

Accounting 402
2nd Illustration of Accounting for Stock Options

The Laser-Taser Company granted 30 million incentive stock options to its store managers. Under this plan, the company granted options on January 1, 2005, that permit holders to acquire one share of the company's \$1 par common stock within the next six years, but not before the vesting date of December 31, 2007. The exercise price is the market price of the shares on the date of the grant, which was \$15 per share. The fair value of the options, estimated by an appropriate asset pricing model, is \$4 per option. Ignore tax implications.

- A. Determine the total compensation cost pertaining to the options, assuming the company follows the fair value approach for fixed compensation plans.
- B. Prepare the journal entry to record compensation expense on December 31, 2005.
- C. Unexpected turnover during 2006 caused the forfeiture of 6% of the stock options. Determine the adjusted compensation cost, and prepare the appropriate journal entry(s) on December 31, 2006.
- D. Prepare the journal entry to record compensation expense on December 31, 2006.