

**Gift Card
&
Gift Certificate
Accounting Procedures**

Addendum

Gift Certificate/Card Accounting Methods

Gift certificates & cards are often a source of confusion because there are so many methods that restaurants use to account for them. Here are some popular scenarios that a restaurant may operate under:

Method I: Gift Cards Are Used (Change is inherently eliminated)

Method II: Gift Certificates Are Redeemed with a NO CHANGE policy

Method III: Gift Certificates Are Redeemed with a CASH CHANGE policy

Variants: A sale is reported when the gift certificate is ISSUED.

A sale is reported when the gift certificate is REDEEMED.

Currency Exchange Methodology

It is simplest to view the issuance of a gift certificate as a “currency exchange” and not as a sale. Just as you would not view the exchange of \$20US for the equivalent in Canadian currency as a sale, you wouldn’t view the exchange of \$20US for the equivalent in gift certificates as a sale. With this premise in mind, the sale occurs when the customer REDEEMS the gift certificate as a form of payment against a check. If this is how your restaurant operates, set up a GIFT CERTIFICATE BANK and put \$500 worth of gift certificates in the bank. As certificates are issued, cash is deposited into the bank. If certificates are issued for payment by credit card, the card slip is exchanged for cash from a register and the resultant cash is deposited into the GIFT CERTIFICATE BANK. Gift certificate monies being held in the bank are represented by a unique entry in your Chart Of Accounts (Under the heading, “long term obligations” perhaps).

Purchase/Sale Methodology – NO CHANGE

Many restaurants view the ISSUANCE of a gift certificate as THE SALE and ignore the future sale that comes as a result of the redemption of the gift certificate. If you chose to operate using this philosophy, it is important to subtract the GIFT CERT REDEEMED total (on the Daily Sales Report) from the NET SALES. Otherwise, your gift certificates will be reported as a sale twice (once at gift card issue time and then once at gift card redemption time).

Purchase/Sale Methodology – GIVING CHANGE

When running the Daily Summary Report, you will notice that the “Gift” section of the report shows the TOTAL GIFT CERTIFICATE VALUE used to pay for the check. When giving change for gift certificates, you are effectively “reducing” the value of the gift certificate at sale time. For example, if a customer purchases a \$25 certificate and later buys a \$22 meal with it and receives \$3 in cash change, the EFFECTIVE VALUE of the original \$25 gift certificate changes to \$22.

In this methodology, is imperative to implement a GIFT CERTIFICATE BANK and update a ledger every time a certificate is redeemed or issued.

Gift Card Methodology

When using gift cards, change is never given... this eliminates the need for a CERTIFICATE/CARD BANK. However, the question of when the sale is reported is still important. If you report the sale when the gift card is issued, then you must remember to subtract the GIFT CARDS REDEEMED (on the Daily Summary Report) from the NET SALES reported on the Daily Summary Report. Otherwise, the sales will be reported twice (once at gift card issue time and then once at gift card redemption time).

No Change Gift Certificate Example...

Below: A \$25.00 gift certificate with 4 boxes for “remaining balance”. Use this type of certificate if you have implemented a NO CHANGE policy. If gift cards are enabled, you can use the Certificate# field to track the remaining balance automatically by manually entering the Certificate# into the card# field at sale time.

\$25 Gift Certificate	
This gift certificate in the amount of \$25.00 is presented to _____ as a gift from _____. It can be used towards any products.	
Date: _____	Certificate # _____

Daily Summary Report (v3.67 & Up)

Below, you can see an excerpt from the Daily Summary Report. Note how FreePOS v3.67 and up shows the NET SALES reported with and without Gift money included. These figures will be important depending on whether you report sales of Gift Cards & Gift Certificates at issuance or redemption.

GIFTCERT Redeemed:	
TODD	
10002005-1	20.00
TOTAL:	20.00
Coupons Redeemed:	
TOTAL:	0.00
Sales Summary:	
=====	
Total sales:	59.59
(inc tips)	
-Total tips:	0.00
(charged)	
= Net sales:	59.59
= Net sales:	39.59 (less GC)

Summary

As with most things, there are many ways to get from A to B. The most important thing is to choose just one procedure and to be consistent. Since laws, regulations and accounting methods vary, it is best to seek the advice of your accountant if you are in doubt.