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A MULTIPLE CASE STUDY OF TRANSPARENCY CHARACTERISTICS OF GIFT CARD BREAKAGE AND DEFERRED LIABILITIES

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ABSTRACT

According to prior literature, retailers who report gift card liabilities and breakage revenue from the issue of unclaimed gift cards have failed to report transparently. As the gift card industry grows into a multibillion dollar industry, deciding what constitutes transparency in financial reporting of gift cards can be complex in the face of little accounting guidance. The purpose of this qualitative embedded multiple-case study was to identify, via annual 10-K reports, the characteristics of the disclosures that contribute to or deter from financial reporting transparency of the retailer. Furthermore, this study explores whether regulation, standardization, and oversight have influenced the quality of the reporting and disclosure characteristics. Inconsistent with previous studies, the results indicated characteristics of financial reporting transparency in the sampled 10-K reports. Furthermore, it appears that increased regulation and accounting attention have not affected the level of transparent reporting.

Key Words: Gift cards; financial reporting transparency; breakage

INTROUCTION

Investors demand transparency in financial reporting (DeBoskey & Gillett, 2013; Healy & Palepu, 2003). The lack of transparency has been blamed for corporate failures and financial collapse (Barth & Landsman, 2010; Barth, Trimbath, & Yago, 2003; deMendonca, Galvao, & Loures, 2012; Iannaconi, 2012); therefore, the decisions made by accountants and managers when preparing their annual financial reports are crucial. Transparency is a key to good corporate governance (Biondi & Lapsley, 2014) and to a well-functioning, efficient marketplace (Barth, Konchitchki, & Landsman, 2013; DeBoskey & Gillett, 2013; deMendonca et al., 2012) and attracts less attention from regulators (Cassell, Cunningham, & Lisic, 2015; Hennes & Schenck, 2014).

U.S. Secretary of the Treasury, Timothy Geithner, noted that lack of transparency directly contributed to the 2008 financial collapse and led the financial statement users to make poor decisions due to the "presence of asymmetric information" (deMendonca et al., 2012, p. 382). Firms with a high index of transparency, in fact, suffered fewer negative effects from the financial collapse of 2008 (deMendonca et al., 2012). If it is demanded by the marketplace, firms should understand how to achieve transparency.

Despite the demand for and the benefits from transparency in financial reporting, deciding what qualifies as transparent reporting can be difficult in some cases, particularly with new and complex products, such as virtual gift cards, and little accounting guidance. Recent research indicated retail firms have not been transparently reporting gift card transactions. Furthermore, the reporting has been asymmetrical and inconsistent (Feinson, 2008; Hennes & Scheck, 2014; Kile, 2007; Marden & Forsyth, 2007), and the industry is growing. More than 85 percent of adults in the United States will either give or receive a gift card (Horne & Beadle, 2015; National Retail Federation, 2014). Total spending on gift cards has increased by 83 percent since the National Retail Federation began tracking sales (National Retail Federation, 2014), and total gift card sales are expected to reach $160 billion by 2018, with virtual or e-gift cards accounting for $18 billion (CEB Tower Group, 2015).

With the growing gift card market, federal and state governments and agencies are responding. Enacted in 2009, the Credit Card Accountability Responsibility and Disclosure Act (Credit CARD Act) imposed new requirements for expiration dates, inactivity, and gift card service fees (Knobbe, Cook, & Hanson, 2011). Because of this legislation, the amount of unredeemed gift cards has decreased since 2007, but the CEB TowerGroup estimated in 2013 and 2015 that approximately $1 billion, or one percent of total volume, remained unredeemed (CEB Tower Group, 2013; CEB Tower Group, 2015; Fottrell, 2013; Tuttle, 2012). This leaves retailers to decide how to recognize and measure these unredeemed gift cards on their balance sheets, yet they have been provided little guidance from the accounting standards boards.

In spite of the petition for transparency in financial reporting, the Financial Accounting Standards Board (FASB) provided little guidance since the sales of these unique products skyrocketed until the issuance of the new revenue recognition standard in 2014. However, as companies increasingly market and develop these products, gift card sales are leading to more significant, long term, deferred, and multifaceted liabilities, with increased profits due to additional sales when cards are redeemed and complex revenue from gift card breakage (the unused portion of gift cards) when balances remain dormant and unused. Given the projections of future gift cards sales and current unused gift card balances, these liabilities and revenues could potentially be significant enough to influence the investment and credit decisions made by the external users of the financial statements and require transparent reporting.

When standard reporting and disclosure options are provided by accounting standards, decision theory predicts that more information will lead to quality decisions (Fukukura, Ferguson, & Fujita, 2013), hence transparent reporting decisions. Yet in the absence of specific guidance where reporting options are not limited, the number of choices and information may prove overwhelming and negatively affect the quality (Fukukura et al., 2013), and thereby, the transparency of the financial reporting of gift card liabilities and breakage revenue or the unused portion of gift cards (Feinson, 2008). In fact, gift card reporting in annual 10-K Security Exchange Commission (SEC) reports is not transparent (Feinson, 2008; Kile, 2007; Marden & Forsyth, 2007), but no explicit guidance has been offered from standard makers, academia or industry that describes the attributes that contribute to or deter the transparent reporting of gift cards (Hennes & Schenck, 2014).

Further research was therefore warranted to examine the specific financial reporting disclosure attributes to address the problem of poor transparency in retailers' annual 10-K reports and to explore whether increased oversight and regulatory attention will improve reporting quality (Feinson, 2008; Hennes & Schenck, 2014; Kile, 2007; Marden & Forsyth, 2007). The purpose of this qualitative embedded multiple-case study was to identify, via documentary evidence, the characteristics of the disclosures that contribute to or deter from the financial reporting transparency of the retailer. By examining the financial disclosures of a sample of annual 10-K reports, this study sought to identify the characteristics of financial reporting disclosures that led to financial reporting quality and hence, transparent financial reporting. Furthermore, this study addressed whether the Credit CARD Act and increased attention from the accounting standards bodies and regulators positively influenced the quality and transparency of financial reporting disclosures of gift card transactions. The following research questions were designed to address these issues:

Q1. What are the attributes that contribute to or deter from transparent and consistent financial reporting of gift cards?

Q2. How have federal laws regulating gift cards and upcoming revenue recognition accounting standards influenced the transparency of the reporting and disclosure characteristics of gift card liabilities and breakage revenue?

Research data were collected from documentary evidence from publicly available SEC 10-K reports of retailers who issued gift cards between the fiscal years ending after January 1, 2014, and before January 1, 2009 (Ammons, Schneider, & Sheikh, 2012; Cassell, Dreher, & Myers, 2013; Lehavy, Li, & Merkley, 2011). NVivo, a qualitative research software program, was utilized to organize, manage, sort, query and evaluate the reporting and measurement methods and note disclosures for gift card liabilities and breakage revenue presented by the selected retail companies. Codes were created to help systematically group and organize the data. Transparency codes, similar to the transparency characteristics provided in Barth & Schipper's 2008 study, were assigned to the disclosure data collected from the selected annual reports. Barth & Schipper characterized transparency based on the level of financial statement and disclosure disaggregation, the prominence of disclosure and recognition, and the choice of measurement basis.

The following themes were identified among the sample 10-K reports: (a) prominent definition of gift card revenue recognition policies in a note disclosure summarizing significant accounting policies; (b) clear disclosure of the measurement basis for breakage income; and (c) disaggregation of gift card liabilities either on the face of the financial statements or via a note disclosure. The findings supported the work of Barth and Schipper (2008) who identified general attributes that described financial reporting transparency.

