



# The road to convergence: the revenue recognition proposal – retail and consumer products



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## Introduction

This publication serves as an industry-specific supplement to our October 2010 publication, *Revenue from contracts with customers – the road to convergence: what the proposals mean in practice*<sup>1</sup> (the Revenue ED Publication) and should be read in conjunction with that publication. The publication provides a summary of the revenue recognition model proposed in the Exposure Draft (ED) *Revenue from Contracts with Customers* issued by the International Accounting Standards Board (IASB) in June 2010 and highlights some issues for entities to consider in evaluating the merits of the ED and discusses some of the expected changes to current IFRS.

This supplement highlights some of the more significant implications that the proposed revenue model may have on the retail and consumer products industries. It is not intended to identify all of the differences compared to current reporting requirements. Moreover, additional issues may be identified, as the elements of the ED are subject to change based on further deliberation by the IASB.

## Overview

On 24 June 2010, the IASB and the Financial Accounting Standards Board (FASB) (collectively, the Boards) jointly issued a proposed standard to supersede virtually all of the existing revenue guidance under IFRS and US GAAP. The proposed standard specifies the accounting for all revenue arising from contracts with customers.

In this publication, we focus on the following areas that we expect to be of interest to retailers and consumer products entities as they consider the potential implications of the new revenue model:

- ▶ Normal product sales
- ▶ Rights of return
- ▶ Product warranties
- ▶ Sales incentives and allowances
- ▶ Licences and rights of use
- ▶ Gift cards

## Normal product sales

Under the proposed standard, revenue is recognised when the customer obtains control of a good or service from the seller. Under IAS 18 *Revenue*, revenue is recognised when the risks and

rewards of ownership pass to the customer. The timing of revenue recognition by retailers and consumer products entities for a normal product sale will generally not change under the proposed standard because the transfer of control of the goods to the customer will generally be the same as the transfer of risks and rewards under IAS 18.

Although the proposed standard is not expected to significantly affect the timing of revenue recognition for normal product sales for retailers and consumer product entities, it would result in changes from current practice in some areas, including accounting for rights of return, warranty obligations, sales allowance arrangements, licences and gift cards, which are discussed in the following sections.

## Rights of return

It is common practice in the retail and consumer products industries to sell goods with a right of return. As noted in the Revenue ED Publication mentioned above, the Boards concluded that an entity should not recognise revenue for sales that are expected to fail because of the customer exercising the right to return the goods. The Boards concluded that the existence of a right of return implies that the transaction price is uncertain at the point of sale. Accordingly, under the proposed standard, to the extent it can be reasonably estimated, retailers and consumer products entities will need to estimate their expected returns using a probability-weighted approach and recognise revenue net of the expected returns. If an entity is unable to estimate the probability of returns, revenue is not recognised until that probability can be reasonably estimated, which may be at the end of the return period. Under current IFRS, most entities recognise a liability on the balance sheet for the obligation for expected returns. However, under the proposed standard, they would also record an asset for their right to recover the goods expected to be returned by the customer. While under current practice this amount generally is included in inventory, under the proposed standard the return asset would be presented separately from inventory. This return asset would be subject to impairment testing and entities would need to evaluate the indicators of impairment.

The ED specifically states that exchanges by customers of one product for another of the same type, quality, condition and price (for example the exchange of one colour for another) are not considered returns for the purpose of applying the proposed standard.

<sup>1</sup> This publication is available at [ey.com/ifrs](http://ey.com/ifrs).



### Example 1 – Right of return

ABC, a clothing retailer, has a 30-day return policy under which a customer can:

- ▶ Exchange a product for another product of the same type, quality, condition and price

Or

- ▶ Return the product for a full refund

The policy requires that all products exchanged or returned must be “like new” with original tags.

As exchanged products are not considered returns under the proposed standard, ABC only considers the expected number of returns for which a refund is given.

ABC sells 1,000 units of a particular product at a selling price of CU 200 each, with a cost of CU 120 each.

