

Gift cards breakage

Finance



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Gift Cards Breakage In accounting, gift cards breakage is a real dilemma despite their significance in improving sales, inventory management, enhancing the marketing opportunities, and improving cash flows. Notably, the transactions for the initial sales of gift cards reflect a liability in cases where the company revenue is postponed. Therefore, the auditor finds it difficult in getting the actual figures of the total sales as indicated in the financial statement. As pointed in the article, once the customer buys the gift cards from the retailers, the latter receives an upfront payment for the ones that the customer would purchase in future (Owen 2). However, the actual transportation of the goods is slow, depending on the consumer's preparedness to receive them (Owen 3).

In reality, postponing the revenue received from the unredeemed gift cards, poses a great challenge in auditing the payment transactions, since the sales are not easily recognized (Owen 3). Truly, when the upfront payment is received and delivery of the items is delayed, identifying the validity of the revenue for the gift cards, which are sold for a given financial period, is generally difficult. In dealing with the gift cards breakages, it indicates that, the retailer is forced to defer the amount that he/she has received, as a liability, when preparing the balance sheet.

Since the redemption period for the gift cards is unpredictable, the balance sheet could reflect loss, when the retailer has actually made profit from the sales. In certainty, the auditors may not recognize the revenue that the retailer has postponed in his/her balance sheet, making the final decision regarding the balance sheet to be pointless and challenging. In addition, the value of the gift cards, which is unused, causes serious accounting complications to the auditors because; the pattern of redemption differs

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considerably (Owe 3). This makes the auditing work more complex than anticipated.

Factually, the retailers are able to create the estimates of the cards, which are bound to break in the future. Besides, the policy statements, which the companies provide regarding the revenue recognition of the sold gift cards is usually delayed because of uncertainty of redemption (Owe 4). Considering a situation of non-redemption of the cards, the unused amount of the recorded gift cards, would still be reflected as a liability, causing difficulty in interpreting the accounting figures that the retailers present. Sometimes, when unredeemed, the value of the gift cards remains the retailer's obligation (Owe 4). Moreover, the retailers hardly recognize the damages, thus, complicating the financial statements (Owe 4).

Making the transactions of the breakages of the gift cards in financial statements can cause ambiguity in reporting financial matters. Certainly, the difficulty in making the financial transaction of the cards is coupled with the increasing number of the companies issuing the gift cards. As a result, most of the companies rarely provide the figure of gift cards' sales and the total of breakages (Owe 5). Therefore, when the companies fail to disclose the transactions that they effect on the sales, ascertaining the breakages becomes relatively a difficult task.

Works Cited

Owe, Charles. " Accounting for Gift Cards: An Emerging Issue for Retailers and Auditors." Journal of Accountancy. Vol. 204, 2007. Publication.