**SAMSONITE**

**Revenue Recognition**

**Global Accounting Policy**

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# **Purpose**

The purpose of this policy is to provide general guidance for Samsonite and its consolidated subsidiaries (together “Samsonite” or the “Company”) to recognize and measure revenue under IFRS 15, *Revenue from contracts with customers,* for reporting purposes for the consolidated financial statements.

# **Overview**

Samsonite International S.A. is a luggage manufacturer and retailer, with products ranging from large suitcases to small toiletries bags and briefcases. Its products are sold through wholesale distribution, self-operated retail stores and e-commerce.

The Company generates revenue from:

* Sale of luggage, business and computer bags, outdoor and casual bags, travel accessories and slim protective cases for personal electronic devices through wholesale and retail channels.
* Other revenue: The Group also derives revenue from licensing its brand names to unrelated third parties.

## Scope

This policy applies to all Samsonite’s revenue arrangements with customers. Statutory accounting under a standard other than IFRS is not covered by this policy.

## Responsibility

Accounting and finance personnel for all Samsonite entities are responsible for ensuring that revenue is recognized in accordance with this policy, including ensuring that:

* Revenue is accurately recognized in the Company’s financial statements and footnotes;
* Revenue is properly classified in the Company’s financial statements and footnotes;
* Sales are recorded in the proper fiscal accounting period and appropriate month-end sales cut-off procedures are performed; and
* Sales reserves are determined, supported, and recorded in accordance with Company guidelines.

Any deviation from this policy must be approved in advance by the Corporate Finance department.

## Applicable Professional Pronouncement

The following standard was used as the basis of the herein revenue policy.

| **Applicable International Financial Reporting Guidance** |
| --- |
| IFRS 15 – Revenue from contracts with customers |

|  |  |
| --- | --- |
| **Topic** | **IFRS 15 (paragraph reference)** |
| Identifying contract with customer | IFRS 15.9 through 15.16 |
| Identifying the performance obligation | IFRS 15.22 through 15.30 |
| Warranty | IFRS 15.B.28 through 15.B.33 |
| Material Right | IFRS 15.B40 through 15.B41 |
| Variable Consideration | IFRS 15.50 through 15.54 |
| Right to return | IFRS 15.B20 through 15.B22 |
| Transfer of control  | IFRS 15.31 through 15.32 |

# **Terms and definitions**

**IFRS 15 (or “revenue standard) –** International Financial Reporting Standard applicable for accounting and financial reporting of “Revenue from contracts with customers”

**Alternative use –** An asset has an alternative use if the Company (a) can direct that asset for another use or to another customer without incurring significant costs to rework the asset or (b) does not have contractual restrictions or limitations to sell the asset to a different customer.

**Breakage** – Customers unexercised rights (i.e. the amount of a gift card that the Company does not expect to be redeemed).

**Company** –TheCompany herein shall mean Samsonite International S.A and its subsidiaries.

**Contractual Allowances** –Contractual Allowances include early payment discounts, volume discounts and rebates, penalties, markdown allowances and other allowances.

**Contract inception** -The beginning/commencement of the operations of contract terms.

**Immaterial –** An adjustment, balance or amount is considered negligible if its value is equal to or belowUS$100,000 or its local currency equivalent.

**Performance obligation (“POB”) -** A promise in a contract with a customer to transfer to the customer either a distinct good or service or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

**Probable** –A future event or events that (is) are more likely than not,” which is greater than 50%.

**Right to Payment –** The Company is entitled to be compensated for the performance completed to date for the goods and services transferred to the customer (compensation for cost incurred plus reasonable margin). The Company has right to payment when the entity has transferred the ability to direct the use of, and obtain substantially all of the remaining benefit from the asset (i.e. control of the asset).

**Standalone Selling Price (“SSP”) –** The price at which an entity would sell a promised good or service separately to a customer.

**Transaction price -** The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

**Upfront rebates -** A partial refund of amount paid by customer for a good or service.

**IFRS 15 overview**

Step 1

**Identify the contract with a customer**

**(Step 1)**

**Identify the performance obligations in the contract**

**(Step 2)**

**Determine the transaction price**

**(Step 3)**

**Allocate the transaction price to performance obligations**

**(Step 4)**

**Recognize revenue when (or as) the entity satisfies a performance obligation**

**(Step 5)**

# **Contracts with customers**

In accordance with IFRS 15, *Revenue from Contracts with Customers*, a contract can be written, verbal, or implied. However, a **contract exists** for the purpose of this policy only if **all** of the following criteria are met:

1. **The parties to the contract have approved the contract (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations**

A *contract* or *arrangement* refers to a final understanding between the Company and a third-party customer as to the specific nature and terms of the agreed-upon transaction. In general, the Company executes a written contract or approved purchase orders that includes the complete terms of sale and that is binding on the customer and constitutes an adequate persuasive evidence of an arrangement.

