

A Study Of The Accounting Regarding Stock-Based Payment Methods

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ABSTRACT

A statistical analysis of a subset of publicly listed firms' stock-based compensation program data is presented here. The impact of FASB and IFRS 2 on financial measures and reported costs is being evaluated by researchers. The differences in earnings per share (EPS), the overall fair value of the stock options awarded, and the reported compensation expenditures are important factors to evaluate. The study's authors use regression analysis to investigate the connection between the various fair value determination techniques and the stated variation in compensation expenditure. Based on the research, companies that used option pricing procedures like Black-Scholes to calculate their worth reported significantly higher expenditures. A company's apparent profitability might be affected by an increase in compensation expenditures, as there is a statistically significant negative link between EPS and stock-based compensation expenditures. The study also shows that investor responses, as measured by stock price volatility, relate to the degree of transparency about stock-based remuneration. Stock prices tend to level out when investors feel more secure because of more transparent regulations, according to the research. The significance of having strong valuation methodology and clear reporting standards for accounting for stock-based remuneration is highlighted by the findings of this study. Accounting rules and the confidence of stakeholders in financial reporting might both benefit from more knowledge.

Keywords: *Stock compensation, accounting values, Financial Accounting Standards Board, International Financial Reporting Standards, Earnings Per Share.*

1. INTRODUCTION

The field of accounting for stock-based compensation schemes has grown in recent years due to the increasing popularity of these programs as a means of attracting and retaining top personnel (Beck et al., 2020). Workers' and shareholders' sense of community is strengthened via incentives like stock-based compensation, which raises morale and output. The complexities of how these compensation plans should be recorded in the books further affect financial reporting and compliance. In the past, inaccurate disclosure of stock-based compensation often led to financial statement inconsistencies and opacity. Corporations are required to report the fair value of equity awards and stock options as expenses according to regulatory frameworks such as FASB and IFRS 2. Being well-versed in valuation methods and the timing of expenditure recognition is crucial, since this change impacts income statements and other critical financial metrics. This study aims to address the challenges that organizations have when attempting to comply with and report on accounting requirements for stock-

based compensation plans. This study seeks to examine several forms of stock-based compensation, such as stock options, restricted-share units, and efficiency shares, to provide light on financial reporting, good corporate governance, and investor perception. The purpose of this research is to evaluate the existing literature and analyze current accounting methodologies for stock-based compensation in a manner that promotes transparency and confidence among stakeholders. Ultimately, The research contributes to the ongoing discussion around financial reporting standards by demonstrating the critical importance of accurate and consistent accounting in establishing confidence and maximizing efficiency inside organizations (Carberry & Zajac, 2021).

2. BACKGROUND OF THE STUDY

Offering stock-based compensation plans is one strategy that firms are using to recruit and retain talented employees. Plans like performance shares, restricted stock units (RSUs), and stock options aim to unite employee and shareholder interests by providing workers with a financial stake in the company's success. Because of this congruence, employees are more invested in the success of the company and are more likely to go above and above in their work. However, accounting for stock-based remuneration has a long history of being convoluted and sometimes misunderstood. Before formal accounting standards were established, several firms utilized alternative techniques for reporting these expenses, leading to huge disparities in financial reporting. In response to this anomaly, the FASB and the IASB collaborated to provide clear guidelines for the recognition and measurement of stock-based compensation (Durrant et al., 2021). When FASB made it mandatory for companies to show the fair value of stock options or equity awards as expenses on their income statements, rather than only in the footnotes, it was a big step forward. This adjustment had a significant impact on the reported earnings, so the researcher had to examine the procedures used to establish fair value more closely. According to Dai et al. (2024), firms that use multiple standards can end up with distinct sets of financial statements if IFRS 2 is implemented. This is because the new standard has different criteria for how stock-based compensation is recognized and measured. Even though regulatory frameworks have improved; the measurement and reporting of stock-based compensation remains an issue. Market volatility, the intricacy of valuation models, and the need for full disclosures all contribute to an accounting environment that is difficult to navigate. Also, studies examining the effects of stock-based compensation on financial metrics and corporate governance are still in their early stages. A thorough examination of accounting rules related to stock-based compensation systems requires this background knowledge for a better understanding of how these schemes impact financial reporting and organizational performance (Wang et al., 2023).

