

Problem 6-4

During July, Supply Club started a loyalty program.
 Redemption of loyalty point reduces the price of one dollar of future purchases by 20% (equal to \$0.20).
 Customers do not earn loyalty points for purchases on which loyalty points are redeemed.
 Supply estimates a 60% probability that any point issued will be redeemed for the discount.
 During July, the company records \$135,000 of revenue and awards 125,000 loyalty points.
 Aggregate stand-alone selling price of purchased products is \$135,000.
 80% of the sales are cash sales; remainder are credit sales.

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Part 1: Prepare Supply Club's journal entry to record July sales.
 Two performance obligations: Delivery of the normal product; and promise to redeem loyalty points.
 Allocation of the \$135,000 is required.

Stand-alone selling price of purchased products.	\$135,000
Value of loyalty points:	
125,000 points x \$0.20 =	\$25,000
Estimated redemption x <u>60%</u>	
Stand-alone selling price of loyalty points	<u>15,000</u>
Total	<u>\$150,000</u>
Allocation	
Purchased product: $135,000/150,000 \times 135,000 =$	\$121,500
Loyalty points: $15,000/150,000 \times 135,000 =$	\$ 13,500

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Cash (80% x 135,000)	108,000
Accounts receivable (20% x 135,000)	27,000
Sales revenue (purchased product)	121,500
Deferred revenue (loyalty points)	13,500

Part 2: During August, customers redeem loyalty points on \$60,000 of merchandise. Seventy-five percent of those sales were for cash and the remainder were credit sales. Prepare Supply Club's journal entry to record those sales.

Cash (\$60,000 x 75% x 80%)	36,000
Accounts receivable (\$60,000 x 25% x 80%)	12,000
Deferred revenue (loyalty points)*	10,800
Sales revenue	58,800

*60% x 125,000 = 75,000; 60,000/75,000 = 80% x 13,500 = 10,800

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