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Accounting for Phantom Stock Plans

PROFESSIONAL SERVICES
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One appealing option for the owners of professional service firms that do not want to relinquish equity is a phantom stock plan. Phantom stock plans are designed to provide employees an incentive based on the potential increase in value of a company's stock; however, the existing stockholders are not diluted because shares of actual stock have not been issued. A phantom stock plan is intended to replicate other forms of stock grants such as restricted stock or stock options without shares or units being issued.

In conjunction with generally accepted accounting standards, a phantom stock plan is accounted for as a deferred cash compensation plan because the employee receives the increase in the value of an underlying number of shares or units over a specific period of time in the form of a cash payment on a specified date. A liability is recorded and adjusted to fair value or intrinsic value each period. If fair value is elected to be used to value the phantom shares or units, a pricing model such as the Black-Scholes Model can be used to calculate the value. In connection with ASU 2016-09, Compensation – Stock Compensation, a nonpublic entity can make a one-time accounting policy election to switch from measuring liability classified awards from fair value to intrinsic value.

In accordance with Financial Accounting Standards Codification Section 718, compensation expense is recognized throughout the service period under both the fair value and intrinsic methods. The plan may contain specific performance objectives that must be met, including, but not limited to profit or EBITDA targets within a phantom stock plan. Performance targets would be evaluated in conjunction with the service period. For more information on phantom stock plans, contact us.

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