Case 13-01
Refer-a-Friend Program

Runway Discount (“Runway” or the “Company”) is a privately held online retailer that sells discounted high-end fashion. In an effort to increase its sales and customer base, Runway implemented a customer referral marketing campaign (the “Refer-a-Friend Program”) whereby existing customers can refer friends to Runway and receive a $25 credit towards the purchase of future merchandise. The terms of the program are as follows:

> Runway offers existing customers (the “Existing Customer”) a $25 credit (the “$25 Referral Credit”) if the Existing Customer refers a friend (the “New Customer”) to Runway’s Web site and the New Customer purchases merchandise from Runway.
>
> After a purchase is made by the New Customer, the Existing Customer receives a $25 credit to be applied to a future purchase from Runway.

The $25 Referral Credit represents the fair value of the cost Runway would pay to acquire a new customer from an unrelated third party or marketing firm who is not a purchaser of its products. The program is open to all of Runway’s customers and does not need to be combined with any initial or existing purchases.

Required:

1. How should the $25 Referral Credit be recorded in Runway’s Income Statement — as a reduction of revenue or as a marketing expense?
2. When would Runway record the $25 Referral Credit?

   What are the entries Runway would record when the $25 Referral Credit is earned by the Existing Customer?

   What are the entries Runway would record when the $25 Referral Credit is redeemed against a $100 purchase made by the Existing Customer?
3. Runway is planning to adopt IFRSs in the near future. What is the relevant accounting guidance they would follow under IFRSs?