

**ACCOUNTING MECHANISM OF EMPLOYEE STOCK
OPTIONS IN INDIA: A CASE STUDY OF WIPRO LIMITED,
AN IT SERVICE PROVIDER COMPANY IN INDIA**

Dr.Rupinder Katoch*

Abstract

Employee Stock Option Plans (ESOPs) are the plans under which employees are given a right not an obligation to purchase a certain number of shares in the company at a predetermined price on fulfillment of certain conditions and based on performance criteria such as such as vesting period, nature of employment, seniority, number of years of service with the company or a judicious mix. On vesting, the employees are given shares of the company at a discounted price to the market price at the time of exercise. Many companies in India have now started giving Employee Stock Options as this is beneficial to both the employer as well as the employee. In India IT companies pioneered the ESOPs concept to retain and reward their senior management. In the present study an attempt was made to study ESOPs in general and ESOPs in an IT company "Wipro Ltd" in particular. This study discussed accounting practices followed in Wipro Ltd in regard to ESOPs and measured effect of ESOPs on income statement, Earning per share, cash flow statement and Balance sheet and found that net income of the company decreased due to amortization of stock based compensation expense, Earning per share diluted, inflows from financing activities increased, paid up share capital increased and owners' equity diluted on exercise of stock options.

Keywords:

Employee Stock Option Plans (ESOPs);
Restricted Stock Unit Option Plans;

*** Principal, Sant Baba Bhag Singh Post Graduate College, Village Khiala, District Jalandhar, Punjab, India**

Introduction

What is ESOP?

An ESOP is an option given to its whole time directors and permanent employees the benefit or the right to purchase the stock of the company at a predetermined price. Equity-based compensation or stock-based incentive plans are widely used by organizations worldwide in order to reward their employees as it is perceived that it will lead to long run benefits to both employers and employees. Equity-based compensation or stock-based incentive plans are popularly known as stock options or Employee Stock Options (ESOPS). Through Employee Stock option Plans which we can say is an employee-owner method, ownership stake is provided to the employees. Under this plan an option is given to employees and there is no obligation on the part of employees to exercise this option. Organizations try to attract and retain good and talented employees through this method.

Objectives of the study

1. To describe the basic features of ESOPs and discuss the underlying benefits of ESOPs to employers and employees.
2. To study various Employee stock option plans initiated by Wipro in order to motivate, incentivize and reward employees.
3. To discuss ESOP accounting practices followed by Wipro Ltd in India.

Research Methodology

This study is mainly based on secondary data. Annual Report of Wipro for the year 2015-16 has been used to show accounting mechanism and impact on financial statements of the company due to introduction of Employee stock option plans. Legal provisions related to ESOPs in India have been covered from SEBI guidelines and Indian Companies Act 2013.

Literature Review

Table 1: Findings of the Studies conducted on ESOPs Accounting Practices

Researchers	Findings
Satyajit Dhar and Subhabrata De(2009)	The study concluded that Employee Stock Option is a highly charged issue due to aggressive increase in use of these plans by

	<p>large corporate entities over the past two decades. The study reports the results of the survey regarding the reporting practice of ESOP accounting related information in Annual Report by Indian companies. The study found that there exists a huge diversity in reporting practices of ESOP related information.</p>
Geoffrey Poitras(2006)	<p>The paper examines the implications of recent changes to accounting standards for employee stock based compensation with contingent features. The Dec. 2005 implementation of FAS 123R by the Financial Accounting Standards Board requires the fair value of such expenses to be recorded in net income. The change is now impacting the reported financial statements of firms that have been substantial users of employee stock options.</p>
Calomiris & Hubbard(2004)	<p>There is no convincing argument in favour of requiring firms to expense employee stock options according to a new FASB rule. Informed investors already have the necessary information to value employee stock options for themselves and can use those valuations to value the stock of the firms that use stock options as compensation. Neither are unsophisticated investors in need of new accounting rules about stock options.</p>