However, for different types of customers in different countries and markets, customary business practices and processes for documenting sales transactions may vary. Therefore, other forms of documentation may also be executed by the Company to evidence the arrangement as long as the alternative support provides a sufficiently detailed description of the terms of the arrangement, to serve as a basis for revenue recognition.

1. **The Company can identify each party’s rights regarding the goods or services to be transferred**

The parties have valid rights and obligations to the contract when:

* The Company has a right to receive consideration from the customer in exchange for the transfer of goods and services; and
* The customer has the right to require the Company to perform on its obligation in exchange for such consideration (i.e. transfer of goods or rendering of services)
1. **The Company can identify the payment terms for the goods or services to be transferred**

The payment terms for the goods or services to be transferred are generally identified at the time of entering into the agreement and the fees (consideration) to be paid by the customer are clearly stipulated in the contract. In certain cases, the payment terms do not need to be fixed, but the arrangement contains enough information to allow the Company to reasonably estimate the consideration to which it will be entitled for transferring the goods and services to its customer.

1. **The contract has commercial substance (i.e. the risk, timing, or amount of the Company’s future cash flows is expected to change as a result of the contract)**

The duly executed contracts entered into by the Company specify the risk, timing, or amount of its future cash flows that is expected to change as a result of the contract. In most cases, the persuasive evidence of a commercial substance is evidenced by the contractual selling price (fixed or determinable) defined in the contract.

1. **It is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer**

The Company’s assessment of probability reflects both the customer’s ability and intent to pay and is evaluated in conjunction with the process of credit approval. The following factors are considered prior to the recognition of revenue:

* **Financial condition of customer**: A review of the customer’s financial viability and any existing financing arrangements is performed by external party or internally. If available, such assessment also includes review of the customer’s financial statements, including key metrics (e.g. working capital), credit facility availability, and credit ratings;
* **Customer History**: The Company’s historical practice of providing concessions and credit period to the customer;
* **Customer Acceptance Clauses**: Evaluation of any existing customer acceptance clauses; and
* **Returns**: A reasonable estimate of future product returns based on historical experience and market expectations.

The customer collectability assessment process is not covered by this policy.

If a customer’s collectability is deemed to be not reasonably assured and the Company continues to sell and ship products to the customer, revenue on current and future sales is not recognized regardless of whether the other revenue recognition criteria in this section are met. Rather, the recognition of revenue is deferred until collection becomes reasonably assured or payment is received.

 Summary and examples of evidence

| **Contract existence criteria** | **Evidence** |
| --- | --- |
| Parties approve the contract and are committed to perform  | Approved/signed contract, approved purchase order (electronic or written) |
| Each party’s rights  | Product(s) ordered, and term and conditions of sale (defined in the contract or purchase order) |
| Payment terms | Selling price (including discounts, rebates etc.) and corresponding payment frequency or due dates (defined in the contract or purchase order) |
| Commercial substance | Selling price, shipping/delivery terms and conditions of sale (defined in the contract or purchase order) |
| Probable collectability | * Favorable results from credit screening and credit checks performed by credit manager or other department (if applicable)
* Positive customer’s payment history and/or no prior credit issues
* Favorable customer’s financial status
 |

# **Performance obligations**

Step 2

A performance obligation (“POB”) is a promise made to a customer. A contract may explicitly or implicitly state the products or services promised to be transferred to a customer (e.g., sale of luggage, bags, licensing etc.)

Identifying the POBs is a critical step because a material miscalculation may lead to an error in the recognition of revenue. The Company identifies the promises in the contract and determines how such promises can be grouped into POB(s).

## Identification of performance obligations

The different promises in a contract will be considered separate POBs only if they are “distinct” in nature. In accordance with IFRS 15, an obligation is considered to be distinct only if it is **both** (a) “capable of being distinct” **and** (b) “distinct within the context of the contract”:

| **Criteria for POB** | **IFRS interpretation**  |
| --- | --- |
| Capable of being distinct | A customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer |
| Distinct within the context of the contract | The Company’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contractIndicators of the promise “distinct within the context of the contract”:* the Company does **not** provide a **significant service of integrating** the good or service with other goods or services promised in the contract into a bundle of goods or services that represent the combined output for which the customer has contracted. In other words, the entity is not using the good or service as an input to produce or deliver the combined output specified by the customer.
* the good or service does **not** **significantly** **modify or customize** another good or service promised in the contract
* the good or service is **not** **highly dependent on, or highly interrelated with,** other goods or services promised in the contract
 |

**Immaterial promises**

The Company is not required to assess whether promised goods or services are POBs if they are Immaterial.

