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Are Gift Cards Really Liabilities? A Class Exercise Exploring Starbucks Corporation

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Abstract

Stored value cards represent an important and increasingly large portion of many retailers' revenue streams. While the outstanding balances on such cards represent accounting liabilities, these cards provide a myriad of benefits to the issuing firms (e.g., an upfront collection of cash, increased customer loyalty, and the potential for breakage or non-redemption of the card value). To illustrate the accounting treatment and revenue recognition concepts of gift cards, this exercise uses actual data from an annual report of Starbucks Corporation. The exercise introduces students to the nature of gift cards, how cards may impact customer spending, and other managerial implications. Finally, this exercise allows students to rethink their views about the nature of accounting liabilities and how they are often beneficial to a firm's operations. Pretest and posttest measurements provide evidence of the exercise's efficacy in achieving desired student learning outcomes.

Keywords: Gifts Cards, Stored Value Cards, Hedonic Spending, Deferred Revenues, Unearned Revenues, Unclaimed Property Laws

Introduction

Stored value cards (or as more commonly termed—gift cards) are ubiquitous and substantial for many retailers. For example, Starbucks Corporation (2017) reported a liability for the year ended October 1, 2017 of $1.289 billion related to its outstanding stored value cards. In addition to physical cards, many retailers have smartphone and other electronic device applications that allow consumers to reload virtual cards for future purchases. Building on this information, this paper presents an activity that can be used to introduce students to the accounting for gift card transactions while also allowing for other key business aspects related to financial, operational, and managerial implications to be considered.

The obligation associated with the receipt of cash from customers before the delivery of a product or service represents an accounting liability—often called deferred or unearned revenue. Despite the classification as a liability on the balance sheet, retailers derive benefits from the issuance of these cards (Horne and Bendle 2016). One benefit is the up-front, interest-free funds provided to the issuers (Kile Jr. 2007).

Additionally, the concept of hedonic consumer spending suggests that consumers are often willing to make larger and more extravagant purchases when using gift cards than when spending their own money (Dhar and Wertenbroch 2000; Helion and Gilovich 2014; Reinholtz, Bartels, and Parker 2015; White 2008). Also, the issuance of cards has shown to lead to the acquisition of new customers as well as the enhancement of existing customer loyalty (Kile Jr. 2007). Furthermore, the potential exists for previously issued gift cards to be lost or otherwise unused. When losses or non-redemptions occur the issuer benefits as cash has already been received, but an equivalent good or service will not have to be provided. This concept of *breakage*, subject to various states' unclaimed property laws, may represent additional revenues as firms adjust the balances of liability accounts for the amounts that are unlikely to be redeemed (Kile Jr. and Wall, 2008).

Despite the magnitude of these deferred revenues, few accounting textbooks provide discussion or problem material which adequately highlight the nature and extent of such deferred revenue transactions. Gujarathi (2012) provided a fictitious case study that included concepts of accounting analysis and financial reporting for gift cards. However, the case does not use actual data or consider the broader organizational impacts of stored value cards. As the role of accountants has shifted over the years, the need for integrated thinking and collaborative decision-making skills is crucial as accountants now have a "seat at the table" with other business managers (Brewer and Stout 2014, p 30). Furthermore, as "students want real-world applications to see the relevance of what they are learning," (Berk 2009, p. 11) an activity that combines real-world data with the bigger picture of the business is justified. It is with this reasoning that this exercise has been developed.

Purpose of Exercise

The primary purpose of the Starbucks Corporation gift card activity is to help students better understand the nature of unearned revenues and the related liability and revenue accounting. Furthermore, important marketing and managerial implications associated with customer acquisition, hedonic spending, and breakage are addressed through group and classroom discussions. As a result, the activity aims to help students think in a bigger picture, business context. To this end, relevant instructional materials that include class handouts, teaching notes, and solutions are provided as well as a discussion of the delivery method employed to conduct the activity.

In addition, assessment data is presented that provides evidence of the efficacy of the exercise. This in-class activity has been well received by students enrolled in Intermediate Accounting classes at two small Midwestern liberal arts colleges. However, the exercise or adaptations of it are believed to be suitable for delivery in both lower and upper-level accounting, business law, and marketing courses at either the undergraduate or graduate levels.