The study also sought to examine how recent federal regulation and increased attention from accounting standard setters have effected financial reporting transparency. The results indicated only minor differences existed between the 2008 and 2015 reports for six of the seven sampled firms. Only one firm exhibited increased financial reporting transparency attributes according to a quasi-statistical analysis and an in depth analysis of the distinct details in the 2008 and 2015 reports. This result was contrary to the expectations set by the work of Barth and Schipper (2008) and Daske and Gebhardt (2006) but led to recommendations for future research.

The study provides a distinct approach to understanding not only how accounting practitioners reported their gift card transactions with little to no guidance but also how their disclosures are or are not providing transparency to the investing and credit market decision makers and whether regulation, standardization and oversight influenced the quality of the reporting and disclosure characteristics. The current study has implications to financial statement preparers as an aid in the decision making of what disclosures would lead to financial reporting transparency. As global financial markets increasingly demand financial reporting transparency and reward it with lower costs of capital and less regulatory oversight, the need for a clear understanding of the attributes required for transparent financial reporting of gift cards is more apparent (Barth et al., 2013; Barth & Schipper, 2008; Cassell et al., 2015; DeBoskey & Gillett, 2013; deMendonca et al., 2012; Healy & Palepu, 2003).

The next section will discuss the relevant background literature, while the sections following will address the research design, data collection, results and conclusions.

LITERATURE REVIEW

Accounting for Gift Cards

GAAP requires that revenue be recognized at the point at which it is realized or realizable and earned, which occurs when "the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues" (FASB, 1984, paragraph 83). At the point of the gift card sale, a retailer receives cash in exchange for its obligation to provide a product or service in the future, which requires recognition of a liability. Because a sale of product or service has not been made, revenue is not recorded at this point (Ammons et al., 2014; FASB, 1984; Hennes & Schenck, 2014).

Given the current state of the gift card industry, revenue may be recognized at multiple points. First, the obvious point of recognition is the point at which the product or service transfers to the bearer of the gift card. In other words, revenue is recognized when the gift cardholder redeems the gift card for goods or services (Ammons et al., 2014; FASB, 1984). Secondly, revenue may be recognized when or if the gift card expires without being redeemed. At this point, the retailer is released from further obligation to provide product or service. Finally, revenue may be recognized at the point at which the retailer determines that gift card redemption is unlikely. This is called breakage, and revenue from breakage is recognized at this point (Ammons et al., 2014; Kile, 2007).

The complexities of accounting for gift cards arise from the second and third possible points of revenue recognition: upon expiration and when redemption is unlikely. Prior to 2010, when FASB began writing the new revenue recognition exposure draft, GAAP provided little guidance to assist practitioners in defining gift card revenue recognition points, and accountants relied solely on the Statements of Financial Accounting Concepts. Conceptually, revenue from gift cards should be recognized only when the revenue is realized and earned, or in other words, when the company provides goods or a service to the customer in exchange for the gift card (FASB, 1984). At this point, the company who has issued the gift card has completed the earning process. However, it is less clear whether a liability can decrease when no sacrifice has been made. Paragraph 211 of Statements of Financial Accounting Concepts No. 6, *Elements of Financial Statements*, (FASB, 1985) provides some guidance and states that a liability "remains a liability until it is satisfied in another transaction or other event," such as "transferring assets or providing services". However, liabilities are "sometimes eliminated by forgiveness, compromise, incurring another liability, or changed circumstances" (FASB, 1985, para 211). Does failure to redeem the gift card qualify as a changed circumstance or forgiveness?

In 2000, the FASB in Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, paragraph 16, offered further guidance without specifically mentioning gift cards: A debtor shall derecognize a liability if and only if it has been extinguished. A liability has been extinguished if either of the following conditions is met:

a) The debtor pays the creditor and is relieved of its obligation for the liability. Paying the creditor includes the delivery of cash, other financial assets, goods, or services or reacquisition by the debtor of its outstanding debt securities whether the securities are canceled or held as so-called treasury bonds.
b) The debtor is legally released from being the primary obligor under the liability, either judicially or by the creditor. (FASB, 2000, p. 16)

The first condition describes a traditional redemption of a gift card when presented by a customer to the seller; however, condition two can be applied in circumstances where the gift cardholder fails to present the gift card for redemption.

Meanwhile, the SEC addressed gift cards in a speech given by Pamela Schlosser in 2005. In Schlosser's speech, she asserted that immediate recognition of estimated breakage revenue at the point of the gift card sale was not appropriate given that delivery criterion has not been met. Because performance has not occurred, revenue realization should not occur (Schlosser, 2005). If, however, an entity can reasonably and objectively determine the amount of anticipated gift card breakage and also estimate the time period over which gift cards are redeemed, the entity may recognize the estimated gift card breakage revenue at the end of the estimated gift card redemption period (Schlosser, 2005).

If companies derecognize their deferred revenue liabilities when they are legally released from their obligations under the gift cards, does a specific event or date dictate a legal release? The enactment of the Credit CARD Act in 2009 concurrently defined and complicated this issue by affording new protections to consumers and requiring expiration dates on gift cards to be set no earlier than five years from the date of issue (Knobbe et. al, 2011). If the cardholder adds to the value of the gift card later, the expiration date then must change to a date no earlier than five years from the most recent activity date (Knobbe et. al, 2011). Furthering complicating the identification of a date of legal release, the legislation also allows the sale of gift cards without expiration dates (Knobbe et. al, 2011).

On November 14, 2011, FASB issued the revised Exposure Draft, Topic 605, and provided the first specific, albeit brief, guidance to issuers when gift cards are not redeemed. The ultimate goal of this new revenue recognition standard was to create a more consistent framework and improve comparability of revenue recognition among entities and industries, both domestically and internationally (Streaser, Sun, Zadivar, & Zhang, 2014). Paragraph 105 of Topic 605 reinforced the conceptual statements and directed entities issuing gift cards to recognize a "contract liability when a customer pays consideration before the entity performs by transferring a good or service" (FASB, 2011). Upon transfer of the promised good or service when the customer redeems the gift card, the entity should derecognize the liability and recognize revenue.

The implementation guide of the exposure draft not only specifically addressed customers' unexercised rights (breakage) but also indirectly addressed breakage in its guidance for nonrefundable up-front fees, which are economically similar to unexercised rights. In addition, the proposed standard indirectly addressed gift cards in its discussion regarding limiting the amount of revenue recognized. Topic 605 reinforced the principles of FAS No. 140 by instructing entities to derecognize a liability and recognize revenue at the point when the issuer is legally released from its obligation to provide goods or services (FASB, 2000). However, in the event that a no fee, no expiration gift card is issued and never redeemed, legal release will not occur. In this instance, Topic 605 suggested that entities can derecognize the liability and recognize revenue when the likelihood that the customer will redeem the card becomes remote, similar to the analysis of contingent liabilities. This treatment will, in effect, increase the sales revenue earned from the transfer of services and goods to the customers redeeming their gift cards to include the sales revenue from unredeemed gift cards. FASB cautioned gift card issuers to value breakage revenue at an amount that is reasonably assured and reasonably estimated.

On May 28, 2014, the FASB and IASB jointly finalized their work on revenue recognition and released the Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, and required entities to move toward a contract and control-based approach when recognizing revenue (Streaser et al., 2014). Essentially, revenue must be recognized when or as the performance obligation has been met by transferring control of goods or services to customers (FASB, 2014; Streaser et al., 2014). Expanding upon the core GAAP principles of revenue recognition when it is realized and earned, the amount of revenue to be recognized must reflect the amount of consideration that the seller expects to receive upon exchange of the product or service (FASB, 2014; Streaser et al., 2014). Under the previous revenue recognition principle, the point of recognition was expected to occur when the seller relinquishes control, however the new standard focused the point of recognition at the point in time when the customer gains control of the good or service (FASB, 2014; Streaser et al., 2014). Revenue recognition standard now requires a five-step process (FASB, 2014; Streaser et al., 2014; Tysiac, 2014):

1. Identification of the contract with the customer
2. Identification of the performance obligations in the contract
3. Determination of the transaction price
4. Allocation of the transaction price to the performance obligations
5. Revenue recognized as the entity satisfies the performance obligation.