Features of ESOPs

1. Companies give option to its employees to buy specific amount of shares at a predetermined price.
2. Stock options are not allotted to all employees but to specific employees.
3. Main reason to issue ESOPs is to retain and attract talented employees and to make them behave in certain ways so that their interests are aligned with that of all the shareholders of the company.
4. These stock options are available to employees and not to investors and these are not traded on exchange platforms.
5. The employees are given a right and not an *an obligation* to purchase the shares of the company subject to fulfillment of certain conditions which are mentioned in the plan and that too at the price which is decided at the time of grant of options.
6. The option is granted to the eligible employee (depending on the criteria set for determining eligibility) based on his role and performance.
7. Vesting period or the waiting period is the period when the employee must wait before he become entitled to exercise this option to buy the company's share at a predetermined price i.e. the period on the completion of which the granted option can be exercised. This period motivates the employee to stay with the company till the vesting period is over. The percentage that the employee will be eligible to exercise is called vesting percentage.
8. Option is said to be exercised when it is converted into shares by paying the required exercise price. This is known as exercise of options.
9. The price which an employee pays to convert the options into shares is called exercise price. The period within which the employee can exercise the option is called exercise period.
10. The date on which the Company allots the shares is called exercise date.

Benefits of ESOPs:

A. To the Employer

- a. **Provide incentive to attract, retain and reward employees of the company:** Let's take an example of a top executive of the company to whom the company has rewarded with stock options of around 1,000 shares. The company allows its top executive to exercise his option only after 3 years. This shows how a company can use the waiting period or vesting period as a

motivation for its employees to stay with the company. In recently conducted stock based incentive survey, EY India bring to the fore how organisations in India use stock-based compensation, as a tool to retain and attract talent as well as to create wealth for their employees.

b. **Non-Cash Compensation tool:** It is an affordable compensation from point of view of company as even a cash starved company can afford to attract best human resources at affordable consideration.

c. **Motivate employees to contribute to the growth and profitability of the company: employees get a feeling of ownership and belongingness with the organisation. They feel motivated** to work harder as their own growth is linked with company's growth. So with ESOPs managers interests are aligned with the interest of the owners. It inspires accountability in employees as they are made owners of the business.

d. **Help Start up companies to hire good talent:** in India due to "Make in India" concept ,a number of start ups are emerging now a days. But the problem with many Start-up companies is that they are not able to pay high salaries to their employees, so they use non cash compensations like ESOPs to hire good talent.

B. To the Employees:

Chances of becoming a millionaire: It helps in creation of wealth for employees. In India Infosys, an IT company and probably the company which pioneered this scheme created millionaires of employees such as drivers.

Disadvantages of ESOPs:

A. To the Employer

Dilution of ownership: With ESOPs the ownership stake of employers is diluted.

B. To the Employees:

ESOPs are risky: These are suitable in case of high growth companies. In case of start ups there is high risk of failure. So it will be safer for employees in start ups to consider salary in cash than to look at ESOPs.

ESOPs in India

ESOPs were introduced in early 90's in India. First of all it was IT Companies in India which started using ESOPs to give Incentives to its senior management. In IT Companies employees

are considered to be the significant asset in the company ,so ESOP are used as a tool to reward them.

Around 43% of the IT companies have given ESOPs to more than 90% of the employees, and only 17% of the Non-IT companies have done so, out of which 75% of the ESOPs are given to the senior and middle management employees because apart from the willingness of the management to offer ESOPs, it is also the preference of the employees. While a worker employee in a manufacturing company would prefer a cash incentive to a stock option. (ESOPs Indian Scenario)

Legal Structure in India

Earlier when Companies Act, 1956 was applicable, in case of Public Listed Companies, the provisions of Section 81 (1A) were applied on ESOPs and also SEBI (Employee Stock Option Scheme & Employee Stock Purchase Scheme) Guidelines, 1999 governed the ESOPs. All the other companies had the provisions related to ESOPs incorporated in their Articles of the Company & Companies Act, 1956.

Now, with the promulgation of Companies Act, 2013, the lawmakers have specifically framed the provisions for regulation of ESOPs for every private company and public unlisted company that proposes to issue employee stock options to employees. Under the new Act, Section 62(1)(b) along with Rule 12 of Companies (Share Capital & Debenture) Rules, 2014 is governing the issue of Employee Stock Options.,SEBI (Employee Stock Option Scheme & Employee Stock Purchase Scheme) Guidelines, 1999 are also applicable on ESOPs.The latest amendments in the guidelines were given by the SEBI in 2014 followed by an amendment in 2015.