Starbucks Card Class Activity

Learning Objectives

As described and implemented, this activity and the related requirements have been developed to help students achieve the following learning objectives:

- Understand accounting for unearned/deferred revenues including treatment of unclaimed balances on gift cards,
- Understand magnitude of gift card liabilities/deferred revenues,
- Identify operational and managerial opportunities/implications related to a firm's offering of gift cards,
- Understand and describe potential benefits deriving from certain liabilities,
- Interpret and analyze information extracted from financial statements and related disclosures,
- Reconcile financial statement information,
- Describe fiscal year and seasonality impacts on financial data and reporting.

Context for Use

This activity is designed as in-class group activity. Pretest and posttest surveys are provided to help assess student learning. This activity has been administered and well received by students enrolled in Intermediate Accounting. However, the exercise could be modified for delivery in both lower and upper-level financial accounting courses at either the undergraduate or graduate levels. Implementation of the in-class activity requires approximately 50 minutes which allows the exercise to fit into a standard class session. Prior to usage, students should have a basic understanding of accounting concepts related to deferred revenue and revenue recognition.

Description of Teaching Materials

The teaching materials required to implement the activity are: pretest survey, Starbucks balance sheet and related notes to the financial statements (Appendices A and B), *Historical Starbucks Card Statistics*[1] (Appendix C), exercise questions (Appendix D), and posttest survey. The pretest and posttest surveys both rely on a five-point Likert scale (1 – *Strongly Agree* to 5 – *Strongly Disagree*). Questions for the pretest and posttest surveys are listed in Table 1. The results of these surveys are presented in Tables 3, 4, and 5.

Table 1. Pretest and posttest survey items

#	Item	Pretest	Posttest
1	Liabilities are detrimental to a firm's operations.	✓	✓
2	Certain liabilities could be viewed as favorable to a firm's operations.	✓	✓
3	As future economic sacrifices, liabilities represent a negative consequence associated with a past event.	✓	✓
4	For a firm like Starbucks, unearned/deferred revenues will typically represent a small portion of the firm's total liabilities.	✓	✓
5	The only way to reduce an unearned/deferred revenue liability is by providing the product or service for which the customer has prepaid.	✓	✓
6	This activity helped me to better understand the magnitude of unearned/deferred revenues for a firm like Starbucks.		✓
7	This activity helped me to better understand the accounting for unearned/deferred revenues.		✓
8	This activity exposed me to how firms handle unclaimed or unused balances on gift cards.		✓
9	This activity was helpful in illustrating the potential economic benefits a firm can derive from certain liabilities.		✓
10	Completing this activity as a team was beneficial to my understanding of the issues.		✓
11	This activity was a valuable use of class time.		✓
12	Please provide any comments or feedback that you would like to offer about this activity.		✓

[1] The historical Starbucks Card information had been previously available for download from the Starbucks Corporation website when the table in Appendix C was captured. Starbucks no longer publishes the *Historical Starbucks Card Statistics.* Instead, they publish a *Starbucks Card, Loyalty and Mobile Dashboard* that presents summary information, but does not provide enough information for users to reconcile account balances.

Instructor Notes and Implementation Guidance

It is recommended that students complete a short survey instrument which can be used as a pretest. This step, while not required, is recommended as it serves to measure students' pre-activity understanding of liabilities and deferred revenues. As only five items are contained in the pretest, students need only a few minutes to complete it. The pretest items are presented in Table 1.

The next recommended step in delivery of this activity is to break students into groups. Research with accounting students has shown that the method of group formation, instructor-assigned versus student-selected, does not have a significant influence on group achievement. Rather, having an environment that encourages the group to work together is crucial (Hilton and Phillips 2010). The authors have allowed students to self-select into groups based upon student seat location in the class. Instructors implementing this activity are encouraged to select whatever method of group formation they feel comfortable with as this is not believed to have an influence on student learning. The small-group environment, however, is important. Research has shown that small-group work can foster collaborative learning while helping students become active participants in the learning process (Prince 2004). As this activity brings in multiple disciplinary areas (accounting, management, marketing, etc.), a small-group environment seems appropriate.

After groups have been created, students should be provided with copies of Appendices A through D. Students should review the provided balance sheets of Starbucks Corporation (Appendix A), the related financial statement notes (Appendix B), and the historical statistics of Starbucks Card (Appendix C). Within their respective group, students are tasked with using these appendices to answer the questions posed in Appendix D.

