

Snapshot

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SNAPSHOT 2025-13

FASB clarifies accounting for share-based noncash consideration in revenue contracts

The FASB issued ASU 2025-07 to address stakeholders' concerns about two discrete issues:

1. The application of derivative accounting to contracts with features based on the operations or activities of one of the parties to the contract; and
2. The accounting for share-based noncash consideration received from a customer in exchange for the transfer of goods or services.

This Snapshot summarizes the amendments in the ASU related to the second issue. For more on the amendments related to the application of derivative accounting to contracts with features based on the operations or activities of one of the parties to the contract, see [Snapshot 2025-12](#).

Background

The past few years have been marked by a noticeable increase in revenue contracts in which a customer pays for goods or services using share-based noncash consideration instead of, or in addition to, cash. This share-based noncash consideration may be contingently receivable, or it may be transferred with vesting or exercise contingencies based upon the satisfaction of performance obligations or upon other events unrelated to the entity's performance.

For example, assume that a customer agrees to pay for widgets in customer shares. The contract specifies that the entity will receive the customer shares when it transfers control of the widgets to the customer. Or, a customer may transfer its shares up front, which will vest when the entity satisfies its performance obligation to transfer control of the widgets to the customer.

Prior to the issuance of ASU 2025-07, practitioners interpreted the existing guidance differently when determining whether share-based noncash consideration should be recognized at contract inception as a financial instrument (for example, under Topic 815 or Topic 321) or whether the consideration should not be recognized until the entity satisfies its performance obligations under Topic 606. Diversity in practice was further exacerbated for entities when deciding whether contingencies that determine if share-based noncash consideration is received or retained were considered to be (1) an element of variable consideration, or (2) a characteristic related to the form of the financial instrument to be received or

retained and, therefore, incorporated into the financial instrument's fair value. These determinations can have a material impact on the amount of revenue to be recognized in exchange for the transfer of goods or services as well as on the timing of recognizing when the consideration will be received.

Amendments

The guidance in ASU 2025-07 clarifies that share-based noncash consideration is subject to the guidance in ASC 606 unless and until the entity's right to receive or retain the share-based noncash consideration becomes "unconditional" under Topic 606, at which point, the share-based noncash consideration becomes subject to the financial instruments guidance (for example, under ASC 815 or ASC 321).

The ASU's clarifications on recognition and measurement are further explained and illustrated below.

Recognition

Under the amendments, share-based noncash consideration (for example, a warrant, option, or share) received from a customer in a revenue transaction is subject to the guidance in ASC 606 unless and until the entity has an unconditional right to that consideration. While the amendments do not define the term "unconditional," ASC 606-10-45-4 states that a right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. The amendments further clarify that when determining whether a right is unconditional, an entity should only assess contract terms that relate to the entity's performance obligations or to a specific outcome of the entity's performance. Table 1 illustrates when an entity's right to noncash consideration becomes unconditional in common fact patterns observed in practice.

If an entity transfers control of a good or service to a customer prior to receiving an unconditional right to share-based noncash consideration, the entity should apply the guidance in ASC 606 to determine whether a contract asset should be recorded. Only when the entity's right to the share-based noncash consideration becomes unconditional will the consideration become subject to the applicable financial instruments guidance. A financial instrument may then be recorded under the applicable financial instruments guidance, and the corresponding contract asset may be derecognized.

Table 1: Determining when a right to share-based noncash consideration becomes unconditional

Scenario	When does Entity's right to share-based noncash consideration become unconditional under ASC 606?	Explanation
Entity A sells 5 units of Product A to a customer for \$100 per unit upon delivery. If Entity A delivers all 5 units within 1 year of contract inception, the customer promises Entity A a performance bonus of 50 warrants	Upon delivery of the fifth unit of Product A to customer within 1	Entity A's performance obligation is to deliver 5 units of Product A to customer; therefore, Entity A determines that receipt of the warrants becomes unconditional based upon a contract term that

Scenario	When does Entity's right to share-based noncash consideration become unconditional under ASC 606?	Explanation
of the customer's stock. Entity A concludes that control of each unit passes to the customer at the point in time when the unit is delivered to customer.	year of contract inception	relates to Entity's performance. After delivery of the fifth unit of Product A to customer within 1 year of contract inception, Entity A's right to the 50 warrants is unconditional.
Entity B provides software as a service (SaaS) to a customer for a 1-year term in exchange for \$100,000. Entity B will also vest in 100 warrants for the customer's stock if the customer completes an IPO within 2 years of contract inception. Entity B concludes that it satisfies the performance obligation for the SaaS over time on a straight-line basis over the contract term.	After Entity B provides 1 year of SaaS to the customer	Entity B's performance obligation is to provide 1 year of SaaS service to the customer. Entity B determines the contingency related to the IPO does not relate to the Entity's performance obligation or to a specific outcome of the Entity's performance. After Entity B provides the service for 1 year, its right to the 100 warrants becomes unconditional under ASC 606.

