Stock options are an expense

Letters: 1992, 1998, 2007 · Difficulty: Intro

> *"How many legs does a dog have if you call his tail a leg? Four, because calling a tail a leg does not make it a leg." (1992)*

1. A company grants employees options with a total fair value of $12 million that vest evenly over 4 years. How much compensation expense does it record each year ($ millions)? _____

2. Recording stock-option compensation expense…

   A. affects only the cash flow statement

   B. lowers net income but uses no cash

   C. lowers cash and net income

   D. raises net income

Source: Warren E. Buffett, Letters to Berkshire Hathaway Shareholders: 1992, 1998, 2007 (berkshirehathaway.com/letters). Quotation © Berkshire Hathaway Inc., all rights reserved; quoted for non-commercial teaching. Numbers in the questions are made up unless stated.