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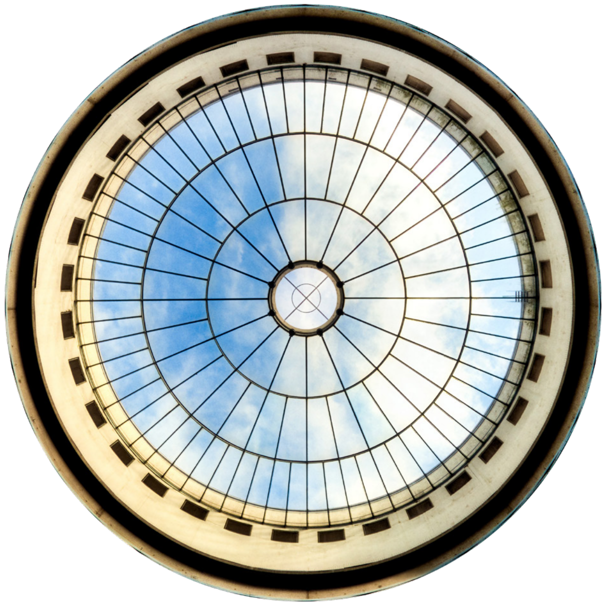

In This Issue

FASB Clarifies the Accounting for Share-Based Payments Issued as Sales Incentives to Customers

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On November 11, 2019, the FASB issued ASU 2019-08,[1] which clarifies the accounting for share-based payments issued as consideration payable to a customer in accordance with ASC 606.[2] Under the ASU, entities apply the guidance in ASC 718 to measure and classify share-based payments issued to a customer that are not in exchange for a distinct good or service (i.e., share-based sales incentives).

Background

In June 2018, the FASB issued ASU 2018-07,[3] which supersedes ASC 505-50 and expands the scope of ASC 718 to include share-based payment arrangements related to the acquisition of goods and services from nonemployees. ASU 2018-07 also amends the guidance in ASC 606-10-32-25 on consideration payable to a customer to expand the scope of the form of consideration to include equity instruments granted in conjunction with the sale of goods or services. Accordingly, under ASU 2018-07, share-based sales incentives are outside the scope of ASC 718 and must be accounted for under ASC 606. While ASC 606 addresses how to recognize share-based sales incentives (i.e., as a reduction of revenue), it does not provide guidance on the measurement (or measurement date) of such incentives. Therefore, upon adoption of ASU 2018-07, there is no guidance that addresses the measurement of share-based sales incentives.

[1] FASB Accounting Standards Update (ASU) No. 2019-08, *Codification Improvements — Share-Based Consideration Payable to a Customer*.

[2] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

[3] FASB Accounting Standards Update No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*. For a discussion of the key provisions of ASU 2018-07, see Sections 9.1 through 9.10 of Deloitte's *A Roadmap to Accounting for Share-Based Payment Awards*.

Key Provisions of ASU 2019-08

Under ASU 2019-08, entities apply the guidance in ASC 718 to measure and classify share-based sales incentives. Accordingly, they use a fair-value-based measure to calculate such incentives on the grant date, which is the date on which the grantor (the entity) and the grantee (the customer) reach a mutual understanding of the key terms and conditions of the share-based consideration. The result is reflected as a reduction of revenue in accordance with the guidance in ASC 606 on consideration payable to a customer. After initial recognition, the measurement and classification of the share-based sales incentives continues to be subject to ASC 718 unless (1) the award is subsequently modified when vested and (2) the grantee is no longer a customer.

Scope

ASU 2019-08 applies to share-based payments granted in conjunction with the sale of goods and services to a customer that are not in exchange for a distinct good or service. As noted above, entities apply ASC 718 only to measure and classify share-based sales incentives, and they reflect the measurement of such incentives as a reduction of the transaction price and recognize it in accordance with the guidance in ASC 606 on consideration payable to a customer. Entities that receive distinct goods or services from a customer should account for the share-based payment in the same manner as they account for other purchases from suppliers (i.e., by applying the guidance in ASC 718). Any excess of the fair-value-based measure of the share-based payment award over the fair value of the distinct goods or services received should be reflected as a reduction to the transaction price and recognized in accordance with the guidance in ASC 606 on consideration payable to a customer.