Initial measurement

Under existing guidance, an entity determines the transaction price in accordance with ASC 606-10-32-21, which states that an entity measures the estimated fair value of noncash consideration at contract inception (that is, on the date when the criteria in Paragraph 606-10-25-1 are met), including an estimate of variable consideration, if applicable, as well as consideration of the constraint guidance in ASC 606-10-32-11 through 32-13. Paragraph 61 in the Basis for Conclusions (BC61) of ASU 2025-07 affirms that when the contingency causing the receipt or retention of share-based noncash consideration is related to an entity's performance obligation (or to a specific outcome of the entity's performance) under Topic 606, it should be included in the assessment of variable consideration. In other words, the probability of the receipt or retention of share-based noncash consideration based upon contingencies related to either an entity's performance obligation or to a specific outcome of the entity's performance should be excluded from the fair value of the share-based noncash consideration calculated at the contract inception date.

**ASC 606-10-32-21**

To determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the estimated fair value of the noncash consideration at contract inception (that is, the date at which the criteria in paragraph 606-10-25-1 are met).

ASC 606-10-32-23

The fair value of the noncash consideration may vary after contract inception because of the form of the consideration (for example, a change in the price of a share to which an entity is entitled to receive from a customer). Changes in the fair value of noncash consideration after contract inception that are due to the form of the consideration are not included in the transaction price. If the fair value of the noncash consideration promised by a customer varies for reasons other than the form of the consideration (for example, the exercise price of a share option changes because of the entity's performance), an entity shall apply the guidance on variable consideration in paragraphs 606-10-32-5 through 32-14. If the fair value of the noncash consideration varies because of the form of the consideration and for reasons other than the form of the consideration, an entity shall apply the guidance in paragraphs 606-10-32-5 through 32-14 on variable consideration only to the variability resulting from reasons other than the form of the consideration.

**GT insight: Contingency not related to entity's performance obligation**

Although not explicitly stated in the Basis for Conclusions, we believe that BC61 implies that when a receipt or retention contingency for share-based noncash consideration from a customer is unrelated to an entity's performance or the outcome, the contingency should be considered part of the form of the instrument received (or to be received). As a result, the probability of receipt or retention of the instrument based upon contingencies unrelated to performance should be included in the contract-inception-date fair value of the share-based noncash consideration. Such contingency should not be considered an element of variable consideration that may impact the entity's determination of the necessity of a constraint under ASC 606.

We expect that the evaluation of whether or not certain other contingencies relate to an entity's performance may be complex and will require entities to use significant judgment.

Subsequent measurement

Consistent with the initial fair-value measurement, subsequent changes in the fair value of share-based noncash consideration that occur after contract inception due to the form of the consideration should be excluded from the transaction price and do not, therefore, impact the amount of revenue recognized by the entity (for example, a change in the probability of receiving customer shares based upon the customer's IPO, a contingency that is not based on the entity's performance).

Subsequent changes in fair value due to factors other than the form of the consideration should be incorporated in the transaction price, as this contingency reflects variable consideration (for example,

reassessing the probability of receiving share-based noncash consideration for completing a performance obligation by a target date).

Similarly, contract assets should not be adjusted for subsequent changes in fair value, except when changes result from factors other than the form of the consideration, which reflect changes in variable consideration or the related constraint.

It is important to note that any changes in the fair value of share-based noncash consideration related to the form of that consideration should not be recorded unless and until the right to receive or retain that consideration becomes unconditional under ASC 606 and the financial instrument becomes subject to other applicable Topics.

