



Questions & Answers

Applying IFRIC 13 *Customer Loyalty Programmes*

These Q & As provide a simple introduction to IFRIC 13 to give a general idea of its scope and effect. Whether and how IFRIC 13 applies to a specific transaction will depend on the exact terms of the transaction, and should be determined by reference to IFRIC 13 itself, not these Q&As.

- 1. Q: I operate a supermarket and grant customers one loyalty point with every \$1 they spend on groceries. Customers can redeem the points for free groceries. Does IFRIC 13 apply?**

A: Yes – IFRIC 13 applies to businesses that grant loyalty points to customers when they buy other goods or services.

- 2. Q: If I distribute ‘money off’ vouchers or any sort of promotion that is not connected to sales of my goods or services, do I still have to comply with IFRIC 13?**

A: No. IFRIC 13 applies only if the rights to free or discounted goods or services are granted to customers *as part of a sales transaction*. If the vouchers are handed out freely, IFRIC 13 does not apply.

- 3. Q: What does IFRIC 13 require me to do?**

A: If your company runs a loyalty programme, IFRIC 13 requires you to treat part of the payment you receive for the goods or services you provide to customers as a liability to your customer and show it as such in your company’s accounting.

For example, when your customer spends \$100 on groceries and is granted 100 points, worth \$0.01 each, you have to allocate \$99 of the cash to the groceries already sold to the customer and \$1 to the points. Consequently \$99 of revenue is recorded immediately, but \$1 is held back (ie shown as a liability) until your customer

redeems the points and you have to supply the ‘free’ groceries. Until now many companies have measured the liability differently. They have measured it as a cost of supplying the free groceries, which would normally be less than the \$1 that the customer would have paid for them.

4. Q: Loyalty points can be redeemed for a range of different goods with different values. Do I have to allocate different amounts of revenue to the points?

A: No. When you grant the points they have all the same value, hence the same amount of revenue can be allocated to each single point. You could, for instance, estimate the value of the points by reference to the average value of the goods or services that you expect the customers to select.

5. Q: The number of points I grant is not always proportional to the amount the customer spends—I sometimes grant customers extra points if they buy goods that I am specially promoting. You could argue that customers are paying less per point if they receive more points for the same amount of expenditure. Do I need to allocate different amounts of revenue to the points and then track them individually?

A: No. IFRIC 13 allows you to allocate the same amount of revenue to each point, based purely on the value of the point itself, irrespective of the value of the goods or services you grant them with. You may then pool points for accounting purposes, making reasonable assumptions, eg about which points are redeemed first.

6. Q: Some of my customers do not redeem their points. Will I ever record revenue for these points?

A: Yes. IFRIC 13 requires you to estimate how many points will *not* be redeemed and record the cash you have allocated for those points as revenue in the same periods as you record revenue for the points that *are* redeemed. Suppose history tells you that virtually all customers either redeem points within three years of receiving them or do not redeem them at all. You would recognise the revenue for the points you expect not to be redeemed over the three years after they are granted.

7. Q: My company supplies electrical goods and I do not operate my own customer loyalty programme. Instead I have an agreement with another company

running a loyalty programme and pay it an agreed amount for each point that my company has granted to customers. That agreement allows my customers to participate in the company's programme.

A: IFRIC 13 assumes that the customer is implicitly paying for the points when acquiring goods or services, regardless of whether the company or a third party supplies the free goods or services. Consequently you should allocate to the points some of the cash received from the customer. However, by engaging a third party to supply the awards, your company has fulfilled all its obligations to its customers as soon as it granted the points and you do not need to defer any revenue.