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IFRS 15

Accounting For Gift Cards Under IFRS 15

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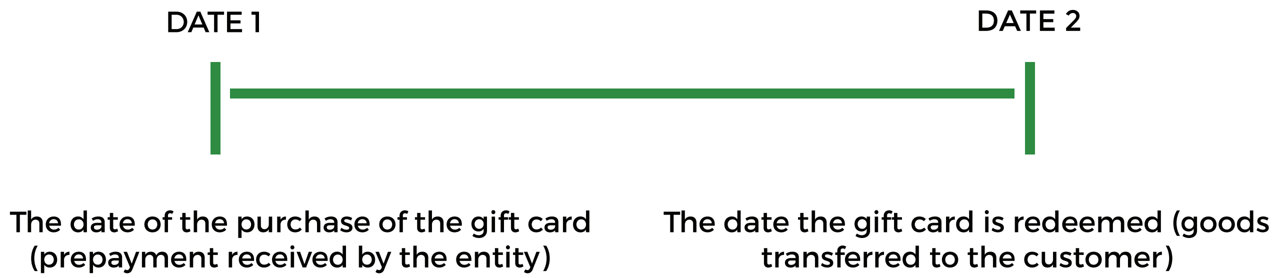
When compared to IAS 18 ‘Revenue’, IFRS 15 ‘Revenue From Contracts With Customers’ provides more significant guidance, that can be applied to various situations retailers need to face, such as the treatment of gift cards (vouchers).

The core principle of IFRS 15 is that the timing of revenue recognition depends on the timing of fulfilment of promises by the entity. In the case of goods, the fulfilment of the promise happens when control of the goods is transferred to the customer.

In the case of gift cards, there are two dates to consider:



IFRS 15, paras. B44 – B47 provide guidance on such situations, whereby the customer may have paid, but may have not yet exercised their rights. The key points that impact accounting for gift cards are:

- Upon customer prepayment, a contract liability is recognised, not revenue.
- Revenue is recognised when the promise is fulfilled.
- If the customer does not exercise the contractual rights, those rights are referred to as breakage.
- In case of breakage, the entity may or may not be obliged to refund the customer for the amount prepaid for those rights, depending on the contract.
- If the entity enjoys no refund obligation, the entity recognises revenue based on expected breakage, in proportion to the pattern of rights exercised by the customer.
- If the entity does not expect to be entitled to a breakage amount, the entity recognises revenue from breakage when the likelihood of the customer exercising its remaining rights becomes remote.
- If the entity needs to refund the prepayment in the event that the customer does not exercise the rights, revenue from breakage is not recognised at any point, but rather, the liability is refunded.

The following simple example illustrates accounting for typical gift card situations that have an expiry date, and the entity is not obliged to refund the amount prepaid for breakage.

Fragrant is a perfumery shop and began to offer gift cards to customers as from 1 July 2018. The company has a 31 December financial year-end.

Salient details:

- Gift card redemption period: 1 year.
- Gift cards issued on 1 July 2018: €300.
- Gift cards issued between 2 July 2018 and 31 December 2018: €0.
- Redemptions made up to 31 December 2018: €180.
- Expected breakage at 1 July 2018: 5% of the value of gift cards issued.
- Expected breakage at 31 December 2018: 5% of the value of gift cards issued.

How is such a situation accounted for?

Upon receipt of consideration for the gift cards, that is, on 1st July in this case:

DEBIT	CASH	€300	
CREDIT	CONTRACT LIABILITY		€300

Once the expected breakages at reporting date is estimated, the estimated breakages on consideration received during the period can be calculated.

ESTIMATED BREAKAGES = EXPECTED BREAKAGES * CONSIDERATION RECEIVED

= 5% * €300

= €15

The release of revenue at year-end turns out to be as follows:

31 DEC. 2018	DEBIT CONTRACT LIABILITY	€189	
	CREDIT REVENUE		€189

Why are we releasing €189 and not the amount redeemed (€180)? The reason is that we need to take our expected breakages into account. As per IFRS 15, Para. B46, "If the entity expects to be entitled to a breakage amount in a contract liability, the entity shall recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer".

The €189 of revenue released has two components:

COMPONENT 1	COMPONENT 2
€180 representing the selling price of goods redeemed.	**€**9 for expected breakages. Upon every redemption, the entity recognises additional revenue to the selling price of the goods redeemed, since there is an expectation that some of overall consideration received during the period will not be redeemed. The **€**9 is computed as per below:

ADDITIONAL REVENUE = EXPECTED BREAKAGES * (TOTAL REDEMPTIONS MADE / TOTAL GIFT CARDS ISSUED)

= 15 * 180/300

The breakages in this contract are those situations whereby the customer paid consideration but did not follow up on his rights by redeeming the gift. To compute the adjustment to contract liability and revenue representing expected breakages, in this example we would calculate [Total Breakages * (Redemptions/Gift Cards Issued)], which is equal to €15 * €180/€300.

The breakage estimate would typically need to be adjusted at every period-end, and adjustments would need to be made accordingly.