3. PURPOSE OF THE RESEARCH

This study's objective is to analyze stock-based compensation schemes' accounting practices considering the most recent FASB and IFRS regulations. The objective is to explore the intricacies of various pay plans, including their approaches to equal value appraisal and spending recognition. The primary objective of the research is to improve the comparability and transparency of financial

statements by investigating the effects of stock-based remuneration on financial reporting, corporate governance, and investor sentiment. The study's main goals are to improve accounting standards and strengthen stakeholder confidence in corporate compensation programs.

4. LITERATURE REVIEW:

There has been a lot of research on the accounting of stock-based compensation systems because of their growing significance in corporate governance and financial reporting. Primary study emphasized the requirement of coordinating incentive programs with shareholder interests via stock options to ensure that rigorous accounting standards accurately portrayed the monetary effects of different compensation schemes. When the accounting landscape changed drastically because of FASB adoption, companies were compelled to report the fair value of stock options as an independent expense. Many firms' reported expenditures increased but actual EPS decreased when this change was implemented, according to analysts who examined the impact on financial statements. According to (Durrant et al., 2021), stakeholders' financial metrics are affected by this shift, which emphasizes the need for accurate fair value assessment. When it comes to analyzing methods for fair value evaluation, a great deal of study has focused on the effectiveness of different valuation models. Optional pricing models, such Black-Scholes, and the ways in which academics have attempted to remedy their inadequacies by faithfully depicting market conditions and volatility provide one such example. These findings underscore the ongoing challenges of accurately reporting and evaluating compensation based on shares. The impacts of stock-based compensation on corporate governance have also been discussed in the literature (Smith, 2020). Stock options may help align interests, but they also pose the risk of incentivizing executives to take chances when the stakes are high, and the dangers are little. To solve this puzzle with minimal unintended consequences, careful planning and budgetary management are necessary. Researchers have also compared US GAAP and IFRS, two international accounting standards, to examine stock-based compensation from a global perspective. Research by (Dai et al., 2024) sheds light on major differences that might affect international investments and comparability, and it demonstrates how these differences affect the evaluation and recognition of compensation expenses. Even if accounting standards have improved, there are still issues with accurately reporting stock-based compensation, according to the literature. The need for better valuation methodologies and more comprehensive disclosures is an ongoing area of research. Accounting for stock-based compensation plans is complex and involves regulatory frameworks, corporate management, and financial transparency; as a result, it is critical to use best practices in accounting to gain stakeholders' confidence and make educated choices (Magnan & Martin, 2018).

5. RESEARCH QUESTIONS

- In what ways does stock-based payment motivate employees?

6. RESEARCH METHODOLOGY:

6.1 Research design:

The quantitative data analysis was conducted using SPSS version 25. The direction and degree of the statistical association were evaluated using the odds ratio and the 95% confidence interval. Researchers established a statistically significant criteria at $p < 0.05$. A descriptive analysis was used to determine the primary attributes of the data. Data acquired by surveys, polls, and questionnaires, or by modifying existing statistical data using computing tools, is often assessed mathematically, numerically, or statistically through quantitative methods.

6.2 Sampling:

A convenient sampling technique was applied for the study. The research relied on questionnaires to gather its data. The Rao-soft program determined a sample size of 1627. A total of 1800 questionnaires were distributed; 1743 were returned, and 43 were excluded due to incompleteness. In the end, 1700 questionnaires were used for the research.