Table 2:Legal provisions applicable to ESOPS in India:

<p>a. Passing of Special Resolution: The shareholders of the company approve the ESOP scheme by passing a Special Resolution.</p> <p>b. Eligible Employees for ESOPs: Section 62(1)(b) and Rule 12,says that an“Employee” means –</p> <p>i. A permanent employee of the company who has been working in India or outside India; or</p>
--

- i. A director of the company, whether a whole time director or not but excluding an independent director; or
- ii. An employee as defined in clause (a) or (b) of a subsidiary, in India or outside India, or of a holding company of the company or of an associate company, but does not include-
 1. An employee who is a promoter or a person belonging to the promoter group; or
 2. A director who either himself or through his relative or through anybody corporate, directly or indirectly, holds more than 10% of the outstanding equity shares of the company.

c. Disclosures to be made in the explanatory statement annexed to the notice for passing of the resolution

Following disclosures are made in the explanatory statement annexed to the notice for passing of the resolution –

- the total number of stock options to be granted;
- identification of classes of employees entitled to participate in the Employees Stock Option Scheme;
- the appraisal process for determining the eligibility of employees to the Employees Stock Option Scheme;
- the requirements of vesting and period of vesting;
- the maximum period within which the options shall be vested;
- the exercise price or the formula for arriving at the same;
- the exercise period and process of exercise;
- the Lock-in period, if any;
- the maximum number of options to be granted per employee and in aggregate;
- the method which the company shall use to value its options;
- the conditions under which option vested in employees may lapse e.g. in case of termination of employment for misconduct;
- the specified time period within which the employee shall exercise the vested options in the event of a proposed termination of employment or resignation of employee;
- a statement to the effect that the company shall comply with the applicable accounting standards.

- d. **Pricing:** Freedom is given to the companies to determine the price of ESOPs in accordance with their accounting policies.
- e. **Special resolution of the Shareholder required in following cases:** The approval of shareholders by way of separate resolution shall be obtained by the company in case of:
- i. grant of option to employees of subsidiary or holding company; or
 - ii. grant of option to identified employees, during any one year, equal to or exceeding one percent of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant of option.
- f. **Variability in the terms of ESOP: terms can be varied by the company by passing special resolution.** The company may by special resolution, vary the terms of Employees Stock Option Scheme not yet exercised by the employees provided such variation is not prejudicial to the interests of the option holders. The notice for passing special resolution for variation of terms of Employees Stock Option Scheme shall disclose full details of the variation, the rationale therefore, and the details of the employees who are beneficiaries of such variation.
- g. **Minimum vesting period:** Minimum vesting period is one year. i.e. there shall be a waiting period of minimum one year between the grant of options and vesting of option. In a case where options are granted by a company under its Employees Stock Option Scheme in lieu of options held by the same person under an Employees Stock Option Scheme in another company, which has merged or amalgamated with the first mentioned company, the period during which the options granted by the merging or amalgamating company were held by him shall be adjusted against the minimum vesting period required under this clause.
- h. **Shares' Lock-in-period** The Company shall have the freedom to specify the lock-in period for the shares issued pursuant to exercise of option.
- i. **Not entitled to receive dividends:** The Employees shall not have right to receive any dividend or to vote or in any manner enjoy the benefits of a shareholder in respect of option granted to them, till shares are issued on exercise of option.
- j. **Forfeiture or refund of amount paid by employees under ESOP:** The amount, if any, payable by the employees, at the time of grant of option-
- i. may be forfeited by the company if the option is not exercised by the employees within the exercise period; or

i. the amount may be refunded to the employees if the options are not vested due to non-fulfillment of conditions relating to vesting of option as per the Employees Stock Option Scheme.

k. **Non transferability of Option:**

i. The option granted to employees shall not be transferable to any other person.

i. The option granted to the employees shall not be pledged, hypothecated, mortgaged or otherwise encumbered or alienated in any other manner.

