Case 17-8
Justified Wages

Justified Wages Inc. (the "Company") is a privately held provider of cloud-based software platforms for the Internet of Things (IoT). The Company enables product businesses to become IoT service businesses, and helps organizations launch, manage, and monetize the deployment of IoT worldwide.

In November 2012, the Company secured financing of $40 million from an independent investor, Well-to-Do Inc. (WTD), in exchange for the following:

- $30 million for the issue of a new series of its Series E Preferred Stock (Preferred Stock), and
- $10 million for the sale of its shares of common stock ("Common Stock").

The purchase of the Preferred Stock and Common Stock were executed within the same transaction. Thus, WTD paid the same value per share for the Common Stock as it did for the Preferred Stock. This is a common practice among venture capitalists.

The Company had previously awarded common stock to employees as share-based compensation. As required by the terms of the financing agreement, the Company conducted a tender offer to repurchase an aggregate of $10 million of common stock from its current employees at a per-share price of $4.68. The common stock reacquired from the employees was then sold by the Company to WTD for a like amount of $10 million. The purchase price of $4.68 was independently negotiated with WTD. The Company acted as a principal in both transactions with WTD and the employees. That is, the Company did not act as an agent to purchase shares from employees on behalf of WTD.

On the basis of an independent third-party valuation, the Company concluded that the purchase price paid to the employees ($10 million) exceeded the fair value of common stock by $2.6 million.

ASC 718-20-35-7 states, in part:

> The amount of cash or other assets transferred (or liabilities incurred) to repurchase an equity award shall be charged to equity, to the extent that the amount paid does not exceed the fair value of the equity instruments repurchased at the repurchase date. Any excess of the repurchase price over the fair value of the instruments repurchased shall be recognized as additional compensation cost.

Pursuant to the guidance above, the Company recorded a debit to treasury stock and expense in the amounts of $7.4 million (representing the fair value of the common stock) and $2.6 million (representing the excess of purchase price over fair value), respectively, and a credit to cash.

Copyright 2016 Deloitte Development LLC
All Rights Reserved.

Required:

1. Should the $10 million paid to employees and the $10 million received from WTD be presented gross or net in the Company's statement of cash flows?
2. How should the Company classify the cash received and paid in its statement of cash flows?
3. Does the accounting analysis or conclusion change for each of the questions above when analyzed in accordance with IFRSs?

Copyright 2016 Deloitte Development LLC
All Rights Reserved.