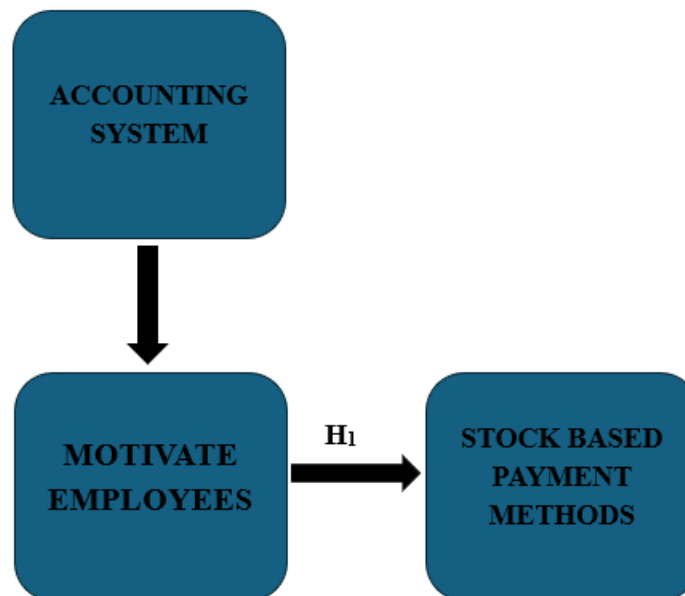
6.3 Data and Measurement:

The main tool for data collection in the study was a questionnaire survey. Part A of the survey gathered essential demographic data, while Part B asked participants to assess various aspects of online and offline channels using a 5-point Likert scale. Secondary data was obtained from many sources, mostly emphasizing online databases.

6.4 Statistical Software: The statistical analysis was conducted using SPSS 25 and MS-Excel.

6.5 Statistical Tools: To grasp the fundamental character of the data, descriptive analysis was used. The researcher is required to analyze the data using ANOVA.

7. CONCEPTUAL FRAMEWORK



8. RESULT

• Factor Analysis

A common use of Factor Analysis (FA) is to ascertain the presence of latent variables within observable data. In the absence of readily discernible visual or diagnostic indicators, it is customary to use regression coefficients to provide ratings. In FA, models are crucial for success. The objectives of modeling are to identify errors, detect intrusions, and establish evident correlations. A method to evaluate datasets generated by multiple regression analyses is using the Kaiser-Meyer-Olkin (KMO) Test. They confirm that the model and sample variables are representative. The data exhibits duplication, as shown by the figures. Reduced proportions facilitate comprehension of the data. The output for KMO is a value ranging from zero to one. If the KMO value ranges from 0.8 to 1, the sample size is deemed sufficient. These are the allowable limits, as per Kaiser: The subsequent approval requirements established by Kaiser are as follows:

A lamentable 0.050 to 0.059, subpar 0.60 to 0.69

Middle grades often range from 0.70 to 0.79.

The quality point score ranges from 0.80 to 0.89.

They are astonished by the range of 0.90 to 1.00.

Table 1: KMO and Bartlett's Test for Sampling Adequacy Kaiser-Meyer-Olkin measure: .960
 The outcomes of Bartlett's test of sphericity are as follows: Approximately chi-square, degrees of freedom = 190, significance = 0.000 This confirms the legitimacy of claims made just for sampling purposes. Researchers used Bartlett's Test of Sphericity to ascertain the significance of the correlation matrices. A Kaiser-Meyer-Olkin value of 0.960 indicates that the sample is sufficient. The p-value is 0.00 according to Bartlett's sphericity test. A positive outcome from Bartlett's sphericity test indicates that the correlation matrix is not an identity matrix.

Table 10: KMO and Bartlett's

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.960
Bartlett's Test of Sphericity	Approx. Chi-Square	3252.968
	df	190
	Sig.	.000

In addition, Bartlett's Test of Sphericity provided further evidence that the correlation matrices were

statistically significant. Kaiser-Meyer-Olkin sampling requires a value of 0.960 to be considered satisfactory. The researchers used Bartlett's sphericity test and got a p-value of 0.00. After running Bartlett's sphericity test, it was determined that the correlation matrix was not really a correlation matrix.

❖ **INDEPENDENT VARIABLE**

• **Accounting System**

As structured frameworks, accounting systems allow businesses to record, analyze, and report on their financial data. Process monetary transactions and generate trustworthy financial reports; that is the purpose of this group of processes. Financial statements, journals, and ledgers are all part of this system, which also includes software to automate data entry and analysis. Effective internal controls, decision-making, stakeholder engagement, and regulatory compliance are just a few of the many critical functions performed by accounting systems. The potential benefits of a well-organized accounting system include more transparent and efficient operations and clearer financial reporting (Kuang et al., 2022).