Using a probability-weighted approach, ABC estimates that there is a 20% probability that no products will be returned, a 20% probability that 1% of its products will be returned, a 50% probability that 2% of its products will be returned and a 10% probability that 3% of its products will be returned. Accordingly, ABC’s probability-weighted return estimate is 1.5%, calculated as follows:

$$(0.2 \times 0\%) + (0.2 \times 1\%) + (0.50 \times 2\%) + (0.1 \times 3\%) = 1.5\%$$

ABC recognises revenue for only the 98.5% of products that it expects will not be returned, resulting in revenue recognition of CU 197,000, calculated as follows:

$$(1,000 \text{ units} \times 98.5\%) \times \text{CU } 200 = \text{CU } 197,000$$

ABC also records a refund liability for the products expected to be returned. ABC measures this refund liability at the probability-weighted amount that ABC expects to refund to its customers for the returns. In this example, that refund liability is initially measured at CU 3,000, calculated as follows:

$$(1,000 \text{ units} \times 1.5\%) \times \text{CU } 200 = \text{CU } 3,000$$

The result is that ABC recognises its sales net of the amount of expected returns.

Finally, ABC also records an asset and a corresponding adjustment to cost of sales for its right to recover the returned products from its customers, upon settling the refund liability (i.e., refunding the customer’s money and accepting the returned product). ABC measures this asset at the carrying amount of the inventory, less any expected costs to recover the products (for purposes of this example, assume that ABC estimates the cost of recovering the products to be insignificant). In this example, that asset is initially measured at CU 1,800, calculated as follows:

$$(1,000 \text{ units} \times 1.5\%) \times \text{CU } 120 = \text{CU } 1,800$$

ABC records the following journal entries in the above example:

Dr. Cash	CU 200,000	
Cr. Sales		CU 197,000
Cr. Refund liability		CU 3,000
(To record revenue and refund liability)		
Dr. Cost of sales	CU 118,200	
Dr. Return asset	CU 1,800	
Cr. Inventory		CU 120,000
(To record cost of sales, sale of inventory and the return right)		

ABC would update the measurement of its refund liability (and the return asset) as needed at the end of each reporting period for any changes in estimates or assumptions. Any such adjustments are recognised in revenue and cost of sales.



## Product warranties

Perhaps one of the biggest changes under the proposed standard, particularly for consumer products entities, is the accounting for product warranties. Entities often sell products with warranties providing coverage that those products will be free of defects at the time of sale or for a specified period thereafter.

As described in the Revenue ED Publication, the proposed standard distinguishes between two specific classes of warranties:

- ▶ Warranties covering defects that existed at the time the goods were transferred to the customers (referred to as latent defects)
- ▶ Warranties covering defects that arise subsequent to the transfer of goods to the customer

Although both types of warranties will result in deferral of revenue, the accounting treatment for these two types of warranties differs under the proposed standard. A warranty covering latent defects is considered a quality assurance warranty, which is treated in a similar manner to a right of return (i.e., it is essentially accounted for as a failed sale) rather than as a separate performance obligation. A warranty covering defects arising subsequent to the sale is considered an insurance warranty and is deemed a separate performance obligation.

### Consumer products entities

When a consumer products entity sells goods to a retailer, and those goods are covered by a warranty, the consumer products entity will need to determine which type of warranty exists. If it is an insurance type warranty, the consumer products entity may have two contracts to consider under the proposed standard:

- ▶ A contract to provide the goods to the retailer

And

- ▶ A contract to fulfill its warranty obligation to the end consumer who buys the product from the retailer

Although the retailer is the customer for the goods themselves, the end consumer who buys the goods is sometimes viewed as the customer for purposes of the product warranty. Entities would need to consider the individual facts and circumstances of the contract to determine who has the obligation to provide the warranty to the customer. This may differ according to the jurisdiction.

Another important consideration with respect to warranties under the proposed standard is the accounting for changes in the original estimates for the warranty obligation, which is different for each type of warranty.

- ▶ Quality assurance warranties – an entity would reflect any revisions to its original estimates as an adjustment to the amount of revenue and corresponding cost of sales, recognised for the related performance obligation.
- ▶ Insurance warranties – an entity would not modify the revenue allocated to an insurance warranty for changes in its original estimates. Amounts allocated to performance obligations are updated to reflect changes in the estimated transaction price. However, the standalone selling prices used to perform the allocation are not updated to reflect subsequent changes the standalone selling prices.

The accounting for warranties under the proposed standard represents a significant change from current practice for consumer products entities providing warranty coverage for their products. The proposed standard changes the amount and timing of revenue recognition for products sold with warranties, resulting in an initial deferral of revenue, rather than just a provision for the expected costs.

