SAMPLE INFORMATIVE MEMO

Initial your memo in pen to indicate your approval of the contents.

MEMORANDUM

To: Options R Us, Board of Directors
From: Sparty Spartan, Advisory and Assurance Staff SS
Date: January 15, 2011
Subject: Accounting for ESOs in Cash vs. Equity

Relevance statement

Per your request, I reviewed the important accounting issues related to the employee stock options (ESOs) that Options R US recently granted. Below, please find explanations of how to account for ESOs settled in equity versus cash and the impact of each decision on the 2011 financial statements.

Combined thesis and preview statements
Note: The purpose of this memo is to inform, not persuade. Therefore, the thesis does not provide an argument. When you write a persuasive memo, your thesis should make an argument and state your conclusion.

Background

On January 1, 2011, Options R US awarded 1,000,000 equity-settled ESOs. The fair value of each ESO was $8 on the grant date and $12 on December 31, 2011. Employees will vest in a different number of options depending on two performance conditions: the cumulative net income that Options R Us earns over the four fiscal years following the grant date and continued employment with the company. Options R US estimates that 3% of employees will end their employment with the company each year.

Accounting for ESOs Settled in Equity

If these ESOs are settled in equity only, Options R US should use a 50% vesting rate to compute compensation expense and the increase to contributed capital. The accounting standards require that compensation cost related to performance conditions shall accrue based on the most probable outcome. Management believes the most probable outcome is that Options R Us will earn cumulative net income greater than $20 million and not more than $23 million. This performance condition is associated with a 50% vesting rate, which should be used to calculate compensation expense. Thus, the impact of this award will be a compensation expense and an increase to contributed capital in the amount of $885,293.

Accounting for ESOs Settled in Cash

However, if the ESOs can be settled in cash, the impact of the award will be to recognize a liability instead of an increase to contributed capital. Also, Options R Us must remeasure the fair value of the liability at the end of each reporting period, so for 2011 the total compensation cost will be $1,327,939.

Closing summary statement

Note: If you write a persuasive memo that provides a recommendation, omit a summary. This strategy will reduce unnecessary repetition in your writing.

Summary

Therefore, the impact of ESOs settled in equity versus cash will differ. ESOs settled in equity will result in a compensation expense and an increase to contributed capital of $885,293, while ESOs that can be settled in cash will result in compensation expense and a liability of $1,327,939.