IFRS 15 provides the below framework for the identification and accounting of POBs:

*Framework for the identification and accounting of performance obligation (based on IFRS 15.22 through 15.30)*

## 5.1.1 Company’s performance obligations classification

For each arrangement mentioned below Samsonite has assessed the performance obligation as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Good / Service / Promise** | **Capable of being distinct?** | **Distinct within the context of the contract?** | **Conclusion** |
| **Sale of products** through wholesale and retail channels | Yes | Yes | The Company has a single performance obligation in its wholesale and retail arrangements, which is its promise to transfer goods to a customer. |
| **Customized service** to B2B Customers | No | No | The customized product is a single performance obligation, as the customized materials, logos, and markings are not a distinct service. The customization is not complete until the luggage or baggage is complete, and the customer is unable to benefit from the customization on its own without the associated luggage or baggage. |
| **Licenses:** Promise to provide licensees with the right to access and use Samsonite’s intellectual property | Yes | Yes | The right to access Samsonite IP for the use of the Company’s trademark on licensed products is the sole performance obligation in Licensing Contracts. All other activities performed by Samsonite (advertising, releasing new products, opening stores, etc) are all within the normal course of business, and no additional consideration is received from licensees in regards to these activities and thus are not considered separate performance obligations. |
| **Issuance of coupons** for future purchases issued in connection with current purchase | Yes | Yes | If in a sales contract the entity grants the customer the option to acquire additional goods/services, this gives rise to a performance obligation *if the customer receives a material right* that would not be received without entering into the sales contract. Certain coupon programs may be considered to provide material rights, as the customer is given a coupon at the time of purchase that can only be used towards future purchases. [See 5.3 Material Rights] |
| **Issuance of loyalty points** issued in connection with a current purchase. | Yes | Yes | Similar to coupons for future purchases, the Company’s customer loyalty program gives rise to a performance obligation, as the customer receives a discount on future purchases by making the original purchase. [See 5.3 Material Rights] |
| **Warranty granted** in connection with purchase of product at no additional charge. | No | No | All warranties are considered to be assurance-type warranties (i.e. provides the customer with the peace of mind that the entity will fix or possibly replace the product if the original product was faulty). Therefore, the warranty in itself does not represent a separate performance obligation.[See 5.2 Warranties] |
| **Purchased Warranty** | Yes | Yes | Customers are currently unable to purchase a warranty separate from what is offered. Should warranties be available for purchase in the future, the revenue should be recognized ratably over the warranty period.[See 5.2 Warranties] |
| **Sale of third party products** (eBags, Rolling Luggage, etc) promise to provide goods (the Company as the principal) | Yes | Yes | The Company has a single performance obligation in sales of third party products, which is its promise to transfer goods to a customer as the principal in the arrangement.[See 5.4 Other performance obligations] |
| **Repair service** provided to customers at additional cost **(billable repairs)** | Yes | Yes | The Company has a single performance obligation, which is its promise to repair a customer’s product which is not covered under warranty.[See 5.4 Other performance obligations] |

## Warranties

The Company may provide repairs on products under warranty in connection with the sale of its products if defects exist. The nature of a warranty varies across brands and further by product line. Currently, the Company offers only assurance-type warranties. Assurance-type warranties provide the customer with assurance that the related product will function as intended and comply with the agreed-upon specifications. If repair services are provided to the customer with a service in addition to the assurance that the product complies with agreed-upon specifications, the cost of such repairs is the responsibility of the customer.

## Warranty types and accounting

In accordance with IFRS 15, *Revenue from Contracts with Customers*, the Company shall classify the warranty by type and, depending on the nature, account for (or part thereof) as follows:

|  |  |  |
| --- | --- | --- |
| **Nature** | **Description** | **Accounting** |
| Assurance-type warranty | Assurance that products/ services comply with agreed-upon specifications  | * No transaction price is allocated to the warranty service
* The cost of repair, exchange, replacement, etc. is accrued as warranty expense
 |
| Service-type warranty | A service **in addition** to the product’s compliance with agreed-upon specifications | * Accounted for as a separate performance obligation
* Transaction price is allocated to the warranty service based on its standalone selling price.
* Revenue is recognized when the services are performed or on a straight-line basis over the Warranty period, if it can be demonstrated that there is no significant impact between recognizing the warranty revenue when services are performed vs on a straight-line basis over the period of the warranty.
* The actual costs incurred in providing such service warranty shall be recorded in COGS

Note: Extended Warranties purchased would be considered service-type warranties, and accounted for as a separate performance obligation. |

**Note**: For all sales arrangements whereby a potential service-type warranty is identified, consultation with Corporate Finance in advance of recognizing the related revenue is required to determine and approve the appropriate accounting treatment.

## Assessing the nature of the warranty

In assessing whether the warranty provided by the Company to the customer is in addition to the assurance that the product complies with agreed-upon specifications, consider the following factors:

* **Required as per law** - If the warranty is required by law to protect customers from the risk of purchasing defective products, account for the warranty as the *assurance-type* warranty.
* **Warranty length** – The length of the warranty coverage period shall indicate the nature of warranty and contracts with significantly longer warranty period *may indicate* existence of a *service-type* warranty.
* **The nature of the tasks promised -** If (a) the Company is required to perform certain tasks to only provide the assurance that the product complies with agreed-upon specifications such as replacement of defective product and/or (b) the warranty offered is comparable to that offered by the industry/competitors, it is most likely an assurance-type warranty.