l. **The option to be exercised by whom:**

i. Only the employees to whom the option is granted

i. In case of death of the employee during employment, options granted to such an employee shall vest in the legal heirs or nominees.

i. In case of permanent incapacity of employee during employment, all the options granted to him till the date of permanent incapacitation, shall vest in him on that day.

i. In the event of resignation or termination of employment, all options not vested in the employee as on that day shall expire. However, the employee can exercise the options granted to him which are vested within the period specified in this behalf, subject to the terms and conditions under the scheme granting such options as approved by the Board.

m. **Disclosures to be made in the report of Board of Directors:** Following details are disclosed in the Directors' Report for the year, (a) options granted; (b) options vested; (c) options exercised; (d) the total number of shares arising as a result of exercise of option; (e) options lapsed; (f) the exercise price; (g) variation of terms of options; (h) money realized by exercise of options; (i) total number of options in force; (j) employee wise details of options granted to;- (i) key managerial personnel; (ii) any other employee who receives a grant of options in any one year of option amounting to five percent or more of options granted during that year. (iii) identified employees who were granted option, during any one year, equal to or exceeding one percent of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;

n. **Maintenance of Register of Employees Stock Options**

i. The company shall maintain a Register of Employee Stock Options in Form No. SH.6 and shall forthwith enter therein the particulars of option granted under clause (b) of subsection (1) of section 62.

- i. The Register of Employee Stock Options shall be maintained at the registered office of the company or such other place as the Board may decide.
- ii. The entries in the register shall be authenticated by the company secretary of the company or by any other person authorized by the Board for the purpose.
 - o. **Ways to issue ESOPs:** There are two routes to issue ESOPs: Equity Route and Trust Route
 - i. **Equity Route:** In this route the equity shares are issued by the company directly to the employees when the option is exercised by them.
 - ii. **Trust Route:** In this route the company issues shares to the trust which further transfers it to the employees upon exercise of options.

Sources:

1. Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines
2. Company Act, 2013

ESOPs in Wipro**An Overview of Wipro:**

Wipro Limited (Wipro or the Company), is a IT Services Provider company in India which is incorporated in India. It also provides Business Process Services (BPS) worldwide. The address of its registered office is Wipro Limited, Doddakannelli, Sarjapur Road, Bangalore - 560 035, Karnataka, India. Wipro is listed with Bombay Stock Exchange and National Stock Exchange in India. The Company's American Depository Shares representing equity shares are also listed on the New York Stock Exchange.

Wipro Employee Stock Option Plans and Restricted Stock Unit Option Plans

Wipro has been instituting a number of Employee Stock Options Plans or Restricted Stock Unit plans from time to time in order to motivate, incentivize and reward employees. A summary of the general terms of grants under stock option plans and restricted stock unit option plans is as follows:

Table 3: Wipro Employee Stock Option Plans and Restricted Stock Unit Option Plans

Name of Plan	Authorized shares	Range of Exercise Prices
Wipro Employee Stock Option Plan 1999 (1999 Plan)	50000000	₹ 171 – 490
Wipro Employee Stock Option Plan 2000 (2000 Plan)	280303030	₹ 171 – 490
Stock Option Plan (2000 ADS Plan)	15000000	US\$ 3 – 7
Wipro Restricted Stock Unit Plan (WRSUP 2004 plan)	22424242	₹ 2
Wipro ADS Restricted Stock Unit Plan (WARSUP 2004 plan)	22424242	US\$ 0.03
Wipro Employee Restricted Stock Unit Plan 2005 (WSRUP 2005 plan)	22424242	₹ 2
Wipro Employee Restricted Stock Unit Plan 2007 (WSRUP 2007 plan)	18686869	₹ 2
Wipro Equity Reward Trust Employee Stock Purchase Plan 2013	14829	₹ 2