ASC 610-20

The amendments in ASU 2025-07 also make a consequential revision to the guidance in ASC 610-20, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets*, since ASC 610-20 refers to the revenue recognition principles in Topic 606. As a result, amendments similar to those related to ASC 606 that are discussed in this publication were made to address share-based noncash consideration received from a counterparty for the transfer of nonfinancial assets within the scope of ASC 610-20. Specifically, the amendments clarify that the guidance in other Topics (including Topic 815 and Topic 321) does not apply to share-based noncash consideration from a counterparty for the transfer of nonfinancial assets or in-substance nonfinancial assets unless and until the entity's right to receive or retain the share-based noncash consideration is unconditional under Subtopic 610-20. Consistent with the amendments to ASC 606, entities should evaluate only the contract terms that relate to the entity's transfer of nonfinancial assets (or to a specific outcome of the entity's transfer) within the scope of ASC 610-20 in determining whether the right to the share-based noncash consideration is unconditional.

Examples

ASU 2025-07 added the following example to the Codification to illustrate the new guidance.



Example 31A – Share-Based Noncash Consideration

ASC 606-10-55-250A

Example 31A illustrates the guidance in paragraph 606-10-15-3A on share-based noncash consideration from a customer for the transfer of goods or services and the guidance in paragraphs 606-10-32-21 through 32-24 on noncash consideration. ...

ASC 606-10-55-250B

On January 1, 20X7, an entity enters into a contract with a customer to sell 5,000 units of Product A. The customer will pay \$100 for each unit upon delivery. If the entity delivers all 5,000 units within 2 years from contract inception, the customer promises a performance bonus of 100 warrants for the customer's common stock. The estimated fair value of the 100 warrants at contract inception is \$100,000. At contract inception, the entity concludes that each unit is a performance obligation that is satisfied at a point in time. Based on its experience, the entity expects that all 5,000 units will be delivered to the customer before the end of 20X8. Accordingly, it concludes that the variable consideration related to the 100 warrants is not constrained and the transaction price is \$600,000

$([5,000 \text{ units} \times \$100] + \$100,000 \text{ estimated fair value of 100 warrants at contract inception})$. Accordingly, the transaction price allocated to each unit is \$120 ($\$600,000/5,000 \text{ units}$).

ASC 606-10-55-250C

During 20X7, the entity delivers 3,000 units to the customer. At the end of 20X7, the entity continues to expect that the remaining 2,000 units will be delivered to the customer before the end of 20X8. Therefore, the transaction price determined at contract inception is unchanged. For 20X7, the entity recognizes revenue of \$360,000 ($3,000 \text{ units} \times \120), cash of \$300,000, and a contract asset of \$60,000 ($\$100,000 \text{ estimated fair value of 100 warrants at contract inception} \times [3,000 \text{ delivered units}/5,000 \text{ units}]$). The entity does not reflect any changes in the fair value of the 100 warrants in the transaction price. However, the entity assesses the related contract asset for impairment.

ASC 606-10-55-250D

During 20X8, the entity delivers the remaining 2,000 units to the customer. For 20X8, the entity recognizes revenue of \$240,000 ($2,000 \text{ units} \times \120), cash of \$200,000, and a contract asset of \$40,000 ($\$100,000 \text{ estimated fair value of 100 warrants at contract inception} \times [2,000 \text{ delivered units}/5,000 \text{ units}]$). The entity does not reflect any changes in the fair value of the 100 warrants in the transaction price. However, the entity assesses the related contract asset for impairment. When all 5,000 units have been delivered, the entity concludes that its right to receive or retain the 100 warrants is unconditional under this Topic. At that point, the entity derecognizes the contract asset and applies the guidance in other Topics to account for the 100 warrants.



Share-based noncash consideration that vests upon completion of entity's service and customer's IPO

On 1/1/202X, Entity A, an R&D services company, enters into a contract with its customer, Pharma, to administer clinical trials for a drug candidate for 3 months. Entity A determines that this contract has a single performance obligation comprising a series of R&D services for which control transfers over time, because the customer receives the benefits as Entity A performs the clinical trials. Entity A will receive \$1 million (billable upon commencement of R&D services). After the R&D services are completed, Entity A will also receive a warrant to purchase 1,000 common shares of Pharma that will become exercisable or earned if Pharma successfully completes an IPO within 6 months of contract inception. The warrant has a contract-inception-date fair value of \$1 million, assuming the likelihood of satisfying the IPO-based exercise contingency is 100 percent. Based upon its experience, Entity A expects that the R&D services will be completed and will account for the warrant under Topic 321 pursuant to the "Certain Contracts on Debt and Equity Securities" subsections in ASC 815 once its receipt is unconditional under Topic 606. Entity A will not apply the measurement alternative described in ASC 321-10-35-2 and will therefore subsequently measure the warrant at its fair value, with changes in fair value recognized in earnings.

