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Firm Valuation and Accounting for Employee Stock Options

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Abstract

The Financial Accounting Standards Board has issued a new standard changing the accounting treatment for employee stock options. For some firms, the new method may significantly affect the bottom line. Although seeking to require better recognition of an important item, the new standard also leaves much room for individual judgment in determining the amount of that item. We apply the new standard to six publicly traded corporations and demonstrate that, in some cases, significant differences in valuation may result when different, yet equally acceptable, calculation methods are used. As a result, financial statements of firms using the new standard should be interpreted with caution.

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