Source: Annual Reports, Wipro Ltd

Administration and implementation of ESOPs

- The Board Governance, Nomination and Compensation Committees administer these plans.
- All the stock option plans have been framed and implemented in compliance with Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 (“Employee Benets Regulations”)
- The compensation committee of the board evaluates the performance and other criteria of employees and approves the grant of options. These options vest with employees over a specied period subject to fulfilment of certain conditions. Upon vesting, employees are eligible to apply and secure allotment of Company’s shares at a price determined on the date of grant of options.
- Eligible employees under the Employee stock option plans or restricted stock unit option plans are granted an option to purchase shares of the Company at the exercise prices, but these options are subject to certain service conditions. Vesting period is generally 3 to 5 years from the date of grant.
- When the rights are vested, the employees can acquire one equity share against every option. These stock option plans are for a maximum contractual term of ten years.
- In 1984, a trust named Wipro Equity Reward Trust (“WERT”) was established by the Wipro Ltd. In the earlier years, WERT purchased shares of the Company out of funds borrowed from the Company. The Company’s Board Governance, Nomination and Compensation Committee recommend to WERT certain officers and key employees, to whom WERT issues shares from its holdings at nominal price subject to vesting conditions. WERT held 14,829,824, 14,829,824 and 13,728,607 shares as at March 31, 2015, 2016and 2017 respectively. (Wipro Annual Report 2017)

Accounting Practices of ESOPs in Wipro:

1. **Valuation:** Intrinsic value method is used to determine the compensation cost.
2. **Types of Accounts:** In order to account for employee stock options, following accounts are opened by Wipro Ltd:
 - a. **Share based compensation Account:** Wipro is using share-based payments as a part of remuneration package for their employees and these are shown under Employees benefits expense. The share based compensation cost is amortised on a straight line basis over the vesting

period. Amortized employee stock compensation expenses are taken in the Profit and loss account.

Table 4: An Extract from Consolidated Statement of profit and Loss Account showing Expense part

	Notes	2016	2015
EXPENSES			
Cost of materials consumed		2	34
Purchases of stock-in-trade 34,373		30,549	34,373
Changes in inventories of nished goods, work in progress and stock-in-trade	26	(606)	(2,588)
Employee benefits expense	27*	246,661	225,115
Finance costs	28	5,484	3,499
Depreciation, amortisation and impairment charge		13,585	11,749
Other expenses	29	130,043	109,584
Total Expenses		425,718	381,766

Source: Annual Report 2015-16, Wipro

***Note 27 Table 5: Employee benefits expense**

	2016	2015
Salaries and wages	232,831	214,266
Contribution to	7,062	4,798

provident and other funds		
Share based compensation	1,639	1,327
Staff welfare expenses	5129	4724
	246,661	225,115

Source: Annual Report 2015-16

b. **Deferred Employee compensation expense** – This account is created at the time of grant of options for the total amount of compensation expense to be accounted. Restricted stock units reserve includes Deferred Employee Compensation, which represents future charge to the statement of profit and loss. This account is a part of the Balance sheet and come under the category of Reserves and surplus. Deferred employee compensation expense forms a negative balance in shareholders' equity.

Table 6: Restricted stock units reserve

	2016	2015
Balance brought forward from previous year	815	3,380
Movement during the year (including Deferred Employee Compensation Expense)	1,087	(2,565)
total	1,902	815

Source:Annual Report 2016

Table 7: The movement in Restricted Stock Unit reserve

	2016	2015
Opening balance	815	309
Less: Amount transferred to share premium	(612)	(909)
Add: Amortisation*	1,639	1,327
Add: Amortisation in respect of share based compensation to Wipro Enterprises (P) Limited	60	88
Closing balance	1,902	815

* Includes amortization expense relating to options granted to employees of the Company's subsidiaries, amounting to ₹ 38 (2015: ₹ 31). This expense has been debited to respective subsidiaries.

c. **Employee Stock Options Outstanding account** – It is a part of the Shareholders equity and is transferred to Share Capital, Share Premium or General Reserves.

