Solution:

Given the exercise price of the stocks to be $20 per share, and the option to exercise being $8 per share. Thus, the total of $8 x 6,000 = $48,000. Since the options are exercised for 3 years, this means that for each year, the compensation recorded should be $16,000.

(1)

The journal entries would be given by:

Date	Particulars	Debit	Credit
31 Dec, 2013	Compensation expense of stock option To Paid in Capital stock option	16,000	 16,000
31 Dec, 2014	Compensation expense of stock option To Paid in Capital stock option	16,000	 16,000
31 Dec, 2015	Compensation expense of stock option To Paid in Capital stock option	16,000	 16,000

(2)

The journal entries would be given by:

Date	Particulars	Debit	Credit
31 Dec, 2013	Cash Paid in Capital stock option To Common stock To Additional Paid in Capital Common Stock	120,000 48,000	 12,000 156,000

(3)

Benefits of this is that since the stock price has increased to $45 from $20 when the stock was there, the people bought stock at $20 and could easily sell it at $45 in the market, which results in profit for the managers.