Session 5: Post class test solutions

1. **e. All of the above.** All of the listed answers (a,b,c,d) are reasons for the difference. Some are permanent (a) and some are temporary (b,c,d)..
2. **b. That the benefits from R&D are too uncertain**. Accounting's primary reason for treating R&D as operating expenses is that the benefits are too uncertain.
3. **a. Discount contractual lease commitments in future years back to today, using the pre-tax cost of debt as the discount rate.** The commitments are pre-tax and require a pre-tax rate, and since they are debt commitments, they are discounted as the pre-tax cost of debt.
4. **b. Lowered in the period of the grant, by the estimated value of options.** The options should be valued at the time of the grant, based upon their optionality (remaining life to expiration) and treated as an expense.
5. **e. None of the above**. Vesting does matter, but to ignore restricted shares until they are vested is short sighted. If you want to consider the probability of vesting and bring in the expected value of shares, it is more accurate. If you cannot estimate this probability, you should count all restricted shares.