❖ **FACTOR**

• **Motivate Employees**

"Motivate Employees" means to get people excited about what they do, stay invested in their work, and make sure their efforts are contributing to the company's overall objectives (Fiechter et al., 2022). To achieve this goal, one must create a welcoming workplace, pay attention to employees' needs and concerns, provide opportunity for professional development, and acknowledge both individual and team achievements. Workers' enthusiasm, dedication, and originality on the job are indicators of employee motivation. No matter the state of the economy, it is always a management issue to develop strategies to encourage personnel. Theory after theory diverges on whether incentives or employee engagement (empowerment) are more important.

❖ **DEPENDENT VARIABLE**

• **Stock-Based Payment Method**

As part of their salary, employees may be eligible for stock in the company or be given the chance to purchase shares via stock-based compensation plans. To find a middle ground between worker and shareholder interests, these programs provide financial incentives to workers who contribute to the growth and profitability of the organization. Typical forms of stock include option shares, performance shares, and restricted stock units (RSUs). Workers who get a portion of the company's profits in the form of shares are more likely to remain with that business. Some accounting regulations require that financial statements include the costs of these operations. Stock compensation enables businesses to compensate employees with stocks, performance shares, or stock options in lieu of or in addition to cash. Stock compensation is a tool that many firms use to incentivize, reward, and retain personnel. Students should familiarize themselves with the mechanics of stock compensation to make an educated

decision on the benefits they seek from employers. This article defines, explains, and lists many kinds of stock compensation. As an additional example, the researcher provide a worker whose salary includes stock (Yang & Hou, 2019).

- **Relationship Between Motivated employees and Stock-Based Payment method**

Its usual function is to direct workers' priorities toward the company's shareholders and to encourage them to go above and beyond their standard cash-based remuneration (salary and bonus). It is common practice to impose a vesting time on employee shares before they may be sold or earned. Employees might feel more invested in the firm they work for via stock options. This person is more inclined to act like an owner and put the company's needs before their own. A worker's perception of their own fair compensation is a strong indicator of their level of job satisfaction. Managers fail to recognize the significance of compensation as a motivational element, even though employees are strongly driven by it. To improve communication and output, businesses could think about instituting performance-based compensation plans. Providing financial incentives is a proven way to increase employee motivation and output. Once high achievers know what to expect from you, this method may help with both hiring and keeping them around (Cheng et al., 2019).

- ***H₀: There is no significant relationship between Motivated employees and Stock-Based payment method.***

- ***H₁: There is a significant relationship between Motivated employees and Stock-Based payment method.***

Table 2: H₁ ANOVA Test

ANOVA					
Sum					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	99749.583	566	4987.993	4079.439	.000
Within Groups	1087.976	1133	5.134		
Total	100837.559	1699			

The research yields significant findings. The F value is 4079.439, achieving significance with a p-value of .000, which is below the .05 alpha level. The hypothesis "***H₁: There is a significant relationship between Motivated employees and Stock-Based payment method.***" is accepted and the null hypothesis is rejected.

9. DISCUSSION

There are significant consequences for corporate reporting and governance that arise from analyzing the accounting for stock-based compensation programs. Key performance indicators (KPIs) like profits

per share and financial statements are directly affected by the integrity of accounting records and compensation plan values. It may be challenging to stay in compliance with complex valuation techniques and ever-changing regulatory regulations. Organizational performance may improve if employee compensation is in line with shareholder expectations. Stakeholders must have access to trustworthy financial data to make educated choices, so it is critical to do ongoing study to improve accounting practices and transparency (Han et al., 2019).

10. CONCLUSION:

To promote openness and responsibility in financial reporting, this research demonstrates that stringent accounting standards for stock-based compensation schemes are crucial. Businesses have an opportunity to impact stakeholder perceptions and corporate governance by accurately measuring and reporting compensation expenditures in accordance with recognized standards such as FASB and IFRS. Ongoing enhancements to accounting systems are necessary to address the difficulties in value disclosure and assessment. To keep people's faith and encourage them to make well-informed decisions, good accounting standards are crucial. This is especially true in the modern day, when stock-based pay is bringing employees' interests closer to those of shareholders (Alhaj-Ismail et al., 2019).

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