Stock option

Business

You are the lead senior on the engagement and thus were delegated the task of auditing the client's equity balances. In review, you noted that the client has a significant amount of stock options Issued to their employees, a means that many start-up companies use to compensate employees and entice them to put in the effort to make the company successful.

Stock It acquired Options R us on December 28, 2011 and merged Options R us into their operations. When examining the stock option details, you noted that Options R us had a stock option plan, the OUR 2007 Plan, and Stock It had a stock option plan, the SSL 2010 Plan.

You discussed the effect of the business combination on the plans with the Company and requested copies of the plan documents and calculation agreement. In reading the calculation agreement, It was stated that the OUR 2007 Plan options will be replaced with the SSL 2010 Plan options.

On December 29, 201 1, each employee who ad Options R us options signed a conversion notice acknowledging the option modification outlined in the acquisition agreement. Based on valuations, the Company concluded that five Options R us options with an exercise price of $0. 10 were the equivalent value of one Stock It option with an exercise price of $0.

50, and therefore exchanged the options on a five for one basis. All other terms of the Options R Us options remained the same. Any previously vested options remained vested.

The December 31, 2011 audit was performed by a solo practitioner who may not have ad the technical expertise to deal with complex equity transactions.

Since the December 31, 2011 balance sheet will be presented In the 201 2 financial statements, you will need to perform procedures to gain assurance over the December 31, 2011 balances. As a result, you needed to ensure that the stock award modification was properly recorded.

Below is a summary of the key factors for the OUR 2007 Plan options that were exchange for SSL 2010 Plan options. Exchange OUR Plan options SSL Plan Options Number of Options $0. 10 $0. 0 Option Life 5 years Risk Free Rate 2% Fair Value of Stock 0. 15 $1. 000.

15 Stock Price Volatility Requisite service period Unchanged from 2007 Plan Pre-combination service period completed 4 years In addition to the Company's 2007 Plan, Stock It added a new plan for executives, the 2011 Executive Plan. Effective January 1, 2012, a new CUFF was hired and he was awarded a total of 200, 000 stock options. The key factors related to the new Coffs stock options granted January 1, 2012 are the same as the factors noted above for the options which were modified with the exception that the life of the option is ten years rather than five years.

These options were broken down into two different categories of 100, 000 options each: 1. 100, 000 options that will vest ratable over a four term beginning on the grant date.

2. 100, 000 options that will vest at the end of four years providing that sales grow by twenty five percent each year over the next four years. Based on the initial review, in early 2012, of the four year budget and the current sales to date in relation to the budget, management believes that this goal is attainable given the Company's budget and forecasts. Questions 1 . What

entry should the Company record for the Options R Us stock option edification? . How much expense should the Company recognize in 2012 for the modified stock options assuming no option holders forfeited options during 2012? 3.

As of December 31, 2012, how many of the new Coffs stock options have vested? 4. How much stock compensation expense should be recorded for the new Coffs stock options during 2012? 5. Please explain the difference between stock options, restricted stock units and stock appreciation rights and how these types of www. Traditional. Com/black-schools to calculate the fair value of any stock options as necessary.