

CUSTOMER LOYALTY PROGRAMMES – IFRIC 13

IFRIC 13 Customer Loyalty Programmes

OVERVIEW

BACKGROUND

- Used by entities to incentivise customers to buy their goods or services.
- Customer is awarded with points / award credits when making purchase with entity.
- Customer can redeem the credits / points for free / discounted goods or services

ISSUE

- Account for awards credits as separately identifiable component (IAS18 par 13)
- Fair value of consideration received / receivable i.r.o. initial sale allocated between:
 - Award credits and
 - Other components

SCOPE

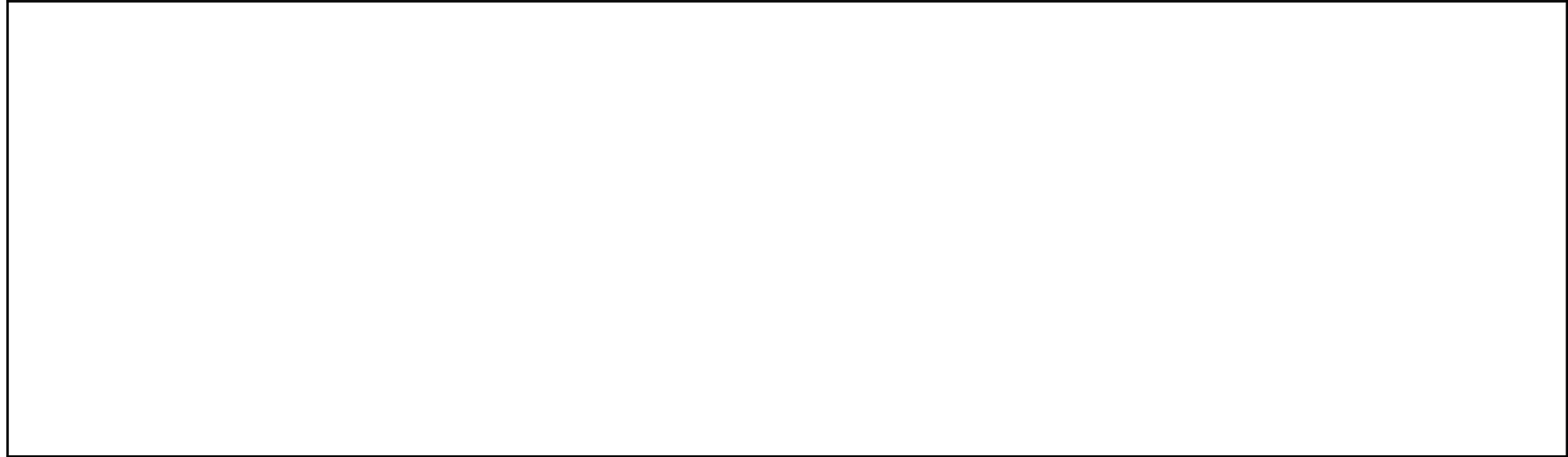
- Customer loyalty award credits granted by an entity to customers as part of a transaction covered by IAS 18
- and*
- subject to meeting any further qualifying conditions, are redeemable in future for free/discounted goods or services

IFRIC 13 addresses the accounting for the points from the *seller's* perspective

TREATMENT

- Awards credits are treated as a separately identifiable component of the transaction
- Fair value of the consideration received/receivable for the initial sale is therefore allocated between:
 - award credits
 - other components

JOURNAL ?

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IFRIC 13 Customer Loyalty Programmes

MEASUREMENT

MEASUREMENT OF AWARDS

- IFRIC13.6: consideration allocated to award credits measured:
 - Reference to their FAIR VALUE
- Fair value = amount credits could be sold for separately.
(refer application guidance (AG) 1-3)

Fair value from perspective of the customer

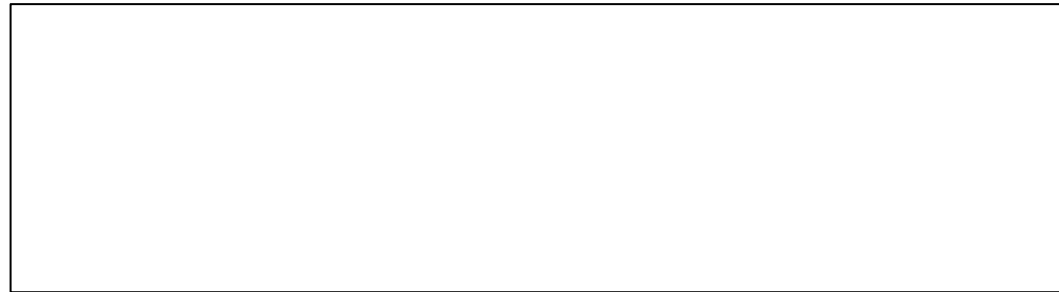
IFRIC 13 – Class Example

MEASUREMENT OF AWARDS

MEASUREMENT EXAMPLE

- Year 1:
 - 100 000 award points granted during year
 - Fair value per award then equals 5 cents
 - 25 000 points redeemed in year 1
 - Total expected redemption estimated at 70%
- Year 2
 - Total of 15 000 redemptions
 - Change total estimated redemption to 65%

Journals – year 1



Journals – year 2

Current year redemption = 15 000 points

Cumulative = 15 000 + 25 000

= 40 000

Change in total estimated redemption from 70 000 to 65 000



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AGENT VERSUS PRINCIPLE

