IFRS AT A GLANCE

IFRIC 13 *Customer Loyalty Programmes*

As at 1 January 2016

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Effective Date
Periods beginning on or after 1 July 2008

ISSUE

The issues addressed in IFRIC 13 are:

- Whether the entity's obligation to provide free or discounted goods or services ('awards') in the future should be recognised and measured by either:
  - Allocating some of the consideration received or receivable from the sales transaction to the award credits and deferring the recognition of revenue (applying IAS 18 *Revenue* para 13)
  - Providing for the estimated future costs of supplying the awards (applying IAS 18 paragraph 19)
- If consideration is allocated to the award credits:
  - How much should be allocated to them?
  - When should revenue be recognised?
  - If a third party supplies the awards, how revenue should be measured?

SCOPE

IFRIC 13 applies to customer loyalty award credits that:

- An entity grants to its customers as part of a sales transaction, i.e. a sale of goods, rendering of services or use by a customer of entity assets; and
- Subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services.

IFRIC 13 addresses accounting by the entity that grants award credits to its customers.

CONSENSUS

- An entity applies IAS 18 and accounts for award credits as a separately identifiable component of the sales transaction(s) in which they are granted. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale
- The consideration allocated to the award credits is measured by reference to their fair value, i.e. the amount for which the award credits could be sold separately – refer to paragraphs AG1 – AG3 for further guidance
- If the entity supplies the awards itself, it recognises the consideration allocated to award credits as revenue when award credits are redeemed and it fulfils its obligations to supply awards. The amount of revenue recognised is based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed
- If a third party supplies the awards, the entity assesses whether it is collecting the consideration allocated to the award credits on its own account (i.e. as the principal in the transaction) or on behalf of the third party (i.e. as an agent for the third party)
- If the entity is collecting the consideration on behalf of the third party, it:
  - Measures its revenue as the net amount retained on its own account, i.e. the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards
  - Recognises this net amount as revenue when the third party becomes obliged to supply the awards and entitled to receive consideration for doing so. These events may occur as soon as the award credits are granted. Alternatively, if the customer can choose to claim awards from either the entity or a third party, these events may occur only when the customer chooses to claim awards from the third party.
- If the entity is collecting the consideration on its own account, it measures its revenue as the gross consideration allocated to the award credits and recognises the revenue which has been allocated to the award credits when it fulfils its obligations in respect of the awards
- If at any time the unavoidable costs of meeting the obligations to supply the awards are expected to exceed the consideration received and receivable for them, the entity has an onerous contract. A liability is recognised for the excess in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The need to recognise such a liability could arise if the expected costs of supplying awards increase, for example if the entity revises its expectations about the number of award credits that will be redeemed.

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below. Alternatively, please visit www.bdointernational.com/Services/Audit/IFRS/IFRS Country Leaders where you can find full lists of regional and country contacts.

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