Connecting the Dots

The ASU's amendments apply to share-based sales incentives issued to customers under ASC 606 and therefore do not directly address similar equity-based incentives issued by a lessor to a lessee under ASC 840 or ASC 842.[4]

Initial Measurement

The ASU clarifies that share-based sales incentives are reflected as a reduction in the transaction price on the basis of the grant-date fair-value-based measure in accordance with ASC 718 (for both equity- and liability-classified awards). In addition, share-based sales incentives may contain vesting conditions (i.e., service or performance conditions that must be satisfied for the customer to vest in an award) or conditions that affect factors other than the vesting of an award (i.e., market conditions, service or performance conditions that affect factors other than vesting or exercisability, or "other" conditions that do not meet the definition of a service, performance, or market condition). Under the ASU, both vesting and nonvesting conditions should be evaluated in accordance with ASC 718, which specifies that vesting conditions, unlike nonvesting conditions, are not directly factored into the fair-value-based measure of the award. Therefore, the amount recognized as a share-based sales incentive would (1) reflect the actual outcome of any vesting condition and (2) incorporate in its measurement any nonvesting conditions.

Connecting the Dots

Under ASU 2019-08, an entity is required to use judgment when determining whether a vesting condition related to a share-based sales incentive is a service condition or a performance condition.

[4] See paragraph BC17 of ASU 2019-08.

The recognition of a share-based sales incentive with a service condition that affects vesting will depend on the entity's accounting policy for forfeitures of nonemployee share-based payment awards. For example, if the entity elects to estimate forfeitures, it bases its estimate of the share-based sales incentive on the probable outcome for both service and performance conditions. However, if the entity elects to recognize forfeitures when they occur, it reflects the entire share-based sales incentive with a service condition that affects vesting in the transaction price unless the award is forfeited.

Many share-based sales incentives include conditions that are tied to customer purchase levels (or to a customer's remaining purchases for a specified period). We believe that such conditions are akin to service conditions.

Example 1 — Share-Based Sales Incentive Issued for Each Purchase

On January 1, 20X1, Entity A executes a one-year master supply agreement (MSA) to sell and deliver widgets to Customer B. The MSA includes general terms and conditions but does not contain any minimum purchase requirements. Accordingly, legally enforceable rights and obligations associated with a revenue contract between A and B do not exist until B issues a purchase order for a specific number of widgets. In other words, the criteria in ASC 606-10-25-1 are only met each time B issues a subsequent purchase order under the MSA.

Customer B agrees to pay A $1,000 for each widget purchased under the MSA. As a share-based sales incentive, A includes terms in the MSA that grant B 500 fully vested shares of A's common stock for each widget that B purchases. The share-based sales incentive is not in exchange for distinct goods or services. Entity B issues three separate purchase orders, each for one widget, on January 31, March 1, and December 31, 20X1. On the same day on which A receives each purchase order, it transfers control of each widget to B and also issues to B 500 shares of A's common stock in fulfillment of the terms of the MSA.

The fair value of A's common stock is $1.00 per share on January 1, 20X1, and appreciates during 20X1 as follows:

Date	Entity A Common Stock Fair Value (per Share)
January 1, 20X1	$ 1.00
January 31, 20X1	$ 1.05
March 1, 20X1	$ 1.50
December 31, 20X1	$ 2.00

Entity A, which has adopted ASC 606 and ASU 2018-07, concludes that the terms of the MSA are sufficient to establish a grant date for the share-based sales incentive in accordance with the guidance in ASC 718. Under ASU 2019-08, A measures the share-based sales incentive issued to B on January 1, 20X1, because a grant date exists for the share-based sales incentive in accordance with the criteria in ASC 718. For each separately sold widget, A will thus recognize revenue reduced by the grant-date fair-value-based measure of the share-based sales incentive of $500 (500 shares × $1.00), measured as of January 1, 20X1. Accordingly, A will recognize the following revenue during 20X1:

