TOPIC:-EMPLOYEES STOCK OPTION PLAN (ESOP)

Employees Stock Option Plan (ESOP): In order to retain high calibre employees or to give them a] sense of belongingness, companies may offer a choice to the whole-time directors, officers and 1 employees, the right to purchase or subscribe at a future date, the securities or equity shares offered by I the company at a p re-determined rate. It is known as Employees Stock Option Plan. Such scheme is called as Employees Stock Option Plan (ESOP) or Employees Stock Option Scheme (ESOS). Employees Stock Option Plan can be used to keep plan participants focussed on company I performance and share price appreciation.
There are some specific terms associated with ESOP which are explained as under:

Vesting Period: The time duration between the granting date and the date by which all the specified vesting conditions for ESOP have been fulfilled.

Vesting Date: The date on or after which employees are entitled to receive the shares.

Grant Date: The date at which the company and its employees agree to the terms and conditions of ESOP.

Exercise Period: The time duration within which employee should exercise his right to apply ^ I shares, against the option vested in him under ESOP.

Exercise Price: The price at which shares are granted by the company to its employees for exercising the option under ESOP

Employees Compensation Expenses Account: This account denotes proportionate expense or loss for the company which arises due to the difference between the market price and exercise price (issue Price) of the shares granted under ESOP. At the year end, this account is transferred to Statement of profit and Loss and is shown under head 'Employees Benefit Expenses'

Employees Stock Option Outstanding Account: This account represents the total expense or loss due to options granted under ESOP. It is shown in the Balance Sheet under head 'Shareholders' fund' and sub-head 'Reserves and Surplus'.

Journal Entries

I. At the time of recording the expense :

Employees Compensation Expense A/c	Dr.	
To Employees Stock Option Outstanding A/c		

(Being the proportionate expenses recognised in respect of ESOP)
Note: This entry will be passed for each year of vesting period.

II. At the time of exercising the options by the employees:

(a) When the options are exercised by all the employees

Bank A/c	Dr.	[Amount received, *i.e.,* Exercise Price X No.of Shares]
Employees Stock Options Outstanding A/c	Dr.	[Amount credited to Employees Stock Option Outstanding Account,i.e, No.of Shares X (Market Price - Exercise Price)]
To Share Capital A/c		[Nominal value of shares]
To Securities Premium Reserve A/c		[With the balance amount, *i.e.,* No. of shares x Market Price -Nominal value)]

(Being the option exercised bv the employees)

(b) When the options are not exercised by all the employees and the options get expired.

Bank A/c	Dr.	[Amount received, *i.e.*, Exercise Price * No.of Shares
Employees Stock Option Outstanding A/c	Dr.	[Amount credited to Employees Stock Option Outstanding Account, *i.e.*, No. of Shares (Market Price - Exercise Price)]
To Share Capital A/c		[Nominal Value of Shares
To Securities Premium Reserve A/c		[Amount related to options that have been exercised, *i.e.*, No.of Shares x (Market Price - Nominal Value)]
To General Reserve A/c		Amount related to options that have not been exercised, *i.e.*, No.of shares x (Market Price - Exercise Price)]

(Being the option exercised bv the employees)

Right Issue of Shares: According to Section 62 of the Companies Act, 2013 the existing shareholders have a right to subscribe to the fresh issue of capital in their existing proportion or to reject the offer or sell their rights. It is known as 'Right Issue of Shares'. The right issue share price may be above the previous issue price, this difference will be known as value of right. In other words:
Value of right = Market price of a share - Average price of a share.

Buy-Back of Shares: When a company purchases its own shares from the market, it is called 'buy-back of shares'. A Company may buy-back its own shares from out of the following sources:

1. Its free reserves;
2. the securities premium reserve account [Section 52(2) of the Companies Act, 2013];
3. The proceeds of any shares or other specified securities.