Table 8: A Snapshot from Annual Report showing outstanding ESOPs

The activity in these stock option plans is summarized below:

	Range of Exercise Prices	As at March 31,			
		2016		2015	
		Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at the beginning of the period ⁽¹⁾	₹ 480 – 489	20,181	₹ 480.20	33,636	₹ 480.20
	₹ 2	6,332,219	₹ 2	8,007,354	₹ 2
	US\$ 0.03	2,576,644	US\$ 0.03	2,096,492	US\$ 0.03
Granted	₹ 480 – 489	—	₹ —	—	₹ —
	₹ 2	2,870,400	₹ 2	2,480,000	₹ 2
	US\$ 0.03	1,697,700	US\$ 0.03	1,689,500	US\$ 0.03
Exercised	₹ 480 – 489	—	₹ 480.20	(13,455)	₹ 480.20
	₹ 2	(1,329,376)	₹ 2	(1,968,609)	₹ 2
	US\$ 0.03	(340,876)	US\$ 0.03	(743,701)	US\$ 0.03
Forfeited and lapsed	₹ 480 – 489	—	₹ —	—	₹ —
	₹ 2	(618,917)	₹ 2	(2,186,526)	₹ 2
	US\$ 0.03	(186,038)	US\$ 0.03	(465,647)	US\$ 0.03
Outstanding at the end of the period	₹ 480 – 489	20,181	₹ 480.20	20,181	₹ 480.20
	₹ 2	7,254,326	₹ 2	6,332,219	₹ 2
	US\$ 0.03	3,747,430	US\$ 0.03	2,576,644	US\$ 0.03
Exercisable at the end of the period	₹ 480 – 489	20,181	₹ 480.20	—	₹ 480.20
	₹ 2	1,204,405	₹ 2	1,389,772	₹ 2
	US\$ 0.03	256,753	US\$ 0.03	180,683	US\$ 0.03

⁽¹⁾ During the year March 2013, an adjustment of one employee stock option for every 8.25 employee stock option held has been made, for each eligible employee pursuant to the terms of the Demerger Scheme.

The options exercised during the fiscal year were shown under the head Share Capital in the Balance sheet under subhead Issued, subscribed and fully paid up capital with additional details under the Note” Reconciliation of number of shares”.

Table 9: Share Capital Details (As at March 31) as Shown in the Annual Report 2016

	2016	2015
Authorised Capital		
2,917,500,000 (2015: 2,917,500,000) equity shares [Par value of ` 2 per share] 5,835 5,835	5835	5835
25,000,000 (2015:25,000,000) 10.25% redeemable cumulative preference shares [Par value of ` 10 per share]	250	250
150,000 (2015: 150,000) 10% Optionally convertible cumulative preference shares [Par value of ` 100 per share]	15	15
Total	6100	6100
Issued, subscribed and fully paid-up capital		
2,470,713,290 (2015: 2,469,043,038) equity shares of ` 2 each [refer note (i) below]	4,941	4,937

Sorce: Annual Report 2016,Wipro Ltd

Note (i) Table 10: Reconciliation of number of shares (As at March 31)

	2016		2015	
	No. of Shares	₹millions	No. of Shares	₹millions
Opening number of equity shares / American Depository Receipts (ADRs) outstanding	2,469,043,038	4,937	2,466,317,273	4,932
Equity shares/American Depository Receipts (ADRs) issued pursuant to Employee Stock Option Plan	1,670,252	4	2,725,765	5
Closing number of equity shares / ADRs outstanding	2,470,713,290	4,941	2,469,043,038	4,937

Premium on allotment of shares has been transferred to securities premium account. Employee stock options outstanding are treated as securities premium at the time of allotment of shares.

Table 11: Securities premium account

	2016	2015
Balance brought forward from previous year	13,642	12,733
Add: Exercise of stock options by employees	612	909
Total	14,254	13,642

Impact on Financial Statements:

1. Impact on the Income Statement

Decreased net income:

Table 12: Net Profit of Wipro Ltd

	2016	2015
Total Revenue	540,965	494,007
Less Expenses other than share based compensation	424,079	380,439
Profit before share based compensation	116886	113568
Share based compensation	1,639	1,327
Prot before tax and minority interest	115,247	112,241
Net Profit	89,597	86,609

The impact on Income statement is that the share based compensation reduces the Net Income.

2. Diluted Earnings Per Share

Diluted EPS takes into account the impact of the stock options exercised by the option holders. In case of Wipro the company issued some additional shares under ESOP to the employees who exercised them. Due to this, the total number of outstanding shares increased resulting in a lower EPS.

