

ACCOUNTING in the headlines

How does Starbucks account for gift card sales?

In December 2013, Starbucks was predicting it would have [record gift card sales](#) for the year. In 2012, Starbucks sold more than 2 million gift cards on the Thursday before Christmas, which was a rate of more than 1,500 gift cards per minute. In 2013, Starbucks expects to top that figure. For the entire year of 2013, \$4 billion worth of Starbucks gift cards are expected to be sold.

When Starbucks sells a gift card, there is not typically a service charge for the gift card. If a customer buys a \$25 Starbucks gift card, the customer then has \$25 to spend at Starbucks. Starbucks gift cards do not expire.

Questions

1. Assume that Starbucks sells a total of \$40,000,000 worth of gift cards on the Thursday before Christmas; half are paid for with cash and the other portion are paid for with a credit card such as VISA or MasterCard. What would the journal entry be for this transaction summary?
2. If Starbucks sells the gift cards as described in Question 1, what is the impact on the date of sale on:
 - a. Assets
 - b. Liabilities
 - c. Equity
3. When does Starbucks recognize revenue from the sale of the gift cards?
4. Assume that VISA and MasterCard charge Starbucks a credit card fee of 1.75% plus \$0.10 per transaction. How much will Starbucks incur in credit card fees on the Thursday before Christmas if its customers purchase \$20,000,000 of gift cards using VISA and MasterCard? Why would Starbucks sell a gift card for just \$25 when it costs Starbucks the \$25 plus the credit card fees? Does the credit card fees mean that Starbucks loses money every time a customer purchases a gift card? Explain.