The new revenue recognition standard will go into effect for reporting periods beginning after December 15, 2017 (FASB, 2015).

In the event that the retailer operates in a state where escheatment laws apply to gift cards, the accounting for unredeemed cards is somewhat similar to recognizing breakage revenue, however, the liability will be released and cash equal to the value of the unclaimed gift card will be remitted to the state (FASB, 2014; Fried, Holtzman, & Rotenstein, 2015). Certain states require that retailers remit the full amount of the unredeemed card while others require only a certain proportion of the unredeemed card be remitted to the state (Fried, et al., 2015). Therefore, state laws will affect whether a retailer will be allowed to report breakage revenue of any amount. Complications and complexities arise when retailers operate in multiple states or when more than one state is involved in a particular gift card's transactions (Fried, et al., 2015). These complications, in addition to the redemption rates needed to estimate breakage revenue, place high reliance on the information systems, as the reliability and availability of the information will directly lead to the quality of earnings reported and financial statement disclosures made.

Retailers' Application and Reporting of Gift Cards

Prior to and since the issue of the Credit CARD Act and new revenue standard, academic research related specifically to accounting for gift cards has been limited. Studies regarding the lack of guidance related to financial reporting disclosures (Schipper, 2007) or the use of estimates in financial reporting (Barth, 2006) exist and can be applied to accounting for breakage revenue, but little examination regarding transparency in the financial reporting for gift cards exists. Only a few studies (Feinson, 2008; Hennes & Schenck, 2014; Kile, 2007; Marden & Forsyth, 2007) examine the sufficiency of reporting for gift card transactions.

Based on the foundational guidance of FASB, Schlosser's speech, public accounting firm white papers, and accounting norms, basic accounting principles have applied upon the initial sale and ultimate redemption of a gift card. A retail firm will not recognize revenue upon the sale of a gift card, rather a deferred gift card liability will be recognized as the retailer is now obligated to a future performance of service or delivery of product (Ammons et al., 2014; Blake & Rouse, 2013; FASB, 1984; Hennes & Schenck, 2014; Kaufinger, 2015). At the point when the gift card is redeemed and the product is delivered, the deferred gift card liability will be extinguished and revenue will be recognized (Ammons et al., 2014; FASB, 1984; FASB, 2000; Hennes & Schenck, 2014; Kaufinger, 2015). When the gift card is determined to be broken or will not be redeemed, the retail firm must recognize breakage revenue and reduce or extinguish its deferred gift card liability (FASB, 1984; FASB, 2000; Hennes & Schenck, 2014; Kaufinger, 2015). Until that point, unredeemed gift cards will remain as a liability on the balance sheet.

Although the impact on the financial position, a decrease in liabilities and an increase in stockholders' equity and revenue, is not disputed, the manner in which breakage revenue is measured, reported, and disclosed varies (Ammons et al., 2014; Feinson, 2008; Gujarathi, 2012; Hennes & Schenck, 2014; Kile, 2007; Marden & Forsyth, 2007). For example, when Victoria's Secret, Home Depot, and Best Buy began reporting breakage revenue, income increased between $43 and $52 million; consequently, this recognition has resulted in 4 percent to 9 percent increase in earnings for some retail firms (Gujarathi, 2012). How a retail firm accounts for breakage, particularly in its first year of implementation, can materially affect the fair presentation, and thus the transparency, of the financial statements (Blake & Rouse, 2013; Gujarathi, 2012; Kaufinger, 2015).

This flexibility in accounting for gift cards and breakage also provides the opportunity for earnings management, which dilutes the transparency of the financial statements (Kaufinger, 2015). Kaufinger (2015) studied the association between a firm's financial strength, measured by profitability and efficiency ratios, and their breakage recognition policies. He concluded that financially weaker firms are more likely to recognize more breakage income as a percent of sales than more profitable and efficient firms. By recognizing breakage revenue, the financially weaker firms are within the guidelines provided by the SEC representative, Pam Schlosser, who advised recognition of breakage revenue when gift card redemption is remote (Schlosser, 2005). However, according to several anecdotal studies and one empirical study, it appears that implementation of this somewhat general accounting principle has led to a variety of practices; particularly in the measurement and disclosure of breakage income and possibly earnings management (Ammons et al., 2014; Feinson, 2008; Gujarathi, 2012; Hennes & Schenck, 2014; Kaufinger, 2015; Kile, 2007; Marden & Forsyth, 2007).

In 2007, Kile analyzed the disclosures of 167 retailers' and restaurants' 10-Ks and found that two-thirds of the test population provided some level of information about their gift card reporting practices, however, 32 percent of the entities disclosed their breakage policies, while only 5 percent specifically stated the amount of breakage revenue recognized. Marden and Forsyth (2007) reviewed the 2006 10-Ks of four large well-known retailers: Best Buy, Home Depot, Circuit City, and Wal-Mart. They found that the retailers accounted for and disclosed their gift cards in distinctly different ways. Best Buy disclosed its policy for recognizing breakage income; while Home Depot disclosed the amount of breakage income, it omitted a discussion of its breakage policies. Circuit City and Wal-Mart neither disclosed their gift card accounting policies nor the amounts of their breakage income. Feinson (2008) found similar results when she examined the disclosures of gift card accounting policies in the 10-Ks of 75 retailers. 45 percent of Feinson's sample made no disclosure relating to gift cards. Of those companies making some disclosure, 58 percent referred to breakage, but only 17 percent of companies with breakage disclosures disclosed the amount of gift card breakage revenue.

In 2014, Hennes and Schenck were the first to empirically address the lack of specific authoritative guidance related to gift card accounting and sought to identify the contributing factors to a set of accounting norms, as opposed to generally accepted accounting principles or standards, for gift card deferred liabilities and breakage. During the study, the researchers gathered descriptive data on the gift card policy and disclosure decisions made by the sampled retailers and found that 10-K disclosures increased in quality and detail from 2005 – 2007 10-Ks. Their analysis revealed that among the firms mentioning gift card products, 40.2 percent and 66.2 percent of sampled firms disclosed breakage or a gift card breakage policy in fiscal year 2005 and 2007, respectively. Similar to previous studies, the 10-K data collected by Hennes and Schenck revealed a wide range of reporting and disclosure choices (Feinson, 2008; Hennes & Schenck, 2014; Kile, 2007; Marden & Forsyth, 2007).

Using institutional theory as foundational support, Hennes and Schenck (2014) further asserted that in the absence of specific accounting guidance, accounting practitioners would collectively and informally develop norms for reporting and disclosure. The researchers predicted that isomorphism or "a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions" would lead to the development of a common set of reporting and disclosure practices or norms for gift cards (p. 565). Although the theory has been most often applied to competing actions where new products, services, prices or locations are concerned, Hennes & Schenck anticipated that it may also be applied to common financial practices. In fact, three types of isomorphism, coercive, mimetic, and normative, can be applied to financial reporting (Hennes & Schenck, 2014). Coercive isomorphism is seen through the mandated accounting standards issued by FASB, for example, while normative isomorphism occurs when professional organizations, the American Institute of Certified Public Accountants (AICPA), for example, issue industry, accounting, or auditing guides. Consequently, the last type of isomorphism is mimetic isomorphism or the modeling of the behavior, which is exhibited by another organization and viewed as acceptable or legitimate (Hennes & Schenck, 2014).