	January 31, 20X1	March 1, 20X1	December 31, 20X1	Total
Revenue	$ 1,000	$ 1,000	$ 1,000	$ 3,000
Less: share-based sales incentive	500	500	500	1,500
Net revenue	$ 500	$ 500	$ 500	$ 1,500

Example 1 — Share-Based Sales Incentive Issued for Each Purchase (continued)
Entity A will classify the share-based sales incentive in accordance with the guidance in ASC 718. Likewise, A will continue to apply ASC 718 to classify and measure the share-based sales incentive unless it is subsequently modified when it vests and B is no longer a customer. Although there are changes to the fair value-based measure of the common stock after the grant date, if the award remains within the scope of ASC 718 and is not modified, there is no accounting effect for those changes because the measurement date for an equity-classified award is the grant date.

Example 2 — Share-Based Sales Incentive Contingent on Cumulative Purchases
Assume the same facts as in Example 1 except that B will earn 1,000 shares of A's common stock when it purchases five widgets within one year of the MSA's execution. Entity A concludes that the share-based sales incentive includes a service condition and applies its policy election under ASC 718-10-35-1D for nonemployee share-based payment awards to recognize forfeitures as they occur. Entity A calculates the reduction in transaction price as $1,000 (1,000 shares × $1 grant-date fair-value-based measure), which A will recognize with the related revenue. If at the end of 20X1 B has purchased five or more widgets, there is no effect on the total reduction in transaction price. By contrast, if at the end of 20X1 B has purchased fewer than five widgets and therefore forfeits the share-based sales incentive, A will reverse the portion of the $1,000 that it previously recorded as a reduction of revenue.

While vesting and nonvesting conditions are not subject to the variable consideration guidance in ASC 606, such guidance could still be applicable in certain circumstances. For example, an entity should apply ASC 606-10-32-7 and estimate the fair-value-based measure of an equity instrument before the grant date when a grant date has not been established but (1) the customer has a valid expectation that a share-based sales incentive will be issued (e.g., because of an entity's history of issuing share-based sales incentives or its ongoing negotiations related to the issuance of a share-based sales incentive for which the terms of the equity instruments have not yet been finalized) or (2) other facts and circumstances indicate that the entity intends to issue a share-based sales incentive. In the period in which a grant date is established, the entity adjusts the transaction price for the cumulative effect of calculating the fair-value-based measure on the grant date. This treatment is similar to the accounting applied when the service inception date precedes the grant date for employee awards.[5] For example, an entity could enter into a revenue contract with a customer for the purchase of goods or services while negotiating a share-based sales incentive with that customer. If a grant date has not been established for that award because the terms are still being negotiated, the entity would be required to estimate the fair-value-based measure of the award and reflect that estimate (or a portion of the estimate) as a reduction of the transaction price. That estimate will be adjusted in each reporting period until a grant date has been established.

Classification

As discussed above, the classification of share-based sales incentives is subject to the guidance in ASC 718. Therefore, an entity applies ASC 718-10-25-6 through 25-19A to determine whether an award is classified as equity or a liability. As in the case of other nonemployee awards, if (1) the award is subsequently modified when vested and (2) the grantee is no longer a customer, the award becomes subject to other U.S. GAAP (e.g., ASC 480, ASC 815) unless the modification is made in conjunction with an equity restructuring that meets certain conditions.[6]

[5] See ASC 718-10-55-108 through 55-115.

[6] See ASC 710-10-35-10.

Subsequent Measurement and Presentation

Under ASU 2019-08, share-based sales incentives are measured on the grant date (for both equity-classified and liability-classified share-based payments) in accordance with the guidance in ASC 718. In addition, under ASC 718, equity-classified awards are not remeasured, whereas liability-classified awards are remeasured until settlement.

Further, since both vesting and nonvesting conditions should be evaluated under ASC 718, a change in the probable or actual outcome of a service or performance condition that results in a change in the measurement of the award should be reflected as a change in the transaction price.[7] If an estimate is required, an entity should estimate the total fair-value-based measure of the sales incentive (e.g., by determining the number of equity instruments that it will be obligated to issue) and update that amount until the award ultimately vests or is forfeited.