Another easy way to assess the nature of warranty is to determine if such warranty (a) can be purchased separately or (b) the price of the warranty can be negotiated separately, indicating a *service-type* warranty (and thus a separate performance obligation).

**Note:** The length of the warranty is only one indicator of the type of warranty. As such, life-time warranties should be evaluated for all factors and not strictly assumed to be service-type warranties.



## Material Rights

In accordance with IFRS 15, *Revenue from Contracts with Customers*, if, in a contract, an entity grants a customer an option to acquire additional products or services, that option gives rise to a performance obligation only if the option provides a material right to the customer that it would not receive without entering into that contract. The Company may identify the following potential material rights:

| **Material rights** | **Description** |
| --- | --- |
| **Issuance of coupons** for future purchases issued in connection with current purchase | Example: A customer purchases luggage for $2,000. As a part of this purchase, the customer receives a coupon for 15% off any purchase in the next 60 days. Therefore, the customer has received a 15% incremental discount in addition to the current purchase of luggage, and therefore the coupon is considered a material right. **Note:** In this case the 15% discount would only be considered a material right if a 15% discount was not otherwise offered to customers in a given market. If for example, a 10% discount was being offered to all customers, regardless of a current purchase, only the incremental discount (i.e. 5%) would be considered a material right. |
| **Issuance of loyalty points** issued in connection with a current purchase. | Example: In the same scenario as above, a customer purchases luggage for $2,000. However, the customer is a part of a loyalty program, and receives points for each purchase. Upon purchase, the customer receives 1 point for each $20 spent. Therefore, since $2,000 is spent on luggage, the customer receives 100 points. Each point the customer receives is worth $1. The points earned are a material right to the customer, as they have received consideration by making a purchase they would not have otherwise received.  |

If a material right is identified, the SSP of the material right is determined in order to allocate the transaction price. The revenue allocated to the loyalty points, i.e. the allocated transaction price to the material right, is deferred and recognized when the customer receives or exercises such material right or at which point the right expires.

* 1. **Other performance obligations and considerations**
		1. **Gift Cards**

Some entities sell gift cards and/or gift certificates to its customers. Upon issuance of a gift card, the Company should recognize a prepayment from a customer as a contract liability; revenue should be recognized upon redemption of the gift card.

Breakage should be estimated considering the guidance on constraining estimates of variable consideration (see 6.1 Variable consideration), as well as Samsonite’s historical experience with gift cards. Breakage should only be recognized in income for those unexercised rights which are not required to be remitted to another party, for example, a government entity in accordance with applicable unclaimed property/escheatment laws.

Due to the fact that escheatment laws vary by state and local jurisdiction, and the total amount of breakage to be recognized is expected to be insignificant, breakage should be recognized in income only when it is determined there are no laws requiring remittance and at the point at which redemption is deemed to be remote.

* + 1. **Consignment Sales**

Certain Samsonite regions have consignment sales. If the receipt of revenue by an entity is contingent on the buyer selling the goods, then revenue is recognized only when the inventory has been sold by the consignee to third party buyers, at which point control of the products transfers from the consignor to the third party.

* + 1. **Repurchase Agreements**

At the time of the sale, a seller may enter into an agreement to repurchase the same goods at a later date, or the seller may have an option to repurchase the goods at a later date. An entity also may provide a guarantee to pay the customer any shortfall between the residual value of an item and a guaranteed amount. If the overall effect of the agreements is that the seller has not transferred control of the asset, then the transaction is considered to be a financing arrangement and no revenue is recognized with respect to the initial “sale”. Additionally, lease accounting may apply (see Lease Policy).

* + 1. **Principal vs. Agent considerations**

When another party is involved in providing goods or services to a customer (i.e. third parties involved in the sale of third party goods via eBags), the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by the other party (ie the entity is an agent).

To determine the nature of its promise, the entity shall:

1. identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party); and
2. assess whether it controls each specified good or service before that good or service is transferred to the customer.

According to IFRS 15.B37, indicators that an entity controls the specified good or service before it is transferred to the customer, and therefore is a Principal, includes:

1. The entity is primarily responsible for fulfilling the promise to provide the specified good or service.
2. The entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example if the customer has a right of return)
3. The entity has discretion in establishing the price for the specified good or service.
	* 1. **Billable Repairs**

When a customer requests a repair be made on a product purchased in the past which is not covered under warranty (either due to passage of time or nature of the repair required), Samsonite will offer to repair the bag for a fee. Revenue earned in connection with billable repairs (including that which is earned through the sale of spare parts to third parties) should be recorded as revenue and not as an offset to expense as it meets the definition of ‘income’.

* + 1. **Barter Transactions**

Barter transactions include any transactions whereby sales are made in exchange for other goods or services. Barter transactions are discouraged. Consultation with regional or corporate finance is required.

# **Determine the Transaction Price**

Step 3

## Variable consideration

The transaction price in an arrangement includes various components such as the quantity and selling price of the product(s) and agreed-upon contractual allowances such as discounts, rebates, markdowns, etc. which may decrease the fixed contractual cash received from a customer.