Analysis

The warrant constitutes share-based noncash consideration with two vesting conditions: completion of the R&D services performance obligation and the successful IPO. Completion of the R&D services is related to Entity A's performance and should be included in the entity's assessment of variable

consideration. Since the entity expects that the R&D services will be completed, it concludes that the variable consideration related to the warrant should not be constrained.

On the other hand, a successful IPO by Pharma is not related to Entity A's performance or to a specific outcome resulting from Entity A's performance. Since the IPO vesting contingency is unrelated to Entity A's performance (or an outcome of Entity A's performance), Entity A should incorporate the probability of a successful IPO into its contract-inception-date fair value of the Pharma warrant.

Entity A concludes that its right to the share-based noncash consideration becomes unconditional under Topic 606 upon completion of the R&D services at 3/31/202X.

Entity A determines the probability of a successful Pharma IPO and the fair value of the Pharma warrant using market-based inputs, including the current per-share fair value of Pharma's common stock as of each reporting date, as shown in the following table. The accounting impact for two scenarios is outlined below the table.

	Scenario 1		Scenario 2	
	Probability of successful IPO	Fair value of warrant	Probability of successful IPO	Fair value of warrant
1/1/2X (contract inception date)	20%	\$200,000	20%	\$200,000
3/31/2X	50%	\$550,000	50%	\$550,000
6/30/2X	100% (IPO complete)	\$1,400,000	0% (IPO not complete by deadline)	\$ 0

At contract inception, Entity A determines that the transaction price totals \$1,200,000 (\$1 million in cash + \$200,000 value of the contingently vesting Pharma warrant). Entity A records the following entries:

Scenario 1

1/1/202X (contract inception date):

No entries

1/1/202X – 3/31/202X:

Dr. Accounts receivable \$1,000,000

Dr. Contract asset \$200,000

Cr. Revenue \$1,200,000

To record revenue as Entity A transfers services to Pharma for R&D services

3/31/202X:

Dr. Financial instrument (warrant) \$550,000

Cr. Contract asset \$200,000

Cr. Unrealized gain \$350,000

To record the share-based noncash consideration in accordance with ASC 321 since Entity A's right to the warrant is unconditional under ASC 606 as of 3/31/2X once Entity A's performance obligation is completed

6/30/202X:

Dr. Financial instrument (warrant) \$850,000

Cr. Unrealized gain \$850,000

To record change in fair value of financial instrument

Note: Aggregate revenue related to the share-based noncash consideration is limited to the \$200,000 inception-date fair value of the warrant because the IPO contingency is related to the form of the consideration and is therefore an element of the financial instrument's valuation rather than variable consideration.

Scenario 2

Same as Scenario 1 until 6/30/2X

Dr. Unrealized loss \$550,000

Cr. Financial instrument (warrant) \$550,000

To record change in fair value of financial instrument

Note: Under Scenario 2, Entity A does not reverse the revenue from share-based noncash consideration when the share-based noncash consideration is forfeited due to the lack of a successful IPO by the deadline, because the IPO contingency is related to the form of the consideration and is therefore an element of the financial instrument's valuation rather than variable consideration.

Effective date and transition

The amendments are effective for all entities for annual reporting periods, including interim reporting periods within annual reporting periods, beginning after December 15, 2026. Entities may early adopt the amendments in an interim or annual reporting period if the financial statements have not yet been issued or been made available for issuance as of the beginning of the annual reporting period of adoption. If an entity early adopts the amendments related to the accounting for share-based noncash consideration in ASU 2025-07, it must also early adopt the amendments related to derivative accounting simultaneously (and vice-versa).

Entities may apply the revised guidance either (1) prospectively to new contracts entered into during annual reporting periods, and in interim reporting periods within those annual reporting periods, beginning on or after the date of adoption, including modified contracts accounted for as new contracts, or (2) on a modified retrospective basis through a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the annual reporting period of adoption for contracts existing as of the beginning of the annual reporting period of adoption.

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