By contrast, any changes in measurement that are due to the form of consideration are not reflected as changes to the transaction price but instead are presented elsewhere in the income statement. This includes changes to the fair-value-based measure of liability-classified awards that are not related to service or performance conditions. If such changes are not due to the form of consideration (i.e., changes in the probable or actual outcome of a service or performance condition), they are reflected as changes to the transaction price on the basis of the awards' grant-date fair-value-based measure.

Connecting the Dots

While the ASU states in ASC 606-10-32-25A that subsequent changes in measurement due to the form of the consideration should not be included in the transaction price (i.e., should not be presented as an adjustment to revenue), it does not specify where such changes should be reflected in the income statement. Therefore, an entity would use judgment to determine the appropriate presentation in such circumstances.

Equity-Classified Share-Based Payments

ASC 718 requires that entities measure equity-classified share-based payment awards on the grant date and not remeasure them unless the awards are modified. Entities should determine the grant-date fair-value-based measure of the award on the basis of the probable or actual outcomes of any service or performance conditions (whether vesting or nonvesting). The probable or actual outcomes are reassessed in each reporting period, and the final measurement of the award associated with the ultimate outcomes of those conditions will be reflected as a reduction of the transaction price. Therefore, any changes to the total measurement of a share-based sales incentive would not be attributable to the form of consideration and should be recognized as a change to the transaction price.

Example 3 — Share-Based Sales Incentives That Include Both Service and Performance Conditions

On January 1, 20X1, Entity A sells 10,000 units of Product X to Customer B, a retailer, for $10 each (resulting in a total sales value of $100,000). Assume that Entity A has adopted ASU 2018-07 and has elected to estimate forfeitures of nonemployee share-based payment awards. The arrangement is within the scope of ASC 606.

[7] If an entity has elected as an accounting policy to recognize the effects of forfeitures for nonemployee share-based payment awards when they occur, it would not assess the probable outcome of a service condition that affects the awards' vesting. It would instead include the entire share-based sales incentive in the transaction price unless the incentive is forfeited.

Example 3 — Share-Based Sales Incentives That Include Both Service and Performance Conditions (continued)

As part of the arrangement, B promises to display Product X in a favorable location within its store to encourage sales of Product X to the end consumer. In return for the favorable in-store placement of Product X, A grants B 1,000 unvested equity-classified warrants on A's common stock. The warrants have a term of five years and a grant-date fair-value-based measure (as calculated under ASC 718) of $7 (resulting in a total grant-date fair-value-based measure of $7,000). The warrants vest if B displays Product X in the favorable location for one year. In addition, to protect A's existing shareholders from dilution if A experiences poor financial results, the warrants will vest only if A achieves a specified EBIDTA target during the one-year vesting period.

Entity A determines the following:

- The grant date established for the warrants is January 1, 20X1.
- The requirement to provide favorable in-store placement of Product X for one year is a service condition, and the specified EBITDA target is a performance condition.
- As of the grant date of the warrants, A estimates that it is probable that the warrants will vest under the service and performance conditions.
- The benefit received from B (i.e., favorable in-store placement of Product X) in exchange for the warrants does not represent a distinct good or service.

On the basis of the above determinations, A concludes that the warrants should be recognized as a reduction of the transaction price for its sale of Product X to B (i.e., the warrants represent a share-based sales incentive). To calculate the amount of that reduction, A considers that it is probable that the service and performance conditions will be met. Therefore, on January 1, 20X1, A reduces the transaction price for its sale of Product X to B by $7,000. If A determines that the share-based sales incentive is associated with the revenue from the sale of the 10,000 units of Product X, the net revenue for those units will be $93,000 ($100,000 – $7,000). The reduction in the transaction price would be reversed and reflected as an increase in the transaction price in a subsequent reporting period if the warrants do not vest or it becomes probable that the warrants will not vest.