The Transparency and Quality of Financial Reporting and Disclosure

Other studies, however, researched whether companies have provided transparent and quality disclosures in their financial reporting. Before examining how these studies qualified financial reporting as transparent or of quality, defining transparency is important. When Enron failed, news commentators and business journalists touted that the industry giant failed to report its financial position and results of operations transparently. In their examination of the fall of Enron, Healy and Palepu (2003) described transparency as the existence of "adequate information to assess reliably how a company is being run and what its prospects and risks are" (p. 22). Using a comprehensive and widespread approach, DeBoskey and Gillett (2011), considered transparency as the "widespread availability of relevant, reliable information about periodic performance, financial performance, investment opportunities, governance, value, and risk of publicly traded firms" (p. 104). In 2008, Barth and Schipper defined financial reporting transparency as a financial report that revealed a company's "underlying economics in a way that is readily understandable by those using the financial reports" (p. 174).

The study of transparency is similarly diverse. In a 2006 study, Daske and Gebhardt compared disclosure quality of reports obtained from Best Annual Report competitions in international business journals to assess the quality of financial reporting. Their empirical based, large sample study provided evidence that quality was perceived to be higher for companies who had adopted internationally based accounting standards. This study supported the philosophy that higher quality standards would in turn lead to higher quality and thus more transparent financial reports, which would benefit the firms via higher liquidity in capital markets and lower costs of capital. Healy and Palepu (2003) suggested that mechanical accounting does not lead to transparency. Boone, Linthicum, & Poe, (2013) also examined how accounting standards influenced transparency. Their research centered on whether rules based accounting standards or principles based accounting standards led to more regulatory attention via issuances of SEC comment letters. They found that rules based standards and standards that required more accounting estimates led to more frequent SEC comment letters and thus, less transparent reporting. In addition, Boone et al. (2013) concluded that the importance of a standard to the firm, the age of the accounting standard, and the complexity of the underlying transactions also increased the likelihood of a comment letter.

Other research has centered on whether the reporting of certain accounting standards has proven to be transparent. In 2007, Sevin, Schroeder, and Bharmornsiri sought to assess whether companies complied with the requirements of Statements on Financial Accounting Standards No. 142 and the extent to which the companies' disclosures were financially transparent. Sevin et. al (2007) did not expand their research into the attributes of financial reporting transparency, whereas Daske and Gebhardt's methodology (2006), although grounded in proven theory, may be difficult to apply to a more specific reporting practice.

In 2014, Biondi and Lapsley conducted a qualitative study of transparency using documentary evidence. They examined the impact of the ambiguity of accounting for heritage assets upon financial reporting transparency and whether construction of neutral or impartial accounting information could lead to transparency. This study, similar to the current study, sought to define what constitutes transparency, but unlike the current study, identified three levels of transparency rather than characteristics of transparency. The authors concluded that the lack of clear definitions of heritage assets led to an inability to identify best accounting practices and achievement of the first level of transparency, which allows users access to financial information. By failing to clearly define the assets, clear quantification and identification of the asset failed and ultimately "obscured and blurred the stakeholders' understanding and undermined good public governance" (Biondi & Lapsley, 2014, p. 159).

In identifying the characteristics that lead to financially transparent revenue and deferred liabilities, it is useful to understand the general characteristics that lead to transparency. Transparency can be characterized by financial statement and disclosure disaggregation, the prominence of disclosure and recognition, the choice of measurement basis, the recognition of comprehensive income or other comprehensive income, comparability, and implementation guidance (Barth & Schipper, 2008). Alternatively, Hirst, Jackson, and Koonce, (2003) asserted that the level of explicit description in financial statement disclosures, particularly in categorizing the level of accuracy in financial statement estimates and the resulting implications on earnings, exhibited whether disclosures are transparent. Fick (2010) also outlined objectives that lead to improved financial disclosures, which include meaningfulness to financial statement users, limited reporting complexity, and presentation of transparent and meaningful information. Zeff (2007) alternatively represented that four cultural differences (business and financial, accounting, auditing and regulatory) exist that prevent true reporting comparability. Hodge, Kennedy and Maines (2004) suggested that the use of search-facilitating technology greatly influenced the potential that computer literate financial statement users will make more informed decisions based on the data contained in the financial reports.

Summary

Transparency is desired, yet companies struggle to practically define and therefore recognize and transparently report and disclose the breakage revenue recognition point and the method by which breakage revenue can be measured. This phenomenon has revealed the opportunity to identify the attributes that will contribute to or deter from transparently reporting gift card transactions, and to evaluate whether recently implemented federal regulations and FAS have led to improved quality and transparency decisions. Ultimately, inconsistencies and poor decisions can impact transparency, and consequently affect market reactions (Blake & Rouse, 2013; Gujarathi, 2012; Kaufinger, 2015). The recognition of revenues from deferred liabilities often led to disproportionate changes in profitability due to the mismatch of expense and revenue recognition and complicates market analyst predictions of future profitability (Kaufinger, 2015). Therefore, it is important that retailers transparently report the effects of gift card transactions, the value of deferred gift card liabilities, and breakage revenue.

Research Method and Design

The rational choice theory of decision making recognizes that higher quality decisions will result when more information is available to decision makers but only to a certain point (Eppler & Mengis, 2004). When the amount of information reaches a certain threshold, too much information can lead to decisions that lack quality (Fukukura et al., 2013; Hwang & Lin, 1999; Tuttle & Burton, 1999). Information overload can lead to confusion and the inability to set priorities and therefore lead to the failure to disclose transparently, or overload can cause the decision maker to unilaterally ignore excess information and utilize only a portion of the necessary information (Eppler & Mengis, 2004; Hwang & Lin, 1999; Iyengar & Lepper, 2000). This study provides direction to management and financial statement preparers whose intentions are to transparently report the results from gift card sales and to benefit from the lower costs of capital that are expected from transparent reporting (Biondi & Lapsley, 2014; DeBoskey & Gillett, 2013).

Qualitative research is an appropriate research method for the current study primarily due to its ability to “contribute insights into existing or emerging concepts that will help explain human social behavior” (Yin, 2011, p. 7). Qualitative research also allows a focus on the perspective of the participants, or in this case, the retailers, who are responsible for preparing the financial statements and annual 10-K reports and hence making the decisions that lead to transparency (Briers & Chua, 2001; von Alberti-Alhtaybat & Al-Htaybat, 2010; Yin, 2011). Further, qualitative research affords the opportunity for researchers to go beyond description and study the theoretical aspects of the phenomenon (Ahrens & Chapman, 2006; Kirk & van Staden, 2001). This methodology allows flexibility by permitting adjustments in the research process as they become necessary and as the research progresses (Yin, 2014).

Population and Sample

Because of its distinctive usefulness in the study of financial disclosures, the data for this study was collected from the reporting and note disclosures of gift card liabilities and breakage revenue in the publicly available, annual financial 10-K reports provided to the SEC and maintained in the EDGAR database (Ammons et al., 2012; Fick 2010). Retailers filing under the retailing SIC code (SIC 5200-5999) were the unit of analysis for the study (Yin, 2014). The retailer SIC was bound to those firms who issue gift cards in the operation of their business and report gift cards in their financial statements and related notes (Yin, 2014). The case was also bound by time (Yin, 2014). Annual 10-K reports for fiscal year ending after January 1, 2015, and for fiscal year ending just prior to January 1, 2009, which represented the enactment date of the Credit CARD Act, were gathered for analysis and evaluation of the transparency exhibited most recently by the firms and just prior to the federal government and the FASB's increased regulation and attention to the sale and administration of gift cards. This time boundary signified the date when more regulation, and thereby more information, became available to the preparers of the annual reports. With additional information, research has indicated that higher quality decisions and therefore more financial reporting transparency are expected (Eppler & Mengis, 2004; Fukukura et al., 2013; Iyengar & Lepper, 2000).