It will be critical that consumer products entities distinguish between quality assurance warranties and insurance warranties, given that the revenue recognition is different for each. Careful consideration of the specific terms of each warranty agreement is needed to determine what type of warranty exists under the proposed standard. The application guidance in the ED gives these factors to consider:

- ▶ Whether the warranty is required by law
- ▶ Whether the product could have been sold without the warranty
- ▶ The length of the warranty coverage period

Further complicating matters, if a consumer products entity's warranty provides coverage for both latent defects and defects arising later, the entity must separately account for both a quality assurance warranty and an insurance warranty, as in the following example.



## Example 2 – Warranties

TUL, a tool manufacturer, sells 100 cordless electric drills to HWS Hardware Store (HWS) for CU 50 each. The drills cost TUL CU 35 each. TUL includes a warranty with each drill, which provides for a full replacement of the drill if the unit fails to work properly within one year from the date of purchase by the end consumer. TUL is legally required to provide a six month warranty and has extended this to 12 months.

In this example, TUL provides a warranty for both latent defects and defects arising after the time of sale. We have assumed the warranty covering latent defects in the first six months after the sale is a quality assurance warranty, while the warranty covering defects arising during the remaining six months of the one-year warranty period is an insurance warranty. This analysis is based on the legal warranty period.

Based on past experience and using a probability-weighted average calculation, TUL estimates that 2% of all the electric drills it sells contain latent defects, which will require TUL to replace the drills. Additionally, based on a relative standalone selling price allocation, TUL estimates that of the total transaction price of CU 50 for a drill, CU 47 should be allocated to the drill and CU 3 should be allocated to the insurance warranty for the drill.

TUL records the following journal entry for the sale of the drills to HWS and related warranty obligations to replace defective drills in the above example:

Dr. Cash	CU 5,000	
Cr. Sales		CU 4,606
Cr. Contract liability (quality assurance warranty) (CU 47 x 100 x 2%)		CU 94
Cr. Contract liability (insurance warranty)		CU 300
(To record revenue and warranty liability)		

TUL also records the following journal entry to record costs of sales and the sale of inventory, and to record an asset for the drills expected to be returned (for simplicity, the return asset is valued at the full carrying value of the drills):

Dr. Cost of sales	CU 3,430	
Dr. Return asset	CU 70	
Cr. Inventory		CU 3,500
(To record cost of sales, sale of inventory and the return asset)		

Subsequently, TUL will reduce the contract liability for the quality assurance warranty during the six-month quality assurance period as it replaces any drills with latent defects. For the insurance warranty, TUL will reduce the contract liability and recognise revenue over the six-month warranty period subsequent to the initial quality assurance period (on a straight-line basis, unless a different pattern is expected).



In addition, entities may find it challenging to estimate a standalone selling price for an insurance warranty if they do not sell it on a standalone basis.

It is important to remember that the recognition of revenue associated with both types of warranties commences only when either performance under the warranty starts (quality assurance warranties) or the warranty period starts (insurance warranties). For example, consumer products entities selling products to a distributor, retailer or other reseller and providing a quality assurance warranty will recognise revenue related to the quality assurance warranty as they perform under the warranty. This may be an extended period due to the passage of time between when the reseller purchases the products and subsequently sells them to its customers. Meanwhile, consumer products entities selling products to resellers and providing an insurance warranty will need to remember that the warranty period over which they will recognise revenue will not begin until the product is purchased by the end consumer. Tracking the periods for both types of warranty may require entities to gather additional information not currently held.

### **Retailers**

Retailers will need to consider whether customers can make claims directly to the retailer on products with warranties, or whether those warranties are the responsibility of the manufacturer of the product or another third party. If the warranty obligations are the responsibility of another entity, the retailer may be acting as an agent in the warranty arrangement. In some cases, retailers will provide warranty coverage for their products, and also may sell extended warranties for the products they sell. In such a case, retailers will have to determine whether or not they are the legal obligor under the warranty arrangement in order to determine the appropriate accounting treatment under the proposed standard.

### **Sales incentives and vendor allowances**

Various types of sales incentives and vendor allowances are common in the retail and consumer products industries. Consumer products entities provide retailers or other customers with different forms of vendor allowances, such as volume discounts, price protection, slotting fees, advertising and promotional allowances. Furthermore, consumer products entities commonly provide sales incentives directly to the end consumer in the form of coupons and rebates. Retailers commonly provide their customers with sales incentives including free products, rebates, coupons and other types of promotions. Below, we

consider how some of these types of arrangements would be accounted for under the proposed standard from the perspective of both the consumer products entity and the retailer.

