
**INTERPRETATION OF
STATUTORY BOARD
FINANCIAL
REPORTING STANDARD**

INT SB-FRS 113

Customer Loyalty Programmes
Illustrative Examples

Illustrative examples

These examples accompany, but are not part of, INT SB-FRS 113.

Example 1—Awards supplied by the entity

IE1 A grocery retailer operates a customer loyalty programme. It grants programme members loyalty points when they spend a specified amount on groceries. Programme members can redeem the points for further groceries. The points have no expiry date. In one period, the entity grants 100 points. Management measures the fair value of groceries for which each loyalty point can be redeemed as 1.25 currency units (CU1.25). This amount takes into account management's estimate of the discount that market participants would assume when pricing the award credits. That discount takes into account market participants' expectations of the discount that would otherwise be offered to customers who have not earned award credits from an initial sale. In addition, management estimates the market participants would expect only 80 of these points to be redeemed. Therefore, the fair value of each point is CU1, being the fair value of the award for each loyalty point granted of CU1.25 reduced to take into account points not expected to be redeemed $((80 \text{ points}/100 \text{ points}) \times \text{CU}1.25 = \text{CU}1)$. Accordingly, management defers recognition of revenue of CU100. Throughout the example, management determines that non-performance risk has an immaterial effect on the measurement of its obligation under the programme.

Year 1

IE2 At the end of the first year, 40 of the points have been redeemed in exchange for groceries, ie half of those expected to be redeemed. The entity recognises revenue of $(40 \text{ points}/80^1 \text{ points}) \times \text{CU}100 = \text{CU}50$.

Year 2

IE3 In the second year, management revises its estimate of market participants' expectations. It now expects 90 points to be redeemed altogether.

IE4 During the second year, 41 points are redeemed, bringing the total number redeemed to $40^2 + 41 = 81$ points. The cumulative revenue that the entity recognises is $(81 \text{ points}/90^3 \text{ points}) \times \text{CU}100 = \text{CU}90$. The entity has recognised revenue of CU50 in the first year, so it recognises CU40 in the second year.

Year 3

IE5 In the third year, a further nine points are redeemed, taking the total number of points redeemed to $81 + 9 = 90$. Management continues to expect that only 90 points will ever be redeemed, ie that no more points will be redeemed after the third year. So the cumulative revenue to date is $(90 \text{ points}/90^4 \text{ points}) \times \text{CU}100 = \text{CU}100$. The entity has already recognised CU90 of revenue (CU50 in the first year and CU40 in the second year). So it recognises the remaining CU10 in the third year. All of the revenue initially deferred has now been recognised.

¹ total number of points expected to be redeemed

² number of points redeemed in year 1

³ revised estimate of total number of points expected to be redeemed

⁴ total number of points still expected to be redeemed.

Example 2—Awards supplied by a third party

IE6 A retailer of electrical goods participates in a customer loyalty programme operated by an airline. It grants programme members one air travel point with each CU1 they spend on electrical goods. Programme members can redeem the points for air travel with the airline, subject to availability. The retailer pays the airline CU0.009 for each point.

IE7 In one period, the retailer sells electrical goods for consideration totalling CU1 million. It grants 1 million points.

Allocation of consideration to travel points

IE8 The retailer estimates that the fair value of a point is CU0.01. It allocates to the points 1 million \times CU0.01 = CU10,000 of the consideration it has received from the sales of its electrical goods.

Revenue recognition

IE9 Having granted the points, the retailer has fulfilled its obligations to the customer. The airline is obliged to supply the awards and entitled to receive consideration for doing so. Therefore the retailer recognises revenue from the points when it sells the electrical goods.

Revenue measurement

IE10 If the retailer has collected the consideration allocated to the points on its own account, it measures its revenue as the gross CU10,000 allocated to them. It separately recognises the CU9,000 paid or payable to the airline as an expense. If the retailer has collected the consideration on behalf of the airline, ie as an agent for the airline, it measures its revenue as the net amount it retains on its own account. This amount of revenue is the difference between the CU10,000 consideration allocated to the points and the CU9,000 passed on to the airline.