Purposeful or judgment sampling is utilized most often in case study research and was utilized in the current study because it provided the "broadest range of information and perspectives" (Yin, 2011, p. 88), generated insight and understanding of the phenomenon at hand, and supported the selection of analysis units with rival explanations (Yin, 2011). Rival explanations improve the quality, internal validity, and credibility of the research and provide an appearance of a lack of bias (Yin, 2011, 2014). This type of sampling also met the research objective to understand the characteristics of transparency exhibited by the selected retail companies rather than generalizing the selected retailers' transparency characteristics to other contexts or populations.

Although larger sample sizes are better and provide greater confidence, no rules or formulas exist for quantifying sample sizes in qualitative research (Patton, 2002; Yin, 2011). The number of annual reports selected was based on discretionary judgment, practicality, and the extent of certainty or generality desired based on the data gathered to that point in the research (Patton, 2002; Yin, 2011, 2014). Therefore, a purposeful sample of large size retailer corporations with significant gift card sales was chosen from retailers who issue gift cards and file annual 10-K reports with the SEC. This sample size is due in part to the subtlety of the theories involved and a goal to identify five or more replications or rival explanations (Yin, 2014). Replications increase robustness (Yin, 2014). If necessary, this part of the research design would have been modified if new information or discovery had warranted a change (Yin, 2014). The focus of the sampling method was to select retailer annual reports that produced relevant and plentiful data and replications (Patton, 2002; Yin, 2011). A modified snowball sampling strategy was employed and was expected to be beneficial due to the nature of this hard to find or hidden population of specific retailers (Atkinson & Flint, 2001).

This sampling strategy is appropriate for this case study due to the absence of a stated hypothesis on a representative sample that is anticipated to lead to extrapolation to the whole population (Biernacki & Waldorf, 1981). Furthermore, a modified snowball strategy allowed sufficient data collection until the data became repetitious (Biernacki & Waldorf, 1981). Therefore, this study initially included Best Buy, WalMart, and Home Depot. After the gift card reporting and disclosure data were collected from these specific retailers, other retailers, including the Cheesecake Factory, Starbucks, Amazon, and Target, were selected for analysis.

Data Collection, Processing, and Analysis

The annual 10-K report for each of the sampled firms for the fiscal periods ending just prior to January 1, 2009 and for fiscal periods ending after January 1, 2015 were located using EDGAR on the SEC's website (www.sec.gov). The HTML files were converted to PDF files and then uploaded to NVivo for analysis. Upon being uploaded into NVivo, the reports were queried for the terms gift card and breakage. Other searches for the following key words were conducted: deferred liabilities, unearned revenues, breakage revenue, other income, and breakage rate. These queries did not yield additional or significantly different results than the gift card and breakage queries. In the initial queries, there were no results for Starbucks and only one reference for WalMart. Upon further review and search of Starbucks' 10-K reports, it was discovered that this retailer refers to its gift cards as "stored value cards." The only reference to gift cards by WalMart was included in Item 1 (discussion of the business) of the 10-K for the period ended January 31, 2015.

Perhaps the most critical step of the research process involved coding the data collected. NVivo served as a vital tool during this stage. Codes were created to help systematically group and organize the data. Barth & Schipper (2008) characterized transparency based on the level of financial statement and disclosure disaggregation, the prominence of disclosure and recognition, and the choice of measurement basis. Therefore, the following codes were utilized:

- Disaggregation via balance sheet classification. Firm separated gift card liabilities from unlike items on the Balance Sheet.

- Disaggregation via income statement classification. Firm separated gift card income from unlike items on the Income Statement.

- Disaggregation via cash flow statement classification. Firm separated gift card income and liabilities as a source (use) of cash from unlike items on the cash flow statement.

- Disaggregation via note disclosures. Firm separated gift card liabilities and income by increasing understandability.

- Measurement basis. Firm disclosed or described the underlying economics of the measurement basis of gift card liabilities or breakage income.

- Prominence via financial statements. Firm prominently displayed gift card liabilities and income on the face of the financial statements in a manner that is expected to be easier for users to understand.

- Prominence via notes. Firm prominently disclosed gift card liabilities and income in the note disclosures in a manner that was used to explain, describe, or disaggregate gift card related items.

To add reliability to the data collected and scrutinized based on the transparency characteristics defined by Barth and Schipper (2008) and thus further triangulating the study, a quasi-statistical approach was also used for data analysis. Disclosures extracted from the 10-K included the amount of breakage revenue or the breakage rate, escheat issues related to breakage, methodologies used to estimate breakage revenue, and the location of breakage revenue on the income statement. These data were extracted from the raw data to reveal word, phrase, or disclosure type frequencies. Furthermore, coded data were converted from a qualitative form to a quantitative form in order to analyze frequencies and to reveal patterns or themes.

RESULTS AND ANALYSIS

The intent of the study was to closely examine the characteristics of the gift card financial reporting and disclosures exhibited by retailers in their annual 10-K reports and to analyze whether the characteristics of the reporting and disclosures chosen by the firms provided evidence of transparent or opaque financial reporting. The findings are presented within the context of the research questions via thick description so that the reader can be immersed in the reporting and disclosure of gift cards and therefore better understand the transparency exhibited or missing from the annual reports. Themes, specifically the transparency characteristics identified by Barth & Schipper (2008), were identified during data collection and analysis. Finally, the results were evaluated based upon the research questions, as well as the literature examined prior to the collection of data.

Results

To evaluate the references to gift cards and breakage and the level of financial reporting transparency collected from the sampled 10-K reports, the location of each reference in the 10-K report was coded. Prior to this coding, however, it was important to consider the number of reporting instances or disclosures rather than the number of times gift card and breakage occurred in the 10-K (See Table 1). In other words, every time that gift card was mentioned in the 10-K report, it was counted in the gift card and breakage queries. In one note disclosure, however, the terms gift card and breakage might be written five times, for example. The initial queries would have counted this as five results. In the evaluation of the location of the disclosure, a mention of gift card or breakage was counted once per reporting instance or disclosure. These results are included in Table 1. Due to the concentration of references in Item 8 (Notes to the Financial Statements), this category was further categorized as to the nature of the disclosure and described in Table 2.

Table 1

Location of "Gift Card" and "Breakage" Instances

	2008 Gift Card Ref	**2015 Gift Card Ref**	**2008 Breakage Ref**	**2015 Breakage Ref**
Item 1: Business	-	4	-	-
Item 1A: Risk Factors	1	4	-	-
Item 7 Management Discussion & Analysis	10	10	7	7
Item 8 Financial Statements	1	3	-	-
Item 8 Notes to the Financial Statements	15	16	7	8
Total	**27**	**37**	**14**	**15**

Table 2

Gift Card and Breakage Instances by Note Type

	2008 Gift Card Ref	**2015 Gift Card Ref**	**2008 Breakage Ref**	**2015 Breakage Ref**
Significant Accounting Policies:				
Credit Risk	1	1	-	-
Estimates	-	1	-	-
Revenue Recognition	5	5	3	5
Other	1	2	1	2
Accrued Expenses	2	2	1	1
Other	6	5	2	-
Total	**15**	**16**	**7**	**8**

Q1: What are the attributes that contribute to or deter from transparent and consistent financial reporting of gift cards? Because Barth and Schipper's transparency characteristics only apply to the financial statements and the related notes to the financial statements, the note disclosures and the financial statement references included in Item 8 of the 10-K were then examined and coded according to these transparency characteristics. This evaluation indicated that one note disclosure or financial statement reference could exhibit multiple transparency qualities. The results of the transparency qualities found in the sampled firms' annual 10-Ks are illustrated in Table 3.

