IFRS 2 Share-based Payments
IAS 28 Investments in Associates and Joint Ventures
IFRS 11 Joint Arrangements

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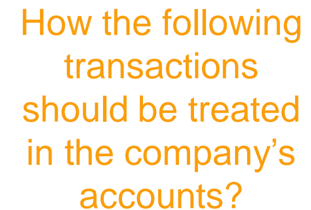
Share-based payments (IFRS 2)

IFRS 2
Case

- On 1.1.2018 a company which prepares its accounts to 31.12.2018 grant 5000 share opitons each to twelve of its senior employees.
  - Fair value of one share option is 9€ as of 1.1.2018
- The specified vesting date is 31.12.2020 and the grant is conditional upon the achievement of certain performance targets by that date. The estimations are as follows:
  - 31.12.2018: All employees will achieve their performance targets
  - 31.12.2019: Estimate has fallen to 11 employyes
  - 31.12.2020: Only 10 employees achieved their targets



IFRS 2
Case – Solution

- At 31.12.2018 the total cost of the options is expected to be 540TEUR (12 * 5000 shares * 9EUR)
- 1/3 of the vesting period has expired by 31.12.2018 so an expense of 180TEUR (1/3 * 540TEUR) is recognised and equity is increased by 180TEUR

IFRS 2
Case – Solution

- At 31.12.2019 the total cost of the options is expected to be 495TEUR (11 * 5000 shares * 9EUR)
- 2/3 of the vesting period has expired by 31.12.2018 so the expense to date is 330TEUR (2/3 * 495TEUR)
- An expense of 180TEUR was recognised in previous so a further expense of 150TEUR (330-180) is recognised and equity is increased by the same amount

IFRS 2
Case – Solution

- At 31.12.2010 the final cost of the option scheme is calculated as 450TEUR (10 * 5000 shares * 9EUR)
- Previously recognised expenses are 330TEUR so an expense of 120TEUR (450-330) is recognised and equity is increased by the same amount
- The amount of 450TEUR shown in equity for the share options will be transferred to share capital when the option are exercised by the successful employees. If any of these employees decide not to exercise their options, any remaining balance in the "shares to be issued" account may be transferred to retained earnings.

Associates and joint arrangements (IAS 28 & IFRS 11)

Equity method
Case

- Company A is the parent of a group companies. On 1 January 2018, Company A acquired 25% of the ordinary share capital of Company B at a cost of 100TEUR. This was precisely equal to 25% of the fair value of the identifiable net assets of Company B. During the year to 31 December 2018, Company B

a) Made profit of 42TEUR

b) Paid dividend of 27TEUR

Explain how these transactions should be reflected on the consolidated financial statements of Company A for the year 31 December 2018

Equity method
Case - Solution

- Company A recognises “share of profit of associates” as 10,5TEUR (25% * 42TEUR)
- The investment is recognised initially at cost 100TEUR
- The group’s share of the associate’s profit is added and the dividend is received of 6,75TEUR (25% * 27TEUR) is subtracted
- Consolidated statement of balance sheet will show ”investments in associates” as 103,75TEUR (100 + 10,5 – 6,75)
  - This is shown as non-current asset

Equity method
Upstream and downstream transactions

- IAS 28 requires gains and losses resulting from ‘upstream’ (sales by associate/JV to investor) and ‘downstream’ (sales by investor to associate/JV) transactions involving assets to be recognised only to the extent of unrelated investors’ interests.
- The investor’s share in the investee’s gains or losses resulting from these transactions is eliminated.

Upstream and downstream transactions
Case

- Entity A holds 20% interest in Entity B and exercises significant influence over it. During year 20X0, Entity A sold an item of inventory to Entity B for $1m. This inventory was carried at cost in A's books at $0.7m. During year 20X1, Entity B sold this inventory to its client for $1.5 million.