to pay CASH

Market Price	Exercise Price
150	100

₹50 Discount

↓
It is only offered to employees, directors or officers

↓
This discount is called as VALUE OF OPTION

↓
Expense (NOMINAL A/c)

↓
P&L

ESOP - Accounting Treatment

To Calculate ESOP Compensation Expense

1. ESOP Compensation Expenses A/c - Dr. **xxx**
To ESOP Outstanding A/c **xxx**
2. P/L A/c - Dr. **xxx**
To ESOP Compensation Expenses A/c **xxx**

→ Formula

At the end of every year of the vesting period

3. Exercising the Option

Bank A/c - Dr. (Exercise Price)
ESOP Outstanding A/c - Dr. (Value of Option)
To Equity Sh. Cap. A/c (Face Value)
To Securities Premium A/c (Bal. fig.)

4. Lapse of Unvested Options

ESOP Outstanding A/c - Dr.
To General Reserve A/c

ESOP Compensation Expenses Formula

$$\left(\text{Existing ESOP} \times \text{Value of Option} \times \frac{\text{Expired Period}}{\text{Total Vesting Period}} \right)$$

← Total Expenses already recognised in P&L

= Employee Stock Option Compensation Expenses

Salary A/c - Dr.
To Cash A/c

→ Salary A/c - Dr.
To Salary O/S A/c

→ P/L A/c - Dr.
To Salary A/c