Table 3
Transparency Qualities Exhibited in Item 8 of Sample Firm 10-Ks

	2008 10-Ks	**2015 10-Ks**
Disaggregation via Balance Sheet	1	2
Disaggregation via Income Statement	-	-
Disaggregation via Cash Flow Statement	-	1
Disaggregation via Note Disclosure	6	7
Measurement Basis	6	6
Prominence via Financial Statements	1	3
Prominence via Note Disclosures	13	9
Total	**27**	**28**

Disaggregation via financial statements.

In four distinct instances, two companies separated their gift card liabilities from unlike items on their balance sheets and cash flow statements. As of the end of fiscal year end 2008 and 2015, Best Buy reported $373 million and $411 million as Unredeemed Gift Card Liabilities, respectively, in a separate line in the liabilities portion of the balance sheet. Best Buy, however, aggregated the change in unredeemed gift card liabilities with other liabilities on the Consolidated Statement of Cash Flows.

Although Starbucks aggregated its gift card liabilities with Deferred Revenue in its balance sheet as of fiscal year end September 28, 2008, it separately reported a Stored Value Card Liability of $983.8 million as of fiscal year end September 27, 2015. Starbucks also reported separately the change in the Stored Value Card Liability on the face of its Consolidated Statement of Cash Flows. In Starbucks' 2008 balance sheet, gift card liabilities were not separately disclosed. In Note 1 to the 2008 consolidated financial statements, Starbucks disclosed that outstanding balances of gift cards were included in Deferred Revenue on the Consolidated Balance Sheet. According to the other notes, gift card liabilities were aggregated with specialty revenues received in advance and reported as Deferred Revenues. Deferred revenue was not specifically noted on the Consolidated

Balance Sheet to include gift card liabilities, nor were the gift card liabilities disaggregated and valued separately in the notes to the financial statements. Breakage income was not reported separately in the income statements or statements of earnings by any of the sampled firms.

Disaggregation via the notes to the financial statements.

The notes to the financial statements included richer disclosures and consequently exhibited more transparency qualities. Although two firms chose to disaggregate their gift card liabilities on their balance sheets, more firms chose to disclose the values of gift card liabilities and breakage income in the notes to the financial statements. In six instances in 2008 and seven instances in 2015, the notes to the financial statements disaggregated gift card liabilities or breakage income from other types of liabilities or income (See Table 3).

Disaggregation was observed through the notes in the disclosure of the value of breakage income recognized in the consolidated income statements. Three of seven firms and four of seven firms in 2008 and 2015, respectively, disclosed how much breakage income was recognized by the firm in the current year as well as the two years previous. Amazon, Target and WalMart did not disclose the values of their breakage income; however, Target disclosed that the value of breakage income was deemed immaterial in 2008 and 2015.

The Cheesecake Factory and Target separately disclosed in 2008 and 2015 the amount of gift card liabilities included in the Other Accrued Expenses note to the financial statements, while Amazon disclosed the amount of its unredeemed gift cards in the note summarizing its accounting policies. Home Depot and WalMart were the only firms sampled that did not report or disclose the amount of their gift card liabilities in either year sampled. In 2008 and 2015, Home Depot disclosed that the liability was aggregated with Deferred Revenues but did not disclose the value. In 2008, Starbucks disclosed that its gift card liability was recorded as a deferred revenue but also did not disclose the value. In 2015, Starbucks disaggregated its liability on the face of the balance sheet as a Stored Value Card Liability.

Measurement basis.

Note 1 to the financial statements exhibited many of the Barth and Schipper (2008) transparency characteristics, including measurement. FASB requires that the notes to the financial statements disclose the significant accounting policies of the reporting firm. Six of the seven sampled firms disclosed and discussed gift cards in Note 1 (See Table 2 and Table 4). Four of the seven firms and five of the seven sampled firms in 2008 and 2015, respectively, discussed how their breakage rates and related revenue were measured and when they were recorded, although the term breakage was not used by the Cheesecake Factory, Amazon, or Starbucks in 2008 (See Table 4). WalMart did not separately discuss its revenue recognition policy for gift cards or mention the term breakage.

Table 4

Disclosure Components in Note 1 – Summary of Significant Accounting Policies

	2008 10-Ks	2015 10-Ks
# of firms	7	7
# of firms including Gift Cards in Note 1	6	6
Disclosed Revenue (Liability) Recognition Policy	6	6
Breakage Rate Discussed	4	5
Breakage Income Recorded when Redemption is “Remote”	4	5
Specific Location of Breakage Income on Income Statement Disclosed	2	2
Value of Breakage Income Disclosed	3	4
Specific Location of Gift Card Liability on Balance Sheet Disclosed	3	3
Value of Gift Card Liability Disclosed	1	1

Other firms were thorough in their descriptions of the measurement basis. For instance, in 2008, Best Buy disclosed the following policy:

> We recognize revenue from gift cards when: (i) the gift card is redeemed by the customer, or (ii) the likelihood of the gift card being redeemed by the customer is remote ("gift card breakage"), and we determine that we do not have a legal obligation to remit the value of unredeemed gift cards to the relevant jurisdictions. We determine our gift card breakage rate based upon historical redemption patterns. Based on our historical information, the likelihood of a gift card remaining unredeemed can be determined 24 months after the gift card is issued. At that time, we recognize breakage income for those cards for which the likelihood of redemption is deemed remote and we do not have a legal obligation to remit the value of such unredeemed gift cards to the relevant jurisdictions (p. 72).

Other firms included similar disclosures that described that a gift card liability was recorded when a gift card was sold, revenue was recognized when the gift card was redeemed, and breakage income was recognized according to the policy described. In 2015, Starbucks disclosed that it measured breakage income based on historical experience and long periods of inactivity:

> When an amount is loaded onto a stored value card at any of these locations, we recognize a corresponding liability for the full amount loaded onto the card, which is recorded within stored value card liability on our consolidated balance sheets. Stored value cards can be redeemed at company-operated and most licensed stores, as well as online. When a stored value card is redeemed at a company-operated store or online, we recognize revenue by reducing the stored value card liability. When a stored value card is redeemed at a licensed store location, we reduce the corresponding stored value card liability and cash, which is reimbursed to the licensee. There are no expiration dates on our stored value cards, and we do not charge service fees that cause a decrement to customer balances. While we will continue to honor all stored value cards presented for payment, management may determine the likelihood of redemption, based on historical experience, is deemed to be remote for certain cards due to long periods of inactivity. In these circumstances, if management also determines there is no requirement for remitting balances to government agencies under unclaimed property laws, unredeemed card balances may then be recognized as breakage income (p. 57).

In 2008 Target briefly disclosed its gift card revenue recognition policies in Note 1 but omitted references to expiration dates, escheat property, the location of breakage revenue on the income statement, or that recording breakage revenue at that point when redemption of gift cards is considered remote: In contrast, Best Buy and Starbucks disclosed the importance of identifying escheat property, their obligations to remit unclaimed gift cards to the appropriate jurisdictions if necessary, and how this effects breakage income measurement. These two firms were the only firms in the sample to consider the impact of escheat property and their obligations to remit unclaimed property to the appropriate jurisdictions.

Other disclosures that affected the measurement of breakage income included expiration dates (observed in three 2008 disclosures and four 2015 disclosures) and the methods by which the breakage rates are determined. Most firms described that their breakage rates were based on the historical gift card redemption patterns with some specifically defining the reduced likelihood of redemption at 24 to 36 months. Although GAAP indicates that breakage income be recorded when the likelihood of gift card redemption becomes remote, three of the seven firms, Cheesecake Factory, Home Depot, and Target, did not mention the remote criteria in either 2008 or 2015.

Prominence.

