

**Case 17-2  
Patriot Inc.**

Patriot Inc. (the “Company”) manufactures needles used to inflate and deflate sporting equipment (e.g., footballs, basketballs, soccer balls). The Company produces high-quality stainless steel needles at a price of \$5 per needle.

To incentivize customers to purchase its needles, the Company created a customer loyalty program (the “Program”) that rewards customers with one loyalty point per dollar spent. For every 20 points earned, the customer can redeem those points for a \$1 credit toward future needle purchases.

As customers’ points accumulate, the Company expects the points will influence customer behavior because it is expected that customers will be able to earn free goods. Customers can join the Program for no fee by providing their e-mail address. Loyalty points are not earned when purchases are paid for via redemption of loyalty points.

Historically, 95 percent of the points earned under the Program are redeemed.

Assume, for purposes of this case, the loyalty points are expected to accumulate to an amount that could provide a customer a discount on future purchases that is significant relative to discounts provided to customers that did not participate in the loyalty program.

**Case Facts:**

- The Company only manufactures one style of needle and recognizes revenue upon shipment.
- There are no costs to acquire a customer or commissions associated with a sale.
- For purposes of this case, collection of all invoiced amounts is deemed probable.

***Details***

On January 1, 2018, the Company enters into a contract with Brady Inc. (Brady) to provide 10,000 needles for a total of \$50,000. By joining the loyalty program, Brady will earn 50,000 loyalty points worth \$2,500 ( $\$50,000 \div 20$ ).

The Company ships all 10,000 needles to Brady on December 15, 2018.

**Required:**

1. Do the loyalty points represent a performance obligation?
2. Assuming the loyalty program is structured such that it gives rise to a material right, what would be an appropriate stand-alone selling price of the loyalty points?
3. What journal entries should the Company record when all 10,000 needles are shipped to Brady?

***August 1, 2018, Transaction***

On August 1, 2018, Brady redeems 10,000 loyalty points and receives 100 needles. As of August 1, 2018, the Company still believes 95 percent (37,500 additional) of the loyalty points will be redeemed.

**Required:**

4. What entries should the Company record for 100 needles shipped on August 1, 2018?

***December 1, 2018, Transaction***

On December 1, 2018, Brady redeems 20,000 loyalty points and ordered 200 needles. Upon receiving the order for 200 needles on December 1, 2018, the Company updates its estimate of redemption to 98 percent (for a total of 49,000 points, or an additional 19,000 points expected be redeemed).

**Required:**

5. What entries should the Company record for 200 needles shipped on December 1, 2018?