

Case 03-02

Back To The USSR

Universal School Supply Retailer, Inc. (“USSR”), a public company, is a retailer specializing in clothing, equipment, supplies, and other products targeted at grade school, high school, and college students. USSR is offering a back-to-school promotion during the month of August in which customers who spend a minimum of \$100 will receive a \$20 gift card that can be applied to their next purchase at USSR.

The gift cards expire on November 1 and cannot be redeemed for cash. Notwithstanding, management anticipates that between 50% and 85% of the gift cards will be redeemed. USSR has not offered similar promotions in the past and does not have an established accounting policy for such promotions.

USSR’s merchandise margin is approximately 50%.

Required:

- If a customer purchases \$100 of merchandise during the promotion and as such receives a \$20 gift card, how should USSR account for the transaction?
- If the gift card is subsequently redeemed or expires unused, how should USSR account for the redemption or expiration?