### **Consumer products entities**

Under the proposed standard, consideration paid or payable to the customer, depending on the nature of the arrangement, could represent:

- ▶ A discount or refund for goods or services provided to the customer, which would be accounted for as a reduction of revenue
- ▶ A payment for distinct goods or services received from their customer, which would generally be expensed as purchased
- ▶ A combination of both

Some types of arrangements involving consideration paid or payable by a consumer products entity to a retailer or other customer, in the form of volume discounts, price protection, coupons and other similar arrangements, may be viewed as discounts or refunds for the goods sold to the customer.

However, certain other types of arrangements, such as slotting fees and promotional goods, may be more likely to include payments (or other forms of consideration) to the customer for a distinct good or service under the proposed standard. These types of arrangements may involve paying the customer for a service with a distinct function (e.g., stocking and display of products, advertisement, etc.) that could be sold separately. If this were the case, the consumer products entity would account for these payments as an expense. Under existing IFRS, the treatment of these types of sales incentives has been diverse, although some entities have recently amended their accounting policies to recognise promotional costs as a deduction from revenue. Entities would need to consider the requirements carefully to determine whether changes to current accounting are likely to occur.

An important consideration with respect to sales incentives and vendor allowances is that arrangements with customers involving discounts, rebates, refunds and other incentives are often structured such that a portion of the transaction price is variable. This issue of variable consideration could exist when certain performance conditions must be met and there is uncertainty regarding their outcome. These types of incentives would be subject to the guidance on variable consideration in the proposed standard, requiring an entity to measure a portion of the transaction price using a probability-weighted approach. The Revenue ED Publication contains further discussion of variable consideration.



### Example 3 – Volume discounts

SPO Co. (SPO) sells sports drinks to GRO Co. (GRO), a grocer. SPO and GRO agree to a one-year purchase agreement under which SPO will sell the sports drinks to GRO at CU 10 per 12-pack case, with volume discounts available to GRO if it purchases certain minimum quantities from SPO, as follows:

- ▶ If GRO purchases less than 1,000 cases from SPO, GRO will receive no discount
- ▶ If GRO purchases 1,000 cases from SPO, GRO will receive a 10% discount
- ▶ If GRO purchases 2,000 cases from SPO, GRO will receive a 20% discount
- ▶ If GRO purchases 3,000 cases from SPO, GRO will receive a 30% discount

Due to the volume discounts available to GRO under the purchase agreement, the transaction price is variable at the inception of the agreement. As discussed in the Revenue ED Publication, under the proposed standard, variable consideration is measured on a probability-weighted basis. In this example, SPO must identify the possible discounts available to GRO and estimate the probability of GRO purchasing the required number of cases to qualify for those possible discounts.

SPO estimates the following probabilities:

- ▶ SPO estimates a 50% probability that GRO will purchase less than 1,000 cases (no discount)
- ▶ SPO estimates a 25% probability that GRO will purchase 1,000 cases (10% discount)
- ▶ SPO estimates a 15% probability that GRO will purchase 2,000 cases (20% discount)
- ▶ SPO estimates a 10% probability that GRO will purchase 3,000 cases (30% discount)

Therefore, the estimated probability-weighted volume discount is 8.5%, calculated as follows:

$$(0.50 \times 0) + (0.25 \times 10\%) + (0.15 \times 20\%) + (0.10 \times 30\%) = 8.5\%$$

Six months into the purchase agreement, GRO has purchased 500 cases. Assume SPO has not changed its estimate for the probability-weighted volume discount to be earned by GRO under the purchase agreement. SPO records sales of CU 4,575 and a liability for the estimated volume discount to GRO of CU 425, calculated as follows:

$$\begin{aligned} 500 \text{ cases} \times \text{CU } 10 \text{ per case} &= \text{CU } 5,000 \\ \text{CU } 5,000 \times 8.5\% &= \text{CU } 425 \text{ volume discount liability} \\ \text{CU } 5,000 - \text{CU } 425 &= \text{CU } 4,575 \text{ sales amount} \end{aligned}$$

SPO records the following journal entry:

Dr. Accounts Receivable	CU 5,000	
Cr. Sales		CU 4,575
Cr. Volume discount liability		CU 425
(To record revenue and estimated volume discount liability)		