After approximately 30 minutes of class work, students can be provided with a posttest survey. The first five items of the posttest survey are identical to the pretest. Administering the posttest survey at this point in the exercise helps isolate the learning benefits provided by the activity. However, instructors may prefer to delay the administration of the posttest survey until a full-class recap discussion of the activity has been completed. The posttest survey also includes six additional items posed to assess students' perceptions about the activity. Also, a final qualitative prompt is provided where students can offer additional commentary to help the instructor improve delivery for future classes. These items are presented in Table 1.

Finally, the instructor can facilitate discussion of the questions that the groups have answered (Appendix D). Student groups should have completed these questions during the class work time provided. As the questions were discussed in small groups and the instructor was available to provide guidance, students should have reasonable confidence in the correctness of their answers. The students' familiarity with gift cards in general and Starbucks, in particular, helps make this exercise and discussions robust and meaningful. In fact, based on the authors' experiences, many students express a mild form of outrage when they realize that Starbucks is holding so much of the customers' cash before giving them their coffee.

Suggested Solutions to Exercise Questions

The following are suggested solutions to the questions presented on the handout presented in Appendix D. In addition, other observations and tips from the authors' implementation across several classes are presented.

1. To what financial statement line item (on the attached balance sheets) does the Starbucks Card relate? What dollar amounts are shown for this caption on the balance sheets?

The unused balances of Starbucks Cards represent deferred revenues on Starbucks Corporation's Consolidated Balance Sheets (Appendix A). While Starbucks Cards seem to represent substantially all of this balance, the excerpt from the *Notes to the Consolidated Financial Statements* (presented in Appendix B) indicates that a portion is also comprised of My Starbucks Reward points. The deferred revenues balance totaled $510.2 million and $449.3 million for 2012 and 2011, respectively.

Deferred revenues are presented as current liabilities. Starbucks is obligated to provide a future product or service and thus must defer the recognition of the revenues associated with the upfront receipt of cash from its customers. The classification as a current liability suggests that customers holding the Starbucks cards will use them within the next 12 months. This provides an opportunity to discuss materiality and the nature of managerial estimates supporting financial statement classifications.

Finally, and perhaps most importantly, it is recommended that the instructor ask students if it makes sense that the gift card balances are classified as liabilities. This important question is excluded intentionally from the exercise questions handout (Appendix D) for fear of *giving away* the answer that these balances represent liabilities. Impromptu delivery of this question leads to a good discussion about the nature and the definition of accounting liabilities and how they are not necessarily *bad*. In fact, throughout the discussion of the remaining questions students gain an understanding of the benefits that deferred liabilities provide for the issuing firms.

2. What does Starbucks do to reflect that some Starbucks Cards (or partial balances) are likely to not be redeemed or fully redeemed?

As described in the *Notes to the Consolidated Financial Statements* (Appendix B), Starbucks recognizes revenues associated with the Starbucks Card when redeemed or when the likelihood of redemption is remote. However, as the note describes, certain state laws require unclaimed gift cards to be considered unclaimed property. In these states, escheat laws prevent firms from recognizing revenue for these unused card balances—which are deemed to be unclaimed property.

This question can prompt interesting discussions about the nature of unclaimed property and how states differ in handling such matters. Additionally, this question opens up the possibility for discussion about how a firm like Starbucks would be able to determine the likelihood of gift card redemption. It can lead to valuable discussions about the nature of management estimates, ethical issues related to the estimates, and how these estimates impact financial reporting practices and outcomes.

3. Using 2012 statistics (and information from the excerpt from the *Notes to the Consolidated Financial* Statements), prepare an analysis that reconciles 2011's financial statement line item total (identified in question 1) to 2012's.

It is important to note that the statistics are provided from 2006 through 2012. However, students need only the 2012 quarterly data to perform this reconciliation. We use this as an opportunity to mention that we are often provided with more data than necessary. An important part of being an analyst is understanding which information to use.

The activation, reload, and redemption data along with $65.8 million of revenue recognized from unredeemed stored value cards account for substantially the entire change in the deferred revenues. The remaining change is likely the result of the My Starbucks Reward program as described in the *Notes to the Consolidated Financial Statements* (Appendix B). However, no dollar amount is provided for these transactions.