Example 4 — Share-Based Sales Incentive That Includes a Performance Condition That Affects the Quantity of Awards (Nonvesting Condition)

Assume the same facts as in Example 3 except that in this case, the performance condition affects the quantity of the warrants earned instead of their vesting, and minimum, target, and maximum awards can be earned depending on the level of the EBITDA target achieved. The table below shows the amount of warrants that can be earned, as well as the resulting grant-date fair-value-based measure of the warrants, depending on the relative achievement of the performance.

Level of EBIDTA Target Achieved	Quantity of Warrants	Total Grant-Date Fair-Value-Based Measure of Warrants
50% (minimum)	500	$ 3,500
100% (target)	1,000	$ 7,000
150% (maximum)	1,500	$ 10,500

Entity A determines the following:

- The grant date established for the warrants is January 1, 20X1.
- The requirement to provide favorable in-store placement of Product X for one year is a service condition, and the specified EBITDA target is a performance condition.
- As of the grant date of the warrants, A estimates that it is probable that the warrants will vest under the service condition and that 1,000 warrants will be issued (in accordance with the target level) on the basis of the probable outcome of the performance condition.
- The benefit received from B (i.e., favorable in-store placement of Product X) in exchange for the warrants does not represent a distinct good or service.

Example 4 — Share-Based Sales Incentive That Includes a Performance Condition That Affects the Quantity of Awards (Nonvesting Condition) (continued)

On the basis of the above determinations, A concludes that the warrants should be recognized as a reduction of the transaction price for its sale of Product X to B (i.e., the warrants represent a share-based sales incentive). To calculate the amount of that reduction, A considers that it is probable that the service condition will be met and that the target performance condition resulting in the issuance of 1,000 warrants will be met. Therefore, on January 1, 20X1, A reduces the transaction price for its sale of Product X to B by $7,000. If A determines that the share-based sales incentive is associated with the revenue from the sale of the 10,000 units of Product X, the net revenue for those units will be $93,000 ($100,000 – $7,000). The reduction in the transaction price would be reversed and reflected as an increase in the transaction price in a subsequent reporting period if the warrants do not vest or it becomes probable that the warrants will not vest under the service condition.

In addition, A would reflect as an adjustment to the transaction price a subsequent change in the measurement of the warrants on the basis of the expected outcome or actual outcome of the performance condition. For example, if A determines in a subsequent reporting period that the probable outcome is that 150 percent of the EBITDA target will be achieved, which would result in a total grant-date fair-value-based-measurement of $10,500, A would adjust the transaction price to reflect the revised grant-date fair-value-based measure of the warrants (i.e., from $7,000 to $10,500) and record net revenue of $89,500 for Product X. The final reduction in the transaction price would be based on the grant-date fair-value-based-measure of the ultimate outcome achieved for both the service and performance conditions.

Liability-Classified Share-Based Payments

Under ASC 718, liability-classified share-based payment awards must be remeasured at the end of each reporting period until settlement. However, ASU 2019-08 requires that entities reflect only the grant-date fair-value-based measure of a liability-classified share-based sales incentive as a reduction of revenue in accordance with ASC 606. Any changes to the measurement of the share-based sales incentive after the grant date that are attributable to the form of the consideration (i.e., not due to the probable or actual outcome of any service or performance conditions) would be reflected elsewhere in the income statement. Therefore, although entities would be required to remeasure liability-classified share-based sales incentives at the end of each reporting period until settlement, they would not reflect as an adjustment to revenue subsequent changes to the fair-value-based measure that are attributable to the form of the consideration.

Connecting the Dots

Under ASC 718, a nonpublic entity is permitted to use a practical expedient to measure all liability-classified share-based payment awards at intrinsic value instead of a fair-value-based measure. This practical expedient must be applied consistently to both employee and nonemployee awards. However, under the ASU, a nonpublic entity's initial and subsequent measurement of its liability-classified share-based sales incentives should be calculated at the fair-value-based measure even when the entity makes the intrinsic value measurement election for other liability-classified awards within the scope of ASC 718.[8]

[8] ASC 718 includes several other practical expedients for nonpublic entities to use in measuring share-based payment awards. For example, such entities may use calculated value or a simplified approach to determining the expected term for options and similar instruments. However, they cannot elect to measure liability-classified share-based sales incentives at intrinsic value. For more information about measurement-related practical expedients available to nonpublic entities, see Section 4.13 of Deloitte's *A Roadmap to Accounting for Share-Based Payment Awards*.

