

## FASB ALERT

# FASB Clarifies Accounting for Share-Based Payments to Customers

### Details

The FASB issued ASU 2019-08, Codification Improvements – *Share Based Consideration Payable to a Customer* (“Update”), to clarify guidance in ASC 718, Compensation – *Stock Compensation*, on measurement and classification of share-based payments to customers. The new ASU is available [here](#) and becomes effective in fiscal years beginning after December 15, 2019.

### Background

In June 2018, the FASB issued ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*, as part of its Simplification Initiative, which expanded the scope of ASC 718 to apply to all share-based payment transactions where the grantor is acquiring goods or services being used or consumed in its own operations. ASU 2018-07 requires that share-based payments that are granted in conjunction with selling goods or services to customers as part of a revenue contract should be accounted for under ASC 606, *Revenue from Contracts with Customers*, which generally requires these share-based payments to be netted against revenue (i.e., unless the payment to the customer is in exchange for a distinct good or service).

While ASU 2018-07 clarified financial statement presentation guidance for share-based payments granted in conjunction with selling goods or services to customers as part of a revenue contract, it did not provide guidance for the measurement of awards.

### Main Provisions

ASU 2019-08 requires that:

- These share-based payments are to be measured in accordance with existing guidance in ASC 718. Therefore, the grant-date fair value of the share-based payment award will be the basis for the reduction in revenue.
- The classification and subsequent measurement of share-based payments granted in conjunction with selling goods or services to customers as part of a revenue contract are subject to existing guidance in ASC 718.

## Effective Dates and Transition

For entities that have adopted ASU 2018-07, the amendments in this Update are effective in fiscal years beginning after December 15, 2019, including interim periods therein.

For public entities that have not adopted ASU 2018-07, the amendments are effective in fiscal years beginning after December 15, 2019, and interim periods therein. For all other entities that have not adopted ASU 2018-07, the effective date is fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption date of ASU 2018-07.

If an entity elects to adopt this Update in the same fiscal year as ASU 2018-07, the entity must recognize a cumulative-effect adjustment to the opening balance of its retained earnings at the beginning of the fiscal year in which it adopted ASU 2018-07. If an entity adopts this Update in a subsequent fiscal year from its adoption of ASU 2018-07, the entity must recognize a cumulative-effect adjustment to the opening balance of its retained earnings in the beginning of the fiscal year in which either this Update was adopted or the amendments in ASU 2018-07 were adopted.

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