

Interpretation of the Emerging Accounting Issues Working Group

INT 01-12: EITF 00-14: Accounting for Certain Sales Incentives

ISSUE DEEMED NOT APPLICABLE TO STATUTORY ACCOUNTING MOVED TO INT 99-00

INT 01-12 Dates Discussed

December 4, 2000; March 26, 2001

INT 01-12 References

None

INT 01-12 Issue

1. Existing generally accepted accounting principles do not provide specific guidance on the accounting for sales incentives many companies offer (on either a limited or a continuous basis) to their customers. Sales incentives offered by companies have various forms including discounts, coupons, rebates, and free products or services.

2. This Issue addresses the recognition, measurement, and income statement classification for sales incentives offered voluntarily by a vendor without charge to customers that can be used in, or that are exercisable by a customer as a result of, a single exchange transaction. Sales incentives within the scope of this Issue include offers that can be used by a customer to receive a reduction in the price of a product or service at the point of sale. This Issue also addresses vendor offers that entitle a customer to receive a reduction in the price of a product or service by submitting a form or claim for a refund or rebate of a specified amount of the purchase price charged to the customer at the point of sale. This Issue also covers offers by a vendor for a free product or service when the customer purchases another specified item if the vendor will deliver that free product or service to the customer at the point of sale of the specified item. This Issue also addresses sales incentives offered by manufacturers to customers of retailers or other distributors.

3. This Issue does not address coupons, rebates, and other forms of rights for free or significantly discounted products or services received by a customer in a prior exchange transaction that were accounted for by the vendor as a separate element in that prior exchange. The issue of when a discount right on services to be delivered is an element of an exchange transaction is within the scope of a future issue on accounting for multiple-element revenue arrangements. This Issue does not address vendor offers for free or significantly discounted products or services that become exercisable by the customer as a result of a single exchange transaction but will be delivered by the vendor at a future date. Free products or services to be delivered by the vendor at a future date may be a separate element in the exchange (and will be addressed in the future issue described above) and not a return or refund of some portion of the purchase price charged to the customer at the point of sale. This Issue does not address the accounting for offers of free or discounted products or services that are exercisable after a customer has transacted a specified cumulative level of purchases, for example, "point" and loyalty programs. Incentives that require a customer to transact a specified volume of purchases will be addressed in a future issue on accounting for "point" and other loyalty programs. Further, this Issue excludes the accounting for sales incentives offered by a company as consideration for goods or services received by the company offering the incentive, for example, the accounting for certain discounts offered to employees.

4. The issues are:

Issue 1 - For a sales incentive offered voluntarily by a vendor and without charge to customers that can be used in, or that becomes exercisable by a customer as a result of, a single exchange transaction and that will not result in a loss on the sale of a product or service, when to recognize and how to measure the cost of the sales incentive

Issue 2 - For a sales incentive offered voluntarily by a vendor and without charge to customers that can be used in, or that becomes exercisable by a customer as a result of, a single exchange transaction and that will result in a loss on the sale of a product or service, when to recognize and how to measure the cost of the sales incentive

Issue 3 - For a sales incentive offered voluntarily by a vendor and without charge to customers that can be used in, or that becomes exercisable by a customer as a result of, a single exchange transaction, how the cost of the sales incentive should be classified in the income statement.

INT 01-12 Discussion

5. The working group reached a consensus to reject the consensus positions of *EITF 00-14, Accounting for Certain Sales Incentives* as most insurance companies are specifically prohibited by state statute from entering into the transactions described in this issue (e.g.; rebating).

INT 01-12 Status

6. No further discussion planned.