During the second six months of the purchasing agreement, GRO purchases an additional 700 cases, such that GRO earns a 10% discount because its purchases exceeded 1,000 cases. SPO records sales of CU 6,225 and CU 775 to true-up the liability for the volume discount to GRO, calculated as follows:

$$\begin{aligned} 700 \text{ cases} \times \text{CU } 10 \text{ per case} &= \text{CU } 7,000 \\ \text{CU } 12,000 \text{ total} \times 10\% &= \text{CU } 1,200 \text{ volume discount liability} \\ \text{CU } 1,200 - \text{CU } 425 \text{ previously recorded} &= \text{CU } 775 \text{ liability true-up amount} \\ \text{CU } 7,000 - \text{CU } 775 &= \text{CU } 6,225 \text{ sales amount} \end{aligned}$$

SPO records the following journal entry to true-up the actual liability to the 10% discount:

Dr. Accounts Receivable	CU 7,000	
Cr. Sales		CU 6,225
Cr. Volume discount liability		CU 775
(To record revenue and actual volume discount liability)		

At the end of the purchase agreement period, the volume discount is refunded to SPO (or deducted from a later invoice) and the liability is debited.



## Licenses and rights of use

Granting licences and other rights of use is common for many entities in the retail and consumer products industries. Under a licensing agreement, the licensor grants the licensee (its customer) the right to use the licensor's intellectual property (IP), such as a patent, trademark or copyright. Critical to determining the appropriate revenue recognition in such arrangements under the proposed standard, is an analysis of what rights the customer receives, and when. A licensee may or may not obtain control of substantially all the rights to use the licensor's IP. Under the proposed standard, if a licensee obtains control of substantially all of the rights to use, the arrangement is considered a sale of, rather than a right to use, the IP.

The proposals would represent a significant change in practice for some entities in accounting for licences that grant an exclusive right of use for a defined period of time that is less than the economic life of the IP. For this type of licence, because the licensee does not obtain control of substantially all of the rights associated with the IP, under the proposed model the licensor has a performance obligation (essentially, keeping the licence exclusive) that it must continue to satisfy over the licence period. Retailers and consumer products entities that grant licences providing for exclusive use of their IP may be required to recognise the licence revenue over time. Currently, some entities recognise the revenue at the inception of the licence term.

### Example 4 – Trademark

BRR Co. (BRR), a drinks supplier, enters into a licensing agreement with TSR Co. (TSR), an apparel entity. The licensing agreement allows TSR the right to use the BRR trademarked logo on a new line of TSR's t-shirts, hats and other apparel for a period of two years. In exchange for the right to use the BRR logo and tagline under the licensing agreement, TSR pays BRR an up-front fee of CU 1 million at the start of the two-year term of the licensing agreement. The rights and terms granted by BRR to TSR under the agreement are similar to those granted by BRR in licensing agreements with various other apparel entities.

In this example, because the licensing agreement grants non-exclusive rights to TSR that are of substantially equal terms to the rights granted to other parties, the licence creates a single performance obligation for BRR. BRR satisfies this performance obligation when it transfers control to TSR. In this case, BRR transfers control when it gives TSR the ability to direct the use of the BRR trademark and receive the benefits of its use, which occurs at the inception of the licensing agreement. Accordingly, BRR recognises revenue of CU 1 million at the inception of the agreement.

Conversely, consider a situation in which BRR grants TSR an exclusive right to the use of the BRR trademarked logo, such that BRR cannot license any other apparel entities the right to use the logo during the two-year term of the licensing agreement.

In this fact pattern, BRR has granted TSR an exclusive right to use its trademarked logo over the two-year licence period, which means that BRR has not fully satisfied its performance obligation at the inception of the licence period. Instead, since BRR will continue to "perform" throughout the term of the licence (by not granting a licence to other apparel entities), BRR will continuously satisfy its performance obligation over the course of the licence period and, therefore, will need to recognise the revenue of CU 1 million on a straight line basis over that two-year period.



## Gift cards

Many retailers offer gift cards that a customer can purchase and redeem in exchange for goods from the retailer. Neither current IFRS nor the ED specifically address the accounting treatment of gift cards and so the general principles must be applied.

