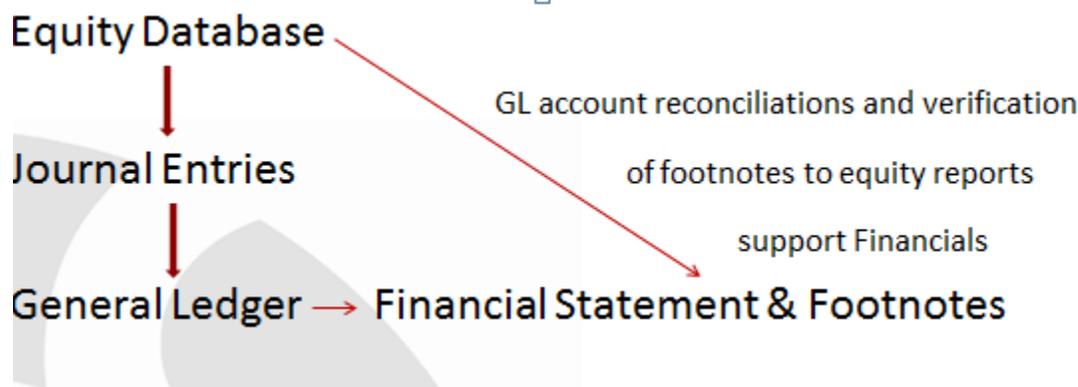


Taking the Fear Factor out of Accounting Tasks

What is the very first thing you do as a Stock Plan Administrator when you are asked to assist with an account reconciliation for accounting? Panic? Well, don't! Not all accounting tasks are "scary". I must say, fright and panic is a very common reaction. I've seen it from my colleagues, from clients I've worked with, even had that reaction myself a few times, and I'm a CPA. To help minimize that panicked reaction learn to understand how equity data flows for financial reporting purposes, learn some of the general accounting terms we often hear, and be aware of what tasks we perform that support our accounting/financial reporting teams.

Below is how I visualize the flow of equity data, starting with the information being accumulated in the equity database. Journal entries are used to summarize and post our equity data activity to the general ledger (GL) which is the accounting system and is used to prepare company financial statements and footnotes.

Equity Data Flow for Financial Reporting or Accounting



Financial statements show the company's financial performance and the footnotes and disclosures provide explanations or additional detail to help a reader understand what the financial statements mean. Reconciliations between data in the equity database and data in the GL are often critical to the accounting team and auditors because reconciliations help confirm equity data is reported accurately in the financial statements.

General Accounting Tasks for Stock Plan Administrators

Here are some of those general accounting tasks that I've been asked to do to support the accounting and financial reporting teams.

Equity database validation – Is the equity data that flows to the financials complete and accurate? These processes and reconciliations help validate all equity data is captured:

- Shares outstanding reconciliation to GL and Transfer Agent balances
- Options/RSUs granted compared to BOD/Compensation Committee minutes

- Updating equity database with management's performance assessment (i.e. Target Payout %, Expense %)
- Options/RSUs forfeited due to terminations (verify with HR)
- Options/RSUs that are cancelled/expired

Journal entries support – Is the equity data recorded accurately in the GL and financial statements? These actions and reports assist in validation:

- Reports to support stock-based compensation expense entries (employee, nonemployee and ESPP expense reports)
- Reports showing year-to-date option exercise proceeds, taxable income/gain (intrinsic value) and tax withholdings
- Enter assumptions/valuations in equity database to support Black Scholes valuations

General Ledger (GL) account reconciliations - Although you may not be completing the actual account reconciliation, understanding what your accounting team is reconciling will help you support them by providing the detail reports they need to complete the reconciliation. Just ask!

Don't hesitate to offer information if there are discrepancies. Send that FYI email to the accounting/financial reporting team just in case it's something they need to be aware of. These items may include late transactions, corrections or timing differences. Some of the accounts being reconciled monthly, quarterly and/or annually:

- ESPP Withholding Liability (contributions held by the company on behalf of the employees prior to purchase)
- Stock option exercise proceeds (taxes and exercise funds received during the period)
- Tax Withholding Liability accounts (taxes collected from participant transactions by the broker for the company to remit to the tax authorities)
- Deferred Tax Asset (DTA)
- Common stock shares outstanding
- Options/RSUs Outstanding (vested and unvested)

Footnotes or Financial Disclosure support - The accounting/financial reporting team will ask: Are the disclosures complete and accurate? These actions and reports assist in validation:

- Run disclosure (i.e. ASC 718 Disclosure) and equity activity and expense reports
- Prepare share roll forward
- Run Diluted EPS reports

Lastly, don't forget, there are tons of resources if you need them. I often reach out and talk to the accounting team, auditors, equity database providers or do research myself in the SOS Library or NASPP resources. So, don't fear accounting, I'm sure you aren't the first to ask these questions!

Questions or comments? Please email us at xtra@sos-team.com

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