Exercise 19-6

Heidi Software Corporation provides a variety of share-based compensation plans to its employees. Under its executive stock option plan, the company granted options on January 1, 2021, that permit executives to acquire 4 million of the company’s $1 par common shares within the next five years, but not before December 31, 2022 (vesting date). The exercise price is the market price of the shares on the date of the grant, $14 per share. The fair value of the 4 million options, estimated by an appropriate pricing model is $3 per option. No forfeitures are anticipated. Ignore taxes.

**Part 1:** Determine the total compensation cost pertaining to the options.

<table>
<thead>
<tr>
<th># of options granted</th>
<th>4 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of each option</td>
<td>$3</td>
</tr>
<tr>
<td>Total compensation</td>
<td>$12 million</td>
</tr>
</tbody>
</table>

**Part 2:** Prepare the appropriate journal entry to record the award of options on January 1, 2021.

No entry

**Part 3:** Prepare the appropriate journal entry to record compensation expense on December 31, 2021.

Compensation expense ($12 million ÷ 2) 6

Paid in capital – stock options 6

**Part 4:** Prepare the appropriate journal entry to record compensation expense on December 31, 2022.

Compensation expense ($12 million ÷ 2) 6

Paid in capital – stock options 6