In accordance with IFRS 15, *Revenue from Contracts with Customers*, when the consideration promised in a contract includes a variable component, the transaction price should be estimated to better predict the amount of consideration to which the Company will collect in exchange for transferring the promised products or services to the customer.

Revenue will typically be adjusted for the following items:

* Discounts (early payment discounts, volume discounts etc.)
* Rebates
* Refunds
* Credits
* Markdowns
* Co-operative advertising chargebacks
* Other similar items.

**Components of the transaction price**

When estimating the transaction price at the inception of the contract, the contractual allowances (since variable) are deducted from (i.e. adjustment of revenue).

The estimated variable consideration is included in the transaction price only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with such variable consideration is subsequently resolved.

It is the Company’s policy to record revenue **net** of estimates of discounts, returns, and other approved allowances. Estimates of contractual allowances are reviewed at least quarterly.

Illustrative decision tree



*Determining the transaction price (based on IFRS15.47 through 15.54)*

**Note:** According to IFRS 15.56, constraint in context of revenue recognition means that the Company shall include in the transaction price some or all of an amount of variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

## Estimation methods

When estimating the amount of revenue that the Company is entitled to, net of the contractual allowances, the Company uses the valuation method that provides more reliable information.

Given the historical consistency of data over time and lack of evident reason to believe that contractual allowances will drastically change in the future, the Company uses the expected value method. To calculate probabilities, the Company considers historical contractual allowances experience (e.g., twelve month period purchase volumes history, early payment discounts allowed in history), future expected trends/events etc.

The expected value method estimates variable consideration based on the range of possible outcomes and the probabilities of each outcome and is used whereby the entity has a large number of contracts with similar characteristics.

## Early payment discount

For some entities, it is customary to grant customers early payments discounts, also referred to as cash discounts, as incentive to pay early (e.g. e.g. 3% discount for payment within 15 days or 2% discount for payment within 30 days). The estimated cost of cash discounts is accrued and recognized as a reduction of revenue at the time of sale (refer to [section 7] for the timing of revenue recognition). Estimates for early payment discount reserves is based on the invoice trade terms and customer historical experience, when available.

The expected value method is used to determine the amount of early payment discount expected to be availed by the customer and accordingly the revenue is recognized only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

Illustrative Example

The Company sells a $1,000 bag to customer A with 3/15, n/30[[1]](#footnote-1) terms. Based on the customer’s payment history, the Company expected that customer A will pay within 15 days from the date of products receipt, qualifying the customer for the 3% discount. The following journal entry is recorded at the time of sale to reduce revenue recognized for the estimated cash discount:

The following journal entries shall be recorded for revenue:

| **Account** | **Debit** | **Credit** |
| --- | --- | --- |
| Account Receivable | 970 |  |
| Revenue |  | 970 |

If the customer pays within the 15 day settlement period the accounting entry would be

| **Account** | **Debit** | **Credit** |
| --- | --- | --- |
| Cash\* | 970 |  |
| Accounts Receivable  |  | 970 |
| \* $1000 (total invoice) - 3% (early payment discount) |

If the customer does not pay within the 15 day settlement period the accounting entry would be

| **Account** | **Debit** | **Credit** |
| --- | --- | --- |
| Cash | 1,000 |  |
| Accounts Receivable  |  | 970 |
| Revenue\* |  | 30 |
| \* $1000 (total invoice) \* 3% (early payment discount) |

##

## Volume discount and rebates

The Company may offer discounts and/or rebates based on the volume purchased. In some cases, the Company may pay *upfront rebates* to its customers if a minimum volume/dollar amount is ordered by the customer in a given period of time. The dollar amount of rebate expected is estimated at the contract inception and recorded as revenue reduction at the time of the sale. Adjustment to the estimate based on expected volume is made at each reporting period (revenue increase or reduction adjustment).

The expected value method (probability-weighted) is used to determine the amount of volume discount expected to be allowed to the customer and accordingly the revenue is recognized only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

Note: in some cases, the Company may offer fixed volume discounts and rebates agreed on upfront i.e. a fix discount (in dollars) is allowed at contract inception and the invoice amount will not vary based on any future events (fixed consideration). In such cases, no estimation is needed and there is no variable consideration.

Illustrative Example

The Company enters into a contract with a customer, to sell a bag for $100 per bag. The contract specifies that if the customer purchases more than 1,000 bags in a calendar year, the price per bag is retrospectively reduced to $90 per bag. For the first quarter, the Company sells 75 bags to the customer. The Company estimates that the customer’s purchases will not exceed the 1,000-bag threshold required for the volume discount in the calendar year.

The following revenue journal entry shall be recorded in first quarter:

| **Account** | **Debit** | **Credit** |
| --- | --- | --- |
| Account Receivable | 7,500 |  |
| Revenue\* |  | 7,500 |
| \*$100 price per bag x 75 bags = $7,500 of revenue to be recognized in first quarter |

In the second quarter, the customer acquired a business and increased purchases. As a result, the Company sells an additional 500 bags to the customer. The Company estimates that the customer’s purchases will exceed the 1,000-bag threshold for the calendar year and, therefore, it will be required to retrospectively reduce the price per bag to $90.

