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# Are You Ready for ASC 606 to go into Effect?

RETAIL

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For fiscal periods beginning after December 15, 2017, ASC 606 will change the way companies recognize revenue. In general, ASC 606 will affect revenue recognition from contracts with their customers. How will this ASC affect retailers? Retailers will see a change in the way revenue is recorded related to gift cards.

ASC 606 will change how retailers recognize gift card breakage revenue. Breakage rate is an estimate rate at which a company expects its gift cards to not be redeemed. There are multiple ways in which breakage revenue is calculated. With the new ASC, companies will be expected to use the redemption pattern method for calculating breakage revenue. Since most gift cards are redeemed within the year of issuance, companies that use the released obligation method or the remote method on gift cards will likely to have a significant impact. Due to most gift cards being redeemed within a year of issuance, the change in methods will likely accelerate breakage revenue for companies.

Although companies are able to use the remote method with the new ASC, this method should be utilized only when the company expects there to be no breakage at all. If there is a history of breakage, the use of redemption method should be used to properly record a liability related to gift cards.

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