

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 $\$8 \times 6,000 = \$48,000$. 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	120,000	
	Paid in Capital stock option	48,000	
	To Common stock		12,000
	To Additional Paid in Capital		156,000
	Common Stock		

(3)

Benefits of these to the managers and the company is that the company raises an additional amount of money \$108,000 raised for the capital.

Additionally, this helps to increase the investors, and motivate the employees.