

**ACCOUNTING FOR EMPLOYEE SHARE OPTIONS:
A CRITICAL ANALYSIS**

by

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ἄνοι ἅα Ἰαχὺά ‘ἂ ὑὰ ἄαὸ .ὄαἰ ἰ ἔ ἂ ‘ἰ ἄέα Ἰἄἄἄἰ ἄἄ
 .ἄἰέὸ ἰ ἄἄἄὸ Ἰἄχὺὰ ἂ ἂἄἄὸ ἄἄ ,ἰἔ÷ἰ ἂ ἄἄ ‘ἂ ἔἔ ἄἄ .ἄἄἄ
 ‘ἂ ἄἄ ἔἔ .ἄἄ ἄἄ Ἰἂ ἄἄἄ Ἰἂἰ ἄἄἄ ἄἄἄ ἄἄἄ ἄἄ
 (.‘÷ ἰἔἰ ἄἄ) .ἄἄἄἄ ἄἄ ἄἄ ἄἄ Ἰἄἄἄ ἰ ἂἰ

A psalm of thanksgiving, call out to the Lord, everyone on earth. Serve the Lord with gladness, come before Him with joyous song. Know that the Lord, He is G-d, it is He who made us and we are His, His people and the sheep of His pasture. Enter His gates with thanksgiving, His courts with praise, give thanks to Him, bless His Name. For the Lord is good, His kindness endures forever, and from generation to generation is His faithfulness. (Psalm 100.)

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DECLARATION

I, Zwi Yosef Sacho, declare that **ACCOUNTING FOR EMPLOYEE SHARE OPTIONS: A CRITICAL ANALYSIS** is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

SUMMARY

The main goal of this dissertation was to obtain an understanding as to the true economic nature of employee share options and the problems surrounding the accounting thereof.

The main conclusion of this study is that employee share options should be expensed in the income statement as and when the employee's services are performed. The reason is that employee share options are valuable financial instruments which the employer has used to compensate the employee for his services. It was also concluded that exercise date accounting and classification of outstanding employee share options as liabilities on the balance sheet is the most appropriate accounting treatment. Such accounting treatment trues up the accounting of employee share options with that of cash-settled share appreciation rights, which are economically equivalent transactions.

The measurement of employee share options should be based on their fair value using an option-pricing model adapted for the specific features of employee share options.

Title of dissertation:

ACCOUNTING FOR EMPLOYEE SHARE OPTIONS: A CRITICAL ANALYSIS

Key terms:

Employee share options; option-pricing models; Black-Scholes model; Cox-Ross-Rubenstein binomial model; agency problem; moral hazard; equity-based compensation; call option; vesting conditions; exercise price; exercise date; grant date; equity; liabilities; financial instrument; reload feature.

OPSOMMING

Die hoofdoel van hierdie verhandeling was om 'n begrip te kry van die ware ekonomiese aard van werknemeraandeleopsies en die probleme rondom die rekeningkundige hantering daarvan.

Die hoofgevolgtrekking van hierdie studie was dat werknemeraandeleopsies as 'n uitgawe in die inkomstestaat afgeskryf moet word wanneer die werknemer sy dienste lewer. Die rede is dat werknemeraandeleopsies waardevolle finansiële instrumente is wat die werkgewer gebruik het om die werknemer vir sy dienste te betaal. 'n Verdere gevolgtrekking was dat uitoefendatumrekeningkunde en die klassifikasie van uitstaande werknemeraandeleopsies as 'n verpligting op die balansstaat, die mees toepaslike rekeningkundige hantering is. Hierdie rekeningkundige hantering bring die verantwoording van werknemeraandeleopsies in lyn met dié van kontantvereffende aandelewaardestygingsregte wat in ekonomiese terme gelykwaardige transaksies is.

Die meting van werknemeraandeleopsies moet op hulle markwaarde gebaseer word, deur gebruik te maak van opsieprysmodelle wat geskik is vir die unieke kenmerke van werknemeraandeleopsies.

Titel van verhandeling:

DIE REKENINKUNDIGE VERANTWOORDING VAN WERKNEMERAANDELEOPSIES: 'N KRITIESE ONTLEDING

Sleutelwoorde:

Werknemeraandeleopsies; opsieprysmodelle; Black-Scholes-model; Cox-Ross-Rubenstein-binomiaalmodel; agentskapprobleem; morelegevaar; ekwiteitsgebaseerde kompensasie; roepopsie (“opsie om te koop”); vestigdevoorwaardes; uitoefenprys; uitoefendatum; toewysingsdatum; ekwiteit; laste; finansiële instrument; herlaaikenmerk.