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options or warrants) to their customers. Similar to issuing a cash rebate to a customer, issuing a share-based payment to a customer can incentivize additional purchases.

Nov. 13, 2019



FINANCIAL
ACCOUNTING
STANDARDS BOARD

The Financial Accounting Standards Board ([FASB](#)) has issued an Accounting Standards Update ([ASU](#)) that simplifies and increases comparability of accounting for nonemployee share-based payments, specifically those made to customers.

“The new standard continues our efforts to simplify and improve reporting of share-

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purchases increase its investment in the supplier.

In June 2018, the FASB issued an [ASU](#) that expanded the scope of [Topic 718, Compensation—Stock Compensation](#), to include share-based payments to nonemployees in exchange for goods and services. That ASU substantially aligned the accounting for share-based payments to nonemployees and employees. However, it required share-based payments to nonemployee customers to be accounted for under [Topic 606, Revenue from Contracts with Customers](#), as a reduction of revenue, similar to other sales incentives (such as coupons and rebates).

While that ASU provided guidance on the income statement classification of payments to customers (as a reduction of revenue), that ASU did not specify when to measure such awards or how to classify awards on the balance sheet (for example as a liability or as equity). To address diversity in these areas, the new guidance requires companies to measure and classify (on the balance sheet) share-based payments to customers by applying the guidance in Topic 718. As a result, the amount recorded as a reduction in revenue would be measured based on the grant-date fair value of the share-based payment.

Measuring and classifying share-based payments to customers under Topic 718 provide the following improvements:

- Fewer measurement dates for the instruments
- Fewer instances of classifying the instruments as liabilities, and
- More consistent accounting with share-based payments made to other nonemployees.

The new [ASU](#), including its effective dates, is available at www.fasb.org.

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