The following revenue journal entry is to be recognized in the second quarter:

| **Account** | **Debit** | **Credit** |
| --- | --- | --- |
| Account Receivable | 44,250 |  |
| Revenue\* |  | 44,250 |
| \*(a) $90 x 575 = $51,750 total revenue for all 575 bags sold till date (b) $51,750 (revenue for all 575 bags) - $7,500 (revenue recognized till date) = $ 44,250 |

In the third quarter, the customer encounters financial difficulties and decreases purchases. The Company sells only 100 bags to the customer. The Company now estimates that the customer’s purchases will not exceed the 1,000-bag threshold required for the volume discount in the calendar year.

The following revenue journal entry is to be recognized in the third quarter:

| **Account** | **Debit** | **Credit** |
| --- | --- | --- |
| Account Receivable | 15,750 |  |
| Revenue\* |  | 15,750 |
| \*(a) $100\*675 = $ 67,500 total revenue for all 675 bags sold till date (b) $67,500 (revenue for all 675 bags) - $51,750 (revenue recognized till date) = $15,750 |

 Summary and what to do

| **Variable components** | **Action** |
| --- | --- |
| Early payment discounts (cash discounts) | * Estimate at the time of sale recognition
* Record as reduction of revenue
 |
| Volume discounts, rebates | * Estimate discount/rebate at the contract inception
* Adjust estimates at each reporting period
* Record as reduction of revenue
 |

## Allowance from Suppliers (i.e. slotting fees)

Slotting fees cannot be separated from the sale of goods and services, as they are interrelated. Slotting fees are paid by the wholesaler to the retailer in the expectation that the more advantageous placement of their products will lead to more sales of that product. The fees have no value to the wholesaler unless the products are sold, and therefore the fees should be accounted for as a reduction in the selling price.

## Right to return

After delivering a product (transfer of control to the customer), the Company sometimes grants the customer the right to return the product for various reasons (e.g. dissatisfaction with the product) and receive any combination of the following:

* A full or partial refund of any consideration paid
* A credit that can be applied against amount owed, or that will be owed, to the entity
* Another product in exchange

The *price* of estimated returns is recognized as a reduction from revenue and the *cost* of estimated returns is recognized as reduction to cost of goods sold in the same accounting period in which the sale occurs. Hence, the returns are accounted for as follow:

* **Revenue** : revenue is reduced for the expected return amount, that is, the expected consideration that will eventually not be collected from the customer; the estimate is classified as a reduction of revenue in the P&L at the time of the sale (or in the same accounting period as the sale).
* **Refund liability**: a liability is recorded for the expected returns to represent the expected consideration payable to the customer upon returns.
* **Right of return** **asset**, and the corresponding adjustment to **COGS**, is recorded for Company’s right to recover products from customer. The asset is measured at the carrying amount of the products at the time of sale (or in the same accounting period as the sale).

In estimating the expected returns, the Company uses the expected value method for calculating the possible consideration amount. Historical return experience with the customer or in connection with future and current trends, are used as a basis for establishing the returns reserve. The reserve is updated on at least a quarterly basis.

Illustrative Journal Entry

The example below illustrates journal entries for the sales with expected return. The example assumes that 10 products were sold for $1000, with a 40% margin, and the Company expects 3 of the products to be returned. The cost of these product is $600 per unit

At month end, the Company records a revenue reduction for expected return and return assets

| **Account** | **Debit** | **Credit** |
| --- | --- | --- |
| Cash/ AR | 10,000 |  |
| Revenue |  | 7,000 \* |
| Refund Liability |  | 3,000 \*\* |
| \* 10 products x $1000 price\*\* 3 products x $1000 price |  |  |
|  |  |  |
| Return Asset |  1,800\* |  |
| COGS |  4,200\*\* |  |
|  Inventory |  | 6,000 |
| \* 3 products x $1000 price x (100% - 40% margin)\*\* 7 products x $1000 price x (100-40%) |

When products are actually returned, the Company records the following:

| **Account** | **Debit** | **Credit** |
| --- | --- | --- |
| Refund Liability | 3000 |  |
| Cash/Accounts Receivable |  | 3000 |
| Inventory | 1800 |  |
| Return Asset |  | 1800 |

Restocking fees

Management noted that the effect of recording (a) the *expected* restocking fees associated with the return at the time of the sale vs (b) the *actual* restocking costs when incurred / restocking revenue when collected, is immaterial. As a result, the Company records cost/revenue from restocking fee on product returns in the period when such cost/revenue is incurred/recorded.

# **Allocate the Transaction Price to the Performance Obligations**

Step 4

* 1. **Coupons for Future Purchases**

If in a sales contract the entity grants the customer the option to acquire additional goods/services, this gives rise to a performance obligation, *if the customer receives a material right* that would not be received without entering into the sales contract. Certain coupon programs may be considered to provide material rights, as the customer is given a coupon at the time of purchase that can only be used towards future purchases.

