



STUDY MATERIAL

**VIVEKANANDA COLLEGE
THAKURPUKUR**

NAAC ACCREDITED GRADE—'A'

SUBJECT : ACCOUNTANCY

TOPIC : EMPLOYEES STOCK OPTION

SCHEME/PLAN (ESOS/ESOP)

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ESOP means a scheme under which a company grants options to its employee to apply for shares at a pre-determined price. The objective is to encourage the employees to have more participation or interest in the affairs of the company. Moreover, this helps the employees to gain or participate or profit from the company's growth.

Sec 2 (37) of the company act 2013 states that "employees stock option" means the option given to the directors , officers or employees of a company or its holding company or its subsidiary company or companies if any which gives such directors, officers or employees, the benefit or right to purchase or to subscribe for, the shares of the company at a future date at a pre-determined price.

It must be noted here that such options are in the nature of right and not an obligation. The employee may or may not purchase the shares under ESOS.

Section 62(1)(b) provides that a company can make a further issue of shares to its employees under a scheme of Employee's stock option after passing a special resolution and complying with the prescribed conditions. A listed company has to comply with the **SEBI (Employees stock option scheme) Guidelines 1999**. A company other than a listed company shall offer shares under ESOS in accordance with **Rule 12 of Companies (Share Capital and Debentures) rules, 2014**

Employee' Stock Option Scheme is an instrument used by companies to attract, retain and motivate its employees. **This scheme basically involves the issuing of shares at a discount, as compared to the market price to its employees as part of their employee compensation.**

Conditions for issue of ESOP :

A company may offer the shares (stock) under this scheme after fulfilling the following conditions :

- (i) These shares are of the same class of shares already issued by the company.
- (ii) A special resolution is passed by the Company to this effect.
- (iii) The resolution must specify the number of shares, the current market price, the exercise price and the class of directors or employees to whom such equity shares are offered.
- (iv) At the date of such offer, not less than one year must have elapsed since the company had commenced business.
- (v) The shares must be issued in accordance with SEBI regulations.

Important Terms Associated with ESOP

- **Grant Date:** It is the date at which the Company and its employees agree upon the terms of ESOP.
- **Vesting Period:** It is the time period between the grant date and the date on which the employees become entitled to apply for shares of the Company.
- **Vesting Date:** It is the date when the employee become entitled to receive the shares after satisfying all the conditions.
- **Exercise Period:**It is the period which starts after vesting period and within which the employee should exercise his right to apply for shares against the options vested in him.
- **Exercise Price:**It is the price payable by the employee for exercising his option for receiving the shares.

31.3.16 Employees compensation expenses a/c ——— Dr 15,000
To Deferred employees compensation a/c 15,000

(Amortization of deferred compensation on straight line basis)

31.3.17 Employees compensation expenses a/c ——— Dr 15,000
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(Amortization of deferred compensation on straight line basis)

3. If option are execercised and payment is made for the same .

Bank a/c ————— Dr. Amt. Received

Employees Stock option o/s ——— Dr.

(Total value of compensation/total no of option x No. of options execercised)

To Equ. Sh capital (No of option execercised x Face value of Sh.)

To Securities Premium [No. of options excercised x (M.P – F.value)]

Exam :- On 1.4.2012 Z Ltd. Granted 500 option at Rs. 60 (face value Rs. 10)
The M.P was Rs. 150 Employees execercised all the options on 30.9.15
Vesting period was 3 years.

Sol :- Value of option = No.of option x (M.P – E.P)

$$= 500 \times (150 - 60) = 45,000$$

$$\text{Amortized amount (p.a)} = 45000/3 = 15000$$

Journal Entry

1.4.12 Deferred employees compensation expenses — Dr. 45,000
To Employees stock option o/s a/c 45,000

(Grant 500 option at a discount of Rs. 90 each)

31.3.13 Employees compensation expenses ————— Dr. 15,000
To Deferred Employees compensation a/c 15,000

(Amortization of deferred compensation on Straight line basis)

31.3.14 Employees compensation expenses ————— Dr. 15,000
To Deferred Employees compensation a/c 15,000

(Amortization of deferred compensation on Straight line basis)

31.3.15 Employees compensation expenses ————— Dr. 15,000
To Deferred Employees compensation a/c 15,000

30.9.15	Bank a/c (500 x 60) _____	Dr. 30,000
	Stock option o/s a/c _____	Dr. 45,000
	To Equ. Sh. Capital (500 x 10)	5,000
	To Securities premium 500 x (150-10)	70,000
	(Being 500 option are excercised)	

4. If whole options are not excercised.

Journal Entry

Employees stock option o/s _____	Dr
(Total value of compensation/total no of option x No. of options not excercised)	
To Deferred Employees compensation	
(Not yet amortized amt. Of option/Total no. of option x No. of options not excercised)	
To Employees compensation exp a/c	
(Amortized value of compensation/Total no of option x No of option not excercised)	

Exam :- On 1.4.12 XY Ltd. Granted 1000 options at Rs. 60. The market price was Rs.165, (Face value being Rs.10). 250 unvested options were lapsed on 30.6.14. 750 options were excercised on 30.9.15. vesting Period was 3 years. Show entries

Sol :- value of option = No.of option x (M.P – E.P)
= 1000 x (165 – 60) = 1,05,000
Amortized amt. P.a = 1,05,000/3 = 35,000

1.4.12	Deferred Employees compensation exp _____	Dr. 1,05,000
	To Employees stock option o/s a/c	1,05,000
	(Being 1000 options were granted at a discount of Rs. 105)	

31.3.13	Employees compensation exp _____	Dr. 35,000
	To deferred employees compensation exp. a/c	35,000
	(Amortization of deferred compensation on Straight line basis)	

31.3.14	Employees compensation exp _____	Dr. 35,000
	To deferred employees compensation exp. a/c	35,000
	(Amortization of deferred compensation on Straight line basis)	

30.6.14	Employees Stock option o/s _____	Dr. 26,250	(1)
	To Deferred Employees compensation exp.	8,750	(2)
	To Employees compensation exp. a/c	17,500	(3)
	(Being 250 options were lapsed)		

31.3.15 Employees compensation exp. a/c ————— Dr. 52,500
 To Deferred Employees compensation exp a/c 52,500
 (Balance of Employees compensation amortized)

30.9.15 Bank a/c (750 x 60) ————— Dr. 45,000
 Employees Stock option o/s (750 x 105) ——— Dr.78,750
 To Equ. Sh. Capital (750 x 10) 75,000
 To securities Premium (750 x 155) 1,16,250
 (Being 750 options were exercised)

(Working Note)

1. (Total value of compensation/total no of option x No. of options not exercised)
 = 1,05,000/1000 x 250 = 26,250
2. Not yet amortized amt. Of option/Total no. of option x No. of options not exercised)
 = 35,000/1000 x 250 = 8,750
3. (Amortized value of compensation/Total no of option x No of option not exercised)
 = 70,000/2000 x 500 = 17,500