Best Buy and Starbucks were the only firms to prominently display gift card liabilities on their balance sheets. They disaggregated gift card liabilities from unlike liabilities, devoting a separate line in the balance sheet to gift cards. Starbucks also separately disclosed the change in its stored value card liability on its cash flow statement.

According to Table 3, prominence via note disclosures was given to gift cards and breakage thirteen times in 2008 and nine times in 2015. This prominence was noted in five specific ways: inclusion in the summary of significant accounting policies (Note 1); disclosures summarizing accrued and other expenses; disclosures regarding segment and geographic information; disclosures regarding consolidating and supplementary information; and disclosures summarizing the impact of recent accounting pronouncements upon the firm. Two of the seven sampled firms, the Cheesecake Factory and Target, in both fiscal years 2008 and 2015 included notes that disaggregated the components of the Accrued and Other Expenses liabilities from their balance sheets. This note clearly identified the value of gift card liabilities included in Accrued and Other

Expenses. In contrast, Amazon disclosed the value of their liabilities for unredeemed gift cards in Note 1 and noted that this liability was included in Accrued Expenses on their consolidated balance sheets in 2008 and 2015.

In its 2008 notes to the financial statements, Best Buy reported its revenues by segment (domestic and international) and by revenue category. In a footnote to the revenue category, other revenue, Best Buy disclosed that the category included gift card breakage income. In 2008, Best Buy included consolidating and supplementary financial information in two separate notes. Both notes separately identified gift card liabilities and the revenue category which included gift card breakage.

The most unique and relevant disclosure occurred in Starbucks' 2015 note regarding the expected impact of recent accounting pronouncements on the firm:

> In May 2014, the FASB issued guidance outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that supersedes most current revenue recognition guidance. This guidance requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The original effective date of the guidance would have required us to adopt at the beginning of our first quarter of fiscal 2018. In July 2015, the FASB approved an optional one-year deferral of the effective date. The new guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. We are currently evaluating the overall impact this guidance will have on our consolidated financial statements, as well as the expected timing and method of adoption. Based on our preliminary assessment, we determined the adoption will change the timing of recognition and classification of our stored value card breakage income, which is currently recognized using the remote method and recorded in net interest income and other. (p. 60)

Q2. **How have federal laws regulating gift cards and upcoming revenue recognition accounting standards influenced the transparency of the reporting and disclosure characteristics of gift card liabilities and breakage revenue?** According to Table 1, the biggest increase in references to gift cards and breakage occurred in the sections of the 10-K discussing the firm's business and its risk factors. The instances where the terms gift cards and breakage occurred in the financial statements and the related notes remained relatively stable as shown in Table 1 and Table 2. This phenomenon was also reflected in the transparency qualities exhibited in the financial statements and the related notes (see Table 3).

Starbucks' 2008 and 2015 10-Ks revealed the most changes in the depth or richness of the disclosures related to gift cards (stored value card) and breakage. Although stored value cards were mentioned four times, Starbucks does not mention the term 'breakage' at any point in its 2008 report. Stored value cards were mentioned once in the Management Discussion and Analysis (MD&A) section of the 10-K as management compared operating results from the 2006, 2007, and 2008 fiscal years. Management described the increase in interest and other income from 2006 to 2007 as a result of a higher amount of unredeemed stored value cards and gift certificates. Although this is the definition of breakage, Starbucks chose not to define it as breakage.

When reading the 2015 Starbucks 10-K, the firm increased its recognition of stored value cards considerably. In 2015, the term 'stored value card' was mentioned fifteen times and breakage was referenced three times. This is an increase of 275 percent for the term stored value card and 300 percent for the term breakage. In Item 1 (Business) of the 10-K, Starbucks devoted an entire section to stored value cards in its discussion of revenue components:

> The Starbucks Card and our other branded stored value card programs are designed to provide customers with a convenient payment method, support gifting, and increase the frequency of store visits by cardholders, in part through the related My Starbucks Rewards® loyalty program where available, as discussed below. Stored value cards are issued to customers when they initially load them with an account balance. They can be obtained in our company-operated and most licensed stores in North America, China, Brazil, and many of our markets in the EMEA segment, as well as on-line, via the Starbucks® mobile app, and through other retailers, including a number of other international locations. Customers may access their card balances by utilizing their stored value card or the Starbucks® mobile app in participating stores, which also include certain Teavana® and Evolution Fresh™ locations (p. 5).

Furthermore, between 2008 and 2015, Starbucks moved gift card liabilities from a component of Deferred Revenues on the balance sheet to a separate line item in the liabilities section called Stored Value Card Liability. This line item corresponded to the cash provided by the change in the operating liability in the statement of cash flows. The depth of the note disclosures related to gift cards increased significantly from 2008 to 2015. In 2015, Starbucks included a reference to stored value cards in its description of the items in the financial statements that require management to make estimates or assumptions in the reported amounts of liabilities and revenues. In 2015, Starbucks also discussed the potential impact that the new revenue recognition standard would have upon the accounting for gift cards and its related breakage income. Perhaps the biggest increase in depth is noted when comparing the revenue recognition policy for stored value cards between 2008 and 2015. In 2008, Starbucks was brief and downplayed the disaggregation and prominence of its gift cards both in the notes and the financial statements:

> Revenues from the Company's stored value cards, such as the Starbucks Card, and gift certificates are recognized when tendered for payment, or upon redemption. Outstanding customer balances are included in "Deferred revenue" on the consolidated balance sheets. There are no expiration dates on the Company's stored value cards or gift certificates, and Starbucks does not charge any service fees that cause a decrement to customer balances.
>
> While the Company will continue to honor all stored value cards and gift certificates presented for payment, management may determine the likelihood of redemption to be remote for certain card and certificate balances due to, among other things, long periods of inactivity. In these circumstances, to the extent management determines there is no requirement for remitting balances to government agencies under unclaimed property laws, card and certificate balances may be recognized in the consolidated statements of earnings in "Interest income and other, net." For the fiscal years ended September 28, 2008, September 30, 2007 and October 1, 2006, income recognized on unredeemed stored value card balances and gift certificates was $13.6 million, $12.9 million and $4.4 million, respectively (p. 49).

Alternatively, some firms reported their gift cards in the financial statements, notes to the financial statements, and other areas of the 10-K similarly in 2008 and 2015. For instance, the minor differences between Best Buy's 2008 and 2015 10-K included a brief reference to gift cards in a discussion of Risk Factors (Item 1A) in 2015 as compared to no mention of gift cards or breakage in the 2008 discussion of risk factors. In 2008, only Amazon discussed gift cards or breakage in its discussion of the business and its risk factors. Four companies referenced gift cards in 2015 in their discussions of the business, and four companies also discussed the business risks involved with gift cards.

Interestingly, the discussions of gift cards in the MD&A remained somewhat stable with 10 references to gift cards in 2008 and 2015 and seven references to breakage in 2008 and 2015 (See Table 1). However, upon critical analysis, the types of references varied between 2008 and 2015 in the MD&A for the Cheesecake Factory. The primary distinction was the 2015 addition of a discussion of Cheesecake Factory's revenue recognition policy within the Critical Accounting Policies section of the MD&A.

CONCLUSION

Upon analysis of the references to gift cards and breakage collected from the financial statements and the notes, multiple transparency attributes were found to apply to one reporting instance, with some firms exhibiting transparency via financial statement disaggregation and other firms exhibiting transparency via disaggregation and prominence in the notes to the financial statements. The majority of the sample firms (six of seven) exhibited financial reporting transparency via a description of the measurement basis for gift card liabilities and breakage revenue. The following themes were noted in the review of measurement basis: description of gift card liability and breakage revenue recognition points, breakage rates based on historical redemption patterns, recognition of breakage income when gift card redemption becomes remote; gift card expiration dates, and escheat issues.