Coupons issued in connection with a sale for use on a future purchase is a material right and should be accounted for as a separate performance obligation.

Illustrative Journal Entry

A customer purchases luggage for $2,000. As a part of this purchase, the customer receives a coupon for 15% off any purchase in the next 60 days. Therefore, the customer has received a 15% incremental discount[[2]](#footnote-2), and the coupon is considered a material right. It is estimated by the Company that there is an 80% chance the customer will redeem this coupon, and will purchase additional products worth $500. Samsonite should allocate the transaction price between the luggage and the coupon on the standalone selling price basis. The allocation should be performed as follows:

First, the selling price should be calculated:

Luggage SSP: $2,000

Coupon SSP: $60 = ($500 X 15% X 80%)

Next, the selling price ratio should be calculated based on the total consideration received:

Luggage Selling Price Ratio: 97.1% = ($2,000/$2,060)

Coupon Selling Price Ratio: 2.9% = ($60/$2,060)

|  |  |  |
| --- | --- | --- |
| **Account** | **Debit** | **Credit** |
| Cash |  2,000 |  |
| Revenue |   |  1,942\* |
|  Contract Liability |  | 58\*\* |
| \* Luggage Price Allocation: $2,000 X 97.1%\*\* Coupon Price Allocation: $2,000 X 2.9% |

* 1. **Loyalty**

Loyalty points issued to customers in connection with a sale which can be redeemed for future purchases are a material right to the customer, and therefore should be accounted for as a separate performance obligation.

Illustrative Journal Entry

The same steps for allocating coupons for future purchases should be followed for loyalty. For example, if a customer receives 1 point for each $20 spent, and $2,000 is spent on luggage, the customer would receive 100 points. The standalone selling price would be calculated as follows, assuming 80% of points will be redeemed:

First, the selling price should be calculated:

Luggage SSP: $2,000

Loyalty SSP: $80 (100 X $1 X 80%)

Next, the selling price ratio should be calculated based on the total consideration received:

Luggage Selling Price Ratio: 96.2% = ($2,000/$2,080)

Coupon Selling Price Ratio: 3.8% = ($80/$2,080)

|  |  |  |
| --- | --- | --- |
| **Account** | **Debit** | **Credit** |
| Cash |  2,000 |  |
| Revenue |   |  1,924\* |
|  Contract Liability |  | 76\*\* |
| \* Luggage Price Allocation: $2,000 X 96.2%\*\* Coupon Price Allocation: $2,000 X 3.8% |

Revenue should then be recognized as points are redeemed, and breakage should be estimated and recorded.

* 1. **Co-Op Advertising**

Certain of the Company’s customer contracts include co-op allowance programs, each which allows for customers to advertise on behalf of the Company, and then claim reimbursement for expenses related to the advertisements. Accounting for such arrangements varies based on the substance of the arrangement.

Fixed allowance – In some cases customers are granted a fixed allowance (i.e. 2% of sales) for co-op advertising. Due to the fact that the Company cannot reasonably estimate the fair value of the service it is receiving, thus the benefit is not distinct and the transaction price recorded for the sale of goods to the store should include a reduction in the amount of advertising.

Specific allowances –Customers with agreements for which they are reimbursed for specifically identified campaigns are accrued for at the point the service is completed and recorded to variable selling expenses and accrued advertising expense. The customer needs to provide evidence of marketing spend before Samsonite reimburses the approved expenses. Specific evidence of the advertisement campaign is required.

# **Timing of revenue recognition**

Step 5

The Company recognizes the revenue as it satisfies a performance obligation by transferring control of the good or service to the customer. For each performance obligation identified (as defined in section [5Performance obligations], determine at contract inception whether it is satisfied **over time** or **at a point in time**. If certain criteria discussed below are met, the performance obligation must be recognized over time. However, if none of the criteria are met, revenue is recognized at a point in time.

Illustrative Decision Tree

 *Determining the timing of revenue recognition (based on IFRS 15.31 through 15.38)*

## Point in time vs over time classification

## Revenue recognized over time

Performance obligations are satisfied over time when control of a good or service is transferred over time. The transfer of control takes place over a period of time, if **any** of the following criteria are met:

1. **The customer simultaneously receives and consumes the benefits provided by the Company’s performance as the Company performs**

The benefit is transferred to the customer as the Company performs for contract with a promise to provide services. Hence for such contracts, the customer simultaneously receives and consumes benefits as the services are performed. The contracts that meet the above criteria typically do not create a tangible assets and thus are not typical for the Company.

1. **The Company’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced**

The control of a *work in process* may be passed to the customer as the Company manufactures goods if the asset is controlled by the customer. However, this criteria is typically not met since the customer has no control over the asset until shipment/delivery.

