COVID - 19

ESOP

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Meanings

1) Grant Date
Date on which option is offered
(Option means Right)

2) Exercise Price (EP)
Price at which Options may be Subscribed

3) Intrinsic Value of Option
MP - EP
Employee Exp. is Recog.

4) Vesting
Eligiblity

5) Vesting Condition (VC)
Condition on the basis of which option is offered.
- Service → Continue Service for Certain Period
- Performance → Perf. Targets to be Achieved
  - Market Condition
  - Non Market Condition

6) Vesting Period (VP)
Time Period to Fulfill V.C.
(To Recognise exp in this Period)

7) Exer. Period
After VP, Time given to avail the option

8) Fair Value of Option
Value of Advantage given

Share Based Payment (S.B.P.)

Any Payment in the form of shares or based on Value of shares is known as SBP

- Equity Settled → To issue Eq. shares only
  - ESOP → It Contains V.C → Exp. to be Recognised over the V.P.
  - ESP → No V.C (may have Post Vesting Condition eg. Lock in) → Exp Recognise Immediately
- Cash Settled → To pay Cash based on Price of Eq. share
- Equity with Cash Alternative → Choice to countar party to select Equity or Cash

How to Calculate Emp. Exp?

$$\left[\frac{\text{Estimated No. of Employees to avail option}}{\text{V.P}} \times \text{No. of Options Per Emp} \times \text{IV/FV}\right] \times \text{No. of Yrs Expired}$$

Less :
Exp. already Recognised till last yr.

** IV - Intrisic Value of Option
FV - Fair Value of Option

What to do with V.C?

- Cancelled before end of VP → Expese to be Reversed to P&L
- Not Cancelled
  - Exercised → Bank Dr. (E.P)
    ESO O/s Dr. (Iv/Fv)
    To ESC (Face Value)
    To S.P a/c (b/f)
  - Lapsed → Exp. not to Reverse in P&L & ESO O/s Transfer to G.R

How to Treat Graded Vesting?

- Meaning → Multiple Options For Multiple V.P.
- Golden Rule → Consider each Grade as different Question with diff. VP & Fair Value