The findings of this study were inconsistent with the conclusions drawn in previous gift card studies. Feinson (2008), Kile (2007) and Marden and Forsyth (2007) anecdotally concluded that reporting of gift cards was not transparent based on the inconsistency of the reporting between companies. Less quick to judge the existence or absence of financial reporting transparency, Hennes & Schenck (2014) provided more descriptive information on accounting policy and disclosure choices than the previous studies and examined the rapid increase in gift card disclosures in spite of lacking specific accounting guidance and the influence of SEC comment letters in the process.

The primary research question was developed to directly address the purpose of the study, which was to identify the attributes that qualify as financial transparency when reporting and disclosing the results of selling gift cards. Because of the lack of specific accounting standards to guide and direct financial statement preparers, the number of reporting and disclosure options can overload decision makers (financial statement preparers) and lead to poor decisions and hence a lack of financial reporting transparency (Eppler & Mengis, 2004; Fukukura et al., 2013; Hennes & Schenck, 2014). The results of this study provided understanding of disclosures and reporting that illuminated transparency and can be characterized by the following themes:

Prominent definition of gift card revenue recognition policies.

Six of the seven firms sampled separately disclosed their accounting policies related to the recognition of gift card and breakage income in Note 1, which is the summary of significant accounting policies. The prominent components found to represent increased transparency aligned with FASB's conceptual statements and included disclosures describing the following recognition points: (a) when a gift card liability is recognized and released, (b) when revenue is recorded after a gift card is issued and redeemed, and (c) when breakage income is recognized. According to Barth and Schipper's (2008) research on transparency, transactions that are prominently presented in the notes to financial statements make the financial statements easier to understand and capture the underlying economics of the events. Consequently, these notes, and the understanding which they bring, as a result, indicate financial reporting transparency.

Prominent disclosure of measurement basis of breakage income.

Six of seven firms clearly presented how they measure breakage income and when this measurement occurs. These disclosures are also supported by the conceptual accounting statements and prove to add transparency to reporting. Several themes were found during the analysis of the description of measurement bases. Five of seven firms discussed how the breakage rate was estimated based on historical redemption rates of gift cards and utilized to estimate and recognize breakage income. Next, five firms quoted the verbiage used by the SEC and the forthcoming revenue standard when stating that breakage revenue would not be recognized until the point at which redemption of gift cards was deemed remote (FASB, 2011; FASB, 2014; Schlosser, 2005).

Although less dominant in the analysis of disclosures, two other themes emerged as traits that increased the transparency of the disclosures. First, two firms in the sample described gift cards that did not expire. This can have implications for the timing of the legal release from gift card liabilities and the reliance upon historical gift card redemption rates. Secondly, two firms described how gift cards may be considered escheat property by certain jurisdictions that require submission of unredeemed gift cards to the proper government agency at the point at which redemption is unlikely. If a firm operates in these jurisdictions, breakage revenue will not be recorded when the gift card liability is released due to non-redemption, rather cash equal to the unredeemed cards must be remitted to the proper government agency. Based upon the disclosures made by the firms in the sample, the transparency characteristics identified by Barth and Schipper (2008), the conceptual statements of accounting and the forthcoming revenue recognition standard (FASB 2014), these four reporting attributes increase the transparency of financial reporting.

Disaggregation of gift card liabilities and breakage income.

According to Barth and Schipper's work (2008), one of the primary indicators of financial reporting transparency is disaggregation of financial statement line items from unlike items either on the face of the financial statement or in a note to the financial statements. Five of the seven firms included in the sample either disaggregated their gift card liabilities on the balance sheet or in the notes to the financial statements. Two firms disaggregated by separating gift card liabilities (or Stored Value Cards) from unlike items on the face of the financial statements.

Three other firms aggregated gift card liabilities with unlike items in the balance sheet in a line item call Accrued Expenses and Other but also included a detail account of the components of the aggregated liability in a note disclosure. Furthermore, four of seven firms disclosed the value of breakage income earned for the three fiscal periods referenced in the annual 10-K report, while one firm clearly disclosed that its breakage income was considered immaterial to its results from operations. Only one sampled firm failed to disaggregate its gift card liabilities or its breakage revenue.

The results led to the conclusion that disaggregating gift card liabilities or breakage income on either the face of the financial statements or in the notes to the financial statements is a clear attribute that financial statement preparers have chosen to transparently report the financial position and results of selling gift cards to their customers (Barth & Schipper, 2008). Furthermore, by recognizing the obligations that exist in the form of unredeemed gift cards and the income from unredeemed gift cards when redemption is considered remote, the firms are presenting information to the readers of the financial statements that aligns with FASB's conceptual statements (Barth & Schipper, 2008; FASB, 1984; FASB 1985; FASB, 2000). This increases comparability between accounting standards and the accounting policies implemented by the firm, which, according to Barth and Schipper (2008), also indicates transparent financial reporting.

The secondary research question sought to examine whether financial reporting transparency has been effected by the passage of time, particularly the times before and after federal regulation began to legislate the issuance of gift cards. The number of times that gift cards and breakage was mentioned decreased by two instances and four instances, respectively, from 2008 to 2015. The number of transparency qualities exhibited in the sample firms increased by one instance between 2008 and 2015 (See Table 3). The results of the study indicated that only one firm, Starbucks, exhibited significant changes in its reporting from 2008 to 2015. Specifically, Starbucks disaggregated its gift card liability into a separate line on the balance sheet when in the previous years, the liability was aggregated on the balance sheet and in the notes with deferred expenses. Starbucks also expanded discussion of its revenue recognition policies for gift cards and described more about the estimated breakage rate. Analysis of the data collected and the reporting and disclosures of the firms sampled shows no other firms increased their reporting of gift cards to the extent that Starbucks expanded its reporting and disclosures.

Summary.

These conclusions are difficult to generalize to firms beyond the sample. Previous literature indicated that transparent reporting tends to increase in several unrelated instances. First, decision making theory implied that higher quality decisions result when decision makers (financial statement preparers) have more information (Eppler & Mengis, 2004; Fukukura et al., 2013; Hennes & Schenck, 2014). When the Credit CARD Act was enacted in 2009, more information was available to guide gift card issuers in the administration and sales of gift cards. For instance, the act eliminated expiration dates, therefore, eliminating the legal release date of the gift card liability. Based on this research, more definitive policies surrounding the issuance and redemption of gift cards could be expected to lead to reporting and disclosures that are more transparent.

Both the Barth and Schipper (2008) and Daske and Gebhardt (2006) studies indicated that increased accounting regulation leads to increased financial reporting transparency. With the recent release of the new revenue recognition standard, opportunities to expand or amend the time dimension analysis of the current study exist. Future studies may expand the current study to include any or all of the following time periods: fiscal periods before the revenue standard was available for public comment; fiscal periods after the first exposure draft was released; fiscal periods after the standard was released; and fiscal periods to which the new standard would apply. Opportunities also exist to study which financial reporting attributes are demonstrated within gift card reporting and disclosures just prior to the receipt of an SEC comment letter and for the period subsequent to the receipt of an SEC comment letter.

Most importantly, the study provided specific financial reporting attributes that should be included when reporting and disclosing gift card liabilities and breakage revenue. The strongest indicator of financial reporting transparency is disaggregation of unlike liabilities and income from gift card liabilities and breakage income. This goal can be accomplished with the greatest level of transparency via the balance sheet and income statement or to a lesser extent through the notes to the financial statements. To report transparently, it is also necessary to report or disclose the value of the firm's gift cards that have yet to be redeemed and the breakage income that has been recognized because the likelihood of gift card redemption is remote. Finally, financial statement preparers should take care to concisely and thoroughly describe the measurement basis for breakage income recognition in the notes summarizing key accounting policies.

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