Example 5 — Liability-Classified Share-Based Sales Incentive

Assume the same facts as Example 3 except that instead of equity-classified warrants, A grants B 1,000 cash-settled stock appreciation rights (SARs) that are liability classified. The grant-date fair-value-based measure is $7 (resulting in a total grant-date fair-value-based measure of $7,000). On December 31, 20X1, the fair-value-based measure is $9 (resulting in a total fair-value-based measure of $9,000). Entity A concludes that it is probable that the SARs will vest, and the SARs actually do vest, on December 31, 20X1.

On January 1, 20X1, A initially measures and reduces its transaction price for its sale of Product X to Customer B by $7,000 (for net revenue of $93,000). On December 31, 20X1, the subsequent measurement of the award is $9,000. This represents a change in the measurement of the award after the grant date that is attributable to the form of consideration (changes in the fair-value-based measure of a liability-classified share-based payment award that are unrelated to a change in service or performance conditions). Therefore, A does not revise its estimate of the transaction price; rather, A reflects the change of $2,000 elsewhere in the income statement.

Recognition

An entity applies ASC 718 only to the measurement and classification of share-based sales incentives. To recognize and present such incentives, the entity should apply the guidance in ASC 606 on consideration payable to a customer.

For example, under ASC 606-10-32-27, an entity would recognize the grant-date fair-value-based measure of share-based sales incentives as a reduction of revenue when (or as) the later of either of the following events occurs:

a. The entity recognizes revenue for the transfer of the related goods or services to the customer.

b. The entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary business practices.

In accordance with the above guidance, an entity will typically recognize a share-based sales incentive as a reduction of revenue when, or as, the entity recognizes revenue for the transfer of the related goods or services to the customer.[9] Because the vesting of share-based sales incentives may not align with the recognition of revenue for the transfer of the related goods or services to the customer, an entity will need to use judgment in those circumstances to determine what the "related" goods and services are.

See Chapter 8 of Deloitte's *A Roadmap to Applying the New Revenue Recognition Standard* for additional guidance on determining when to recognize revenue.[10]

Example 6 — Recognition of Fully Vested Share-Based Sales Incentives

On January 1, 20X1, Entity A executes a one-year MSA to sell Product X to Customer B, a retailer, for $10 per unit. The MSA includes general terms and conditions and also contains a minimum purchase requirement of 12,000 units (which establishes legally enforceable rights and obligations associated with the revenue contract), resulting in a total minimum commitment of $120,000. Entity A has adopted ASU 2018-07, and the arrangement is within the scope of ASC 606.

As incentive for B to agree to a minimum purchase commitment, A grants B 1,000 fully vested equity-classified shares of A's common stock. The shares have a grant-date fair-value-based measure of $10 (resulting in a total grant-date fair-value-based measure of $10,000). The terms of the contract are sufficient to establish a grant date of January 1, 20X1, for the shares.

[9] As discussed in the Initial Measurement section above, there may be circumstances in which a grant date has not been established but the customer has a valid expectation that share-based consideration will be issued. In such circumstances, the entity should apply the variable consideration guidance in ASC 606-10-32-7 and estimate the fair-value-based measure of the equity instrument before the grant date.

[10] See Section 6.5 of Deloitte's *A Roadmap to Applying the New Revenue Recognition Standard* for additional guidance on the measurement and recognition of consideration payable to a customer.

Example 6 — Recognition of Fully Vested Share-Based Sales Incentives (continued)

Entity A concludes that it does not receive a distinct good or service in exchange for the shares and therefore determines that it should account for the shares as a reduction of the transaction price for its sale of Product X (i.e., the shares represent a share-based sales incentive). In addition, A determines that the up-front grant of a fully vested share-based sales incentive with a grant-date fair-value-based measure of $10,000 meets the definition of an asset.[11] Entity A also determines that the share-based sales incentive is solely related to the 12,000 units of Product X in the initial contract on the basis of its best estimate of the probable amount of units that B is expected to purchase.