1. **The Company’s performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date**

Alternative use

An asset has **no alternative use** if the Company is unable to redirect the asset for another use or to another customer. The following situation would indicate that the asset has no alternative use:

* **Contractual restrictions**: The contract specifies that the Company cannot resell the equipment to any party other than the customer (i.e. certain customized products).

Right to payment

The termination clauses in the contract should be reviewed to assess whether the right to payment exists.

* **Cancellation clauses**: In the event that the contract was cancelled by the customer, the Company would have the right to payment from the customer for the performance completed up to date.

**Note**: For all sales arrangements containing unusual or atypical provisions, or include special/customized products, consultation with Corporate Finance in advance of recognizing the related revenue is required to determine the appropriate accounting treatment.

## Revenue recognized at point in time

If a performance obligation is not satisfied over time, then it is satisfied at the point in time when the control in goods is transferred to the customer. As per IFRS 15, following are the indicators of transfer of control:

1. **The Company has a present right to payment for the asset**

A customers’ present obligation to pay could indicate that the Company has transferred the ability to direct the use of, and obtain substantially all of the remaining benefits of the asset. In most cases, an issued and approved invoice, a signed bill of lading or an amount in a written contract that includes specified payment terms will constitute adequate persuasive evidence of the Company’s right to payment for goods or services sold.

1. **The customer has legal title to the asset**

Legal title indicates that the customer can direct the use of and receive benefits from the asset including the ability to sell, exchange or use it, which indicates that the customer has obtained control. In certain situations, however, legal title may be retained while control has been transferred. For example, the legal title may be retained as a protective right i.e. Company retains title solely as protection against the customer’s failure to pay. Other indicators of transfer of control should hence be considered in such situations.

The customer typically takes title to and assumes ownership of the product (a) upon the shipment of the product (if shipping terms are *FOB shipping*), (b) upon delivery to the port of entry (POE), or (c) upon the delivery of the product to the customers premises (if the shipping terms are *FOB destination*).

1. **The Company has transferred physical possession of the asset**

The Company has transferred the physical possession of the asset, thereby giving the customer the ability to direct the use of and obtain the benefits from that asset.

In most cases, the Company has transferred physical possession of the asset to the customer when the goods leave for shipment and are picked up by customer’s carrier or when the products are delivered to customer’s premises. Afterwards, the Company no longer has physical possession of the product(s). As a result, the transfer of control is evidenced by the shipment or delivery of the products, depending on the contract shipping terms.

1. **The customer has the significant risks and rewards of ownership of the asset**

If risks and rewards of ownership of an asset have been transferred, control is typically deemed transferred to the customer. When evaluating the risks and rewards of ownership of a promised asset, any risk that is retained and that gives rise to a separate POB in addition to the POB to transfer the asset, shall be excluded.

For bags or luggage, significant risks and rewards are transferred at shipping or delivery when (a) the product is physically transferred from the Company to the customer and (b) when title and risk of loss of the product is transferred from the Company to the customer. The transfer of significant risks and rewards to the customer may be evidenced by a bill of lading, delivery receipt etc.

1. **The customer has accepted the asset**

Customer’s acceptance of an asset indicates that the customer agrees that the product meets the specifications as agreed in the contract. Any customer acceptance provisions that exist should be considered in evaluating whether a sale has, in fact, occurred. Formal customer sign-off is not always necessary to recognize revenue provided that the Company objectively demonstrates that the criteria specified in the acceptance provisions are satisfied.

 Summary and examples of evidence

| **Recognition criteria** | **Evidence and what to look for...** |
| --- | --- |
| Right to payment | Look for (i) payment terms within an issued and approve invoice, (ii) a signed bill of lading, or (iii) a specified amount in a written contract, to determine when the Company is entitled to payment |
| Legal title  | Look for (i) a bill of lading or (ii) other proof of titleLegal title typically transfers upon shipment of the product (if FOB shipping terms) or delivery of the product (if FOB destination) |
| Physical possession | Look for (i) bill of lading, (ii) proof of shipment (if FOB shipping) or (iii) delivery receipt (if FOB destination) |
| Significant risks and rewards of ownership | Look for (i) a bill of lading or (ii) other proof of deliveryOwnership typically transfers upon shipment of the product (if FOB shipping terms) or delivery of the product (if FOB destination) |
| Customer acceptance | Look for (i) a successful final performance test or (ii) other proof of customer’s product acceptance  |

# **Revision History**

All revisions to this policy must be listed below, with the newest revision at the top of the list.

| **Version #** | **Date** | **Revision Description** |
| --- | --- | --- |
| 1.0 | January 2018 | Original Policy |
|  |  |  |

1. Invoice amount is payable within 30 days and a 3% discount is allowed if payment is made within 15 days of receipt of products. [↑](#footnote-ref-1)
2. This assumes the absence of other promotional discounts offered to customers in a given market. In the case there are other promotional discounts offered which do not require a purchase, the incremental discount would be calculated to determine the true incremental discount (i.e. difference between that offered as a result of the purchase and that offered to the general customer population). [↑](#footnote-ref-2)