### Initial accounting upon issuance

Under current IFRS, retailers defer revenue at the time they sell the gift card to the customer. They then recognise revenue as the gift card is used by the customer to purchase goods from the retailer. As part of the recognition of revenue, retailers will also consider the effect of gift cards not expected to be used, commonly referred to as 'breakage', as further discussed below.

In applying the proposed standard to gift cards, the retailer has a performance obligation to provide goods to the customer in exchange for the gift card at (and after) the time of sale of the gift card to the customer. The retailer has an unfulfilled performance obligation at the time it sells the gift card to the customer and, consistent with current practice, defers revenue at the initial point of sale of the gift card.

Under the proposed standard, the retailer would recognise revenue as it satisfies its performance obligation to the customer (i.e., as the customer redeems the gift card to purchase goods from the retailer). This means that the retailer would recognise revenue equal to the amount of the gift card redeemed by the customer, which is consistent with current practice.

### Accounting for "breakage"

Most retailers anticipate, based on past experience, that a portion of gift cards will never be redeemed by the customer. Therefore, they estimate and recognise breakage revenue for gift cards. Breakage is the term used to describe the portion of the value of gift cards that ultimately will not be used by the customer to purchase goods.

There are currently two methods used in practice to estimate and recognise gift card breakage:

- ▶ **Redemption recognition method:** estimate and recognise breakage as the gift cards are used for the purchase of goods
- ▶ **Delayed recognition method:** estimate and recognise breakage when it is deemed remote that the unused gift card balance will be redeemed

The proposed standard does not specifically address accounting for breakage and some uncertainty exists with respect to the appropriate method for recognising gift card breakage. Because the proposed standard permits the use of the "portfolio approach" in accounting for certain elements of revenue (e.g., collectibility, variable consideration and warranties), we believe the redemption recognition method could continue to be an acceptable option, as an entity would recognise breakage as it satisfies its performance obligation at a portfolio level (e.g., for every CU 1 on the gift card redeemed by the customer, recognise breakage income of X%). However, under a strict interpretation of the proposed standard, because the unit of account is the contract with an individual customer, the performance obligation is not satisfied until the gift card is redeemed or expires. We believe the delayed recognition method also could be supported under the proposed standard.



## Other considerations

In addition to the areas noted above, retailers and consumer products entities may need to assess other considerations in evaluating the effects of the proposed standard, including the following:

How does the consumer products entity currently assess collectibility?

- ▶ As discussed in detail in the Revenue ED Publication, the proposal on collectibility could represent a significant change from current practice, as it would affect the measurement of revenue, as opposed to the recognition of revenue. Under the proposed standard, the entity would consider collectibility in determining the transaction price of a sale, and therefore, the amount of revenue recognised. For consumer products entities, particularly those with significant bad debts, the effect of implementing the proposed standard could be a noticeable reduction in top-line revenue and margins. Furthermore, there may be practical difficulties in implementing the proposed standard, such as establishing the appropriate level at which to evaluate customers' collectibility (e.g., determining to what extent to aggregate customers/contracts). Any changes in the amounts expected to be collected or actually collected after a receivable is recognised, would be recognised in other income or expense, not revenue.

What shipping terms does the consumer products entity or retailer offer?

- ▶ The proposed standard includes an example in which the entity sells products to a customer, with shipping terms that are FOB shipping point, but for which the entity has established a business practice of providing the customer with a replacement product, at no additional cost, if a product is damaged or lost during shipment. In this example, the proposed standard notes that this business practice of replacement may implicitly create an enforceable obligation (i.e., an insurance policy that the customer will receive a damage-free product). Hence, the entity has not satisfied all of its performance obligations at the point of shipment, and would need to defer some portion of the revenue at the time of shipment to the customer.

Does the retailer offer a loyalty/rewards program to customers?

- ▶ Some retailers offer various types of loyalty or rewards programs that provide customers with incentives for continuing to shop with the retailer. These programs may take many different forms, but, generally, allow the customers to accumulate points or other credits that can be redeemed for free products. IFRIC 13 *Customer Loyalty Programs* currently requires entities to defer the portion of revenue that relates to the loyalty program. Whilst the accounting for customer loyalty programs under the proposed standard is the same as that under IFRIC 13, there could be differences in the measurement of the transaction price. IFRIC 13 permits entities to use the actual fair value of the award points and allocate the residual amount to other parts of the sale transaction. However, under the proposed standard, the amounts would be allocated in proportion to their standalone selling prices.

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