

ANSWERS TO PAST PAPERS OF IFRS 2

A.1

(a)

Date	Description	Debit	Credit
6/30/2010	Salaries Expense	3,039,999	
	Liability (Rs. 130 x 64,000 / 3)		2,773,333
	Equity (Rs. 0.8m (W-1) / 3)		266,666
6/30/2011	Salaries Expense	3,381,334	
	Liability (Rs. 64,000 x 138 x 2/3) - Rs. 2,773,333		3,114,667
	Equity (Rs. 0.8m / 3)		266,667
6/30/2012	Salaries Expense	3,978,667	
	Liability [(Rs. 64,000 x 150) - Rs. 2,773,333 - Rs. 3,114,667]		3,712,000
	Equity (Rs. 0.8m / 3)		266,667

A.3 (b)

Date	Description	Debit	Credit
6/30/2012	<i>If cash alternative is chosen</i> [Para 40 of IFRS-2]		
	Liability (64,000 x 150) OR (2,773,333 + 3,114,667 + 3,712,000)	9,600,000	
	Cash / Bank		9,600,000
	<i>If share alternative is chosen</i> [Para 39 of IFRS-2]		
6/30/2012	Liability (80,000 shares) (2,773,333 + 3,114,667 + 3,712,000)	9,600,000	
	Equity		9,600,000

W-1: identifying the equity component

The fair value of shares alternative

(80,000 x 110)

8,800,000

The fair value of debt instrument

(64,000 x 125)

8,000,000

Fair value of the equity component in the compound instrument

800,000

A-2

Date	Particulars	Debit	Credit
		Rupees	
30-Jun-2010	Bonus expenses {600 x 1,000 x (30-8)}	13,200,000	
	Employees share options outstanding (600 x 1,000 x 0.6 x 22)		7,920,000
	Provision for bonus (600 x 1,000 x 0.4 x 22)		5,280,000
	<i>(To record acceptance of 60 % share options and bonus provision.)</i>		
31-Jul-2010	Provision for bonus (600 x 1,000 x 0.2 x 22)	2,640,000	
	Employees share options outstanding		2,640,000
	<i>(To record acceptance of further 20% share option)</i>		
31-Jul-2010	Bonus expense (600 x 1,000 x 0.8 x 4)	1,920,000	
	Employees share options outstanding		1,920,000

	<i>(To record increase in fair market value per share from Rs. 30 to Rs. 34)</i>		
31-Jul-2010	Provision for bonus (600 x 1,000 x 0.2 x 22)-(600 x 0.2 x 10,000)	1,440,000	
	Bonus expense		1,440,000
	<i>(Adjustment of bonus provision for 20% workers not opted for the share option.)</i>		
01-Sep-2010	Provision for bonus (600 x 0.2 x 10,000)	1,200,000	
	Bank		1,200,000
	<i>(Cash payment of bonus)</i>		
01-Sep-2010	Bank (600 x 0.8 x 1,000 x 8)	3,840,000	
	Employees share options outstanding (600 x 1,000 x 0.8 x 26)	12,480,000	
	Share capital (1,000 x 600 x 80% x 10)		4,800,000
	Share premium {600x80%x1,000x(34-10)}		11,520,000
	<i>(Issue of 488,000 shares of Rs. 10 each at a premium of Rs. 24 per share, in exercise of share option)</i>		
		36,720,000	36,720,000

A-3

- a) 25% of the bonus is to be paid in cash, so a liability of Rs. 7.5 million (30x25%) must be accrued. The remaining amount of bonus is to be paid in share options. The services must be recognized when they are received. Therefore, 12 months of the 18 months services period up to the grant date must be recognized.
Hence, Rs. 14.25 million [(30x75%x95%)x12/18] would be provided up to 30 June, 2012.
- b) In the given situation, the purchase of plant involves a share based payment in which the counterparty has a choice of settlement, either in shares or in cash. Such transactions are treated as cash settled to the extent that the entity has incurred a liability i.e. Rs. 50 million. If the value of the liability based on share price, at the time of transaction, is less than the fair value of the plant i.e. less than Rs. 50 million, the transaction would give rise to a compound instrument, with a debt and equity component. The fair value of the equity element would be the difference between fair value of the plant and the fair value of the debt element of the instrument.
However, if the value of the liability based on share price at the time of transaction is more than the fair value of the plant i.e. more than Rs. 50 million, the difference shall be recognized as an expense.