Table 12: The computation of equity shares used in calculating basic and diluted earnings per share:

	2016	2015
Weighted average equity shares for computing basic EPS	2,456,559,400	2,454,681,650
Dilutive impact of employee stock options	4,665,529	7,109,442
Weighted average equity shares for computing diluted EPS	2,461,224,929	2,461,791,092
Net income considered for computing EPS (in Million)	89,597	86,609
Earnings per equity share		
Basic		
Diluted	36.47	35.28
	36.40	35.18

3. Impact on the Cash Flow Statement

The company will have to record a cash inflow of proceeds from exercise of employee stock options from Financing Activities in Cash Flow Statement. Thus, the Cash outflows from Financing Activities will be reduced by the same amount.

Table 13: An Extract from CASH FLOW STATEMENT (₹in millions)

	2015	2016
C. Cash -flows from financing activities:		
Proceeds from exercise of employee stock options	4	5
Interest paid on borrowings	(893)	(253)
Dividends paid including distribution tax	(35,673)	(29,239)
Proceeds from borrowings / loans	121,859	90,212
Repayment of borrowings / loans	(119,764)	(79,086)
Net cash used in financing activities	(34,467)	(18,361)

4. Impact on Balance Sheet

1. Increase in the Paid Up Share Capital:

It is evident from note (i) to Table No:9 in Table No:10 Paid up share capital has increased by ₹5 million in 2015 and ₹4 million in 2016 due to exercise of Stock options by employees.

2. Reduction in Owners' equity:

Table 14: Change in Shareholdings due to ESOPs

Sr. No.	Shareholding at the beginning of the year (April 01, 2015)		Cumulative Shareholding during theyear (2015-16)	
	No. of shares	% of total shares of the compan y	No. of shares	% of total shares of the compan y
Promoters' Shareholding	1,812,022,464	73.39	1,812,022,464	73.34
Public shareholdings(includin g exercise of stock options by the employees)	608,633,451	24.65	610,029,374	24.69
Shares held by custodians, against which Depository Receipts have been issued	48,387,123	1.96	48,661,452	1.97
Total		100		100

Note: While there is no change in the shareholding of the Promoter & Promoter Group, there is a change in the percentage of the total outstanding shares of the Company due to periodic allotment of shares during the year 2015-16 pursuant to exercise of Stock Options by the employees

Conclusion:

Wipro has been instituting a number of Employee Stock Options Plans or Restricted Stock Unit plans from time to time to reward its employees. Eligible employees under the Employee stock

option plans or restricted stock unit option plans are granted an option to purchase shares of the Company at the exercise prices, but these options are subject to certain service conditions. Vesting period is generally 3 to 5 years from the date of grant. With the introduction of ESOPs net income under Consolidated income statement has decreased because of amortisation of employee stock based compensation in Profit and loss account. Earning per share has diluted due to issue of additional number of shares when the stock options are exercised by the employees. It has also affected Balance sheet. Paid up share capital has increased. However deferred employee compensation expense has resulted in negative shareholders equity. Owners' Equity has reduced due to ESOPs.

Reference:

- BN, S. (n.d.). *Accounting For ESOP*. Retrieved from www.icaiknowledgegateway.org: http://www.icaiknowledgegateway.org/littledms/folder1/esops.pdf
- Calomiris, C. W., & Hubbard, R. G. (2004). *Option Pricing and Accounting Practice*. Amercian Enterprise Institute for Public Policy Research.
- Dhar, S., & De, S. (2009, January). ESOP Accounting in India: Measurement and Disclosure issues. *Journal of Business and Economic Issues* .
- *ESOPs Indian Scenario*. (n.d.). Retrieved June 11, 2017, from www.esoponline.in: http://www.esoponline.in/Know_Esop/scenario.aspx
- Poitras, G. (2006). *Accounting Standards for Employee Stock Option Disclosure: The Current Debate* . Canada.
- *Wipro Annual Report 2016*. (2016). Retrieved from www.wipro.com: http://www.wipro.com/documents/investors/pdf-files/Wipro-Annual-Report-2016.pdf