Entity A measures and classifies the shares in accordance with ASC 718 and recognizes revenue (and the reduction of revenue) for the share-based sales incentive payable in accordance with ASC 606. Because it determined that the up-front fully vested share-based sales incentive meets the definition of an asset, A recognizes an asset and corresponding credit to equity on the basis of the grant-date fair-value-based measure of $10,000. The net transaction price is $110,000 ($120,000 – $10,000), and A subsequently amortizes the asset as a reduction of revenue as the related goods or services are provided to the customer (i.e., as control of the 12,000 units of Product X transfers to the customer, with net revenue of approximately $9 per unit).

Disclosure

The FASB decided not to establish specific disclosure requirements for share-based sales incentives because ASC 606 and ASC 718 already provide guidance on disclosures related to revenue transactions and share-based payment arrangements. Accordingly, an entity should evaluate the disclosure requirements in both ASC 606 and ASC 718 when it grants share-based sales incentives to customers.[12]

Transition and Effective Date

Transition and Related Disclosure

An entity adopts ASU 2019-08 by applying the same transition provisions as those in ASU 2018-07. If an entity adopts ASU 2019-08 in the same fiscal year that it adopted ASU 2018-07, it should apply ASU 2019-08's provisions retrospectively for all relevant prior periods, beginning with its initial ASU 2018-07 adoption date. It should also make a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which it adopted ASU 2018-07.

If an entity adopts ASU 2019-08 in a fiscal year after the fiscal year that it adopted ASU 2018-07, it should elect to apply ASU 2019-08's provisions in one of the following ways:

- Retrospectively for all relevant prior periods beginning with its initial ASU 2018-07 adoption date, with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which it adopted ASU 2018-07 (i.e., use the same transition method as that used by entities that adopt it in the same fiscal year as their adoption of ASU 2018-07).
- On a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which they adopt it.

[11] See Q&A 6-35 in Deloitte's *A Roadmap to Applying the New Revenue Recognition Standard* for guidance on the recognition of up-front payments to customers.

[12] See paragraph BC18 of ASU 2019-08.

Connecting the Dots

ASU 2018-07 generally requires an entity to use a modified retrospective transition approach,[13] with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year, for all (1) liability-classified nonemployee awards that have not been settled as of the adoption date and (2) equity-classified nonemployee awards for which a measurement date has not been established as of the adoption date. In the application of a modified retrospective transition approach:

- ASU 2018-07's transition provisions do not apply to equity-classified awards for which a measurement date was established before the adoption date.
- ASU 2018-07 requires equity-classified awards (for which a measurement date has not been established before the adoption date) to be remeasured on the basis of their adoption-date fair-value-based measure.
- An entity applies the guidance on modifications of an award from liability to equity classification (i.e., the unsettled liability award as measured on the adoption date would be reclassified as equity) to determine the cumulative-effect adjustment to equity for unsettled awards that are currently classified as a liability but will be classified as equity under ASU 2018-07.

In the first interim period and fiscal year of ASU 2019-08's adoption, an entity must disclose the following:

- The nature of and reason for a change in accounting principle.
- The cumulative effect of a change on retained earnings (or other components of equity or net assets) in the statement of financial position as of the beginning of the period of adoption.

Effective Date

For public business entities, the amendments in ASU 2019-08 are effective for fiscal years beginning after December 15, 2019, including interim periods therein.

For all other entities that have early adopted ASU 2018-07, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods therein (the same adoption date as that for public business entities). For all other entities that have not early adopted ASU 2018-07, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020 (the same adoption date as that in ASU 2018-07).

Early adoption is permitted for all entities (including in an interim period), but adoption may not be earlier than the date on which an entity adopts ASU 2018-07.

For further details regarding the application of the transition provisions of ASU 2018-07, see Section 9.10 of Deloitte's *A Roadmap to Accounting for Share-Based Payment Awards*.

[13] If a nonpublic entity changes its computation of nonemployee awards from a fair-value-based measure to calculated value, ASU 2018-07 requires it to use a prospective approach.

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