Most student teams, with some assistance, are able to sufficiently reconcile these accounts by understanding the deferred revenue impacts of the Starbucks Card summary activity. However, students are generally surprised that Starbucks recognized $65.8 million of revenues for *breakage* related to the estimated value of cards that have a remote chance of being redeemed.

A reconciliation of the 2011 balance in deferred revenues to the 2012 balance, based on the activity in the *Historical Starbucks Card Statistics* (Appendix C), is presented in Table 2.

Table 2. Reconciliation of increase in deferred revenues

Analysis of Deferred Revenues *(in millions)*		
October 2, 2011		$ 449.3
September 30, 2012		510.2
Increase in Deferred Revenues		$ 60.9
Reconciliation of Increase Using Data from Historical Starbucks Card Statistics:		
Value of Activations		
Q1 2012	$ 437.2	
Q2 2012	154.3	
Q3 2012	186.8	
Q4 2012	160.4	$ 938.7
Value of Reloads		
Q1 2012	460.3	
Q2 2012	476.6	
Q3 2012	518.3	
Q4 2012	538.8	1,994.0
Value of Redemptions		
Q1 2012	(666.9)	
Q2 2012	(745.5)	
Q3 2012	(703.2)	
Q4 2012	(690.3)	(2,805.9)
Net increase based on Historical Starbucks Card Statistics		126.8
Less: income recognized for unredeemed gift cards		(65.8)
Miscellaneous difference		(0.1)
Increase in Deferred Revenues		$ 60.9

4. How does the pattern of the financial statement item change by quarter? What causes this? What cash flow implications result from this?

Students should note that there are minimal differences in the levels of reloads and redemptions across each quarter. However, the amount of activations in Q1 each year is more than double of any another quarter in the same year. Student teams generally conclude that the holiday season falls in Starbucks' first quarter. As a result, there are substantially more gift card purchases (activations) in the first quarter of Starbucks' year, and the related deferred revenue liability would typically be largest during this period as a result. Additionally, discussion of this question can lead to teaching opportunities surrounding fiscal year determination and the use of a 52-53-week fiscal year convention.

5. When you are given a Starbucks Card (or other gift card), does it alter your buying behavior?

Students typically comment that their purchasing behavior is modified when using gift cards. They indicate that they are more likely to get a more expensive drink or bakery treat when they are spending a gift card than using their own money. This behavior, termed hedonic spending, is intuitive and is well supported by a significant body of extant research (Dhar and Wertenbroch 2000; Helion and Gilovich 2014; Reinholtz et al. 2015; White 2008).

6. What benefits does Starbucks receive from its customers' purchase and use of Starbucks Cards? So…is the significant liability related to the Starbucks Card detrimental to the firm's operations? Is a liability necessarily a *negative thing*?

There is a significant financial benefit attached to these stored value cards. Starbucks enjoys interest-free short-term financing as a result of collecting cash in advance of the delivery of its good and services.

Further, along with the hedonic spending discussed above, students note that they often spend more than the card's face value. Starbucks, like any retailer, derives revenue benefits when consumers use a gift card and spend more than the face amount. Additionally, gift cards can represent a form of customer acquisition. Students can typically relate to having received gift cards to a store or restaurant that they have not previously frequented. As such, a gift card program represents another avenue by which firms can bring people to their establishments with the potential of gaining new customers.

Assessment of Learning Objectives

This activity was administered at two small liberal arts universities in the Midwest resulting in a sample of 55 students.[2] A within-subjects design employing dependent samples (or paired samples) t-tests was used to assess whether students achieved several of the stated learning objectives. This research design is appropriate for a within-subjects research design that uses the same scale of measurement for the pretest and posttest (Hsu and Lachenbruch 2014).

Based on quantitative and qualitative analysis this activity seems to be well received. The results of the five-item pretest versus posttest provide evidence that the exercise was helpful in improving students understanding of the nature of liabilities and deferred revenues. As noted previously, the pretest and posttest items used a five-point Likert scale (1 – *Strongly Agree* to 5 – *Strongly Disagree*).

The efficacy of this activity can be demonstrated by reviewing the movement in the students' mean responses. For example, one item asked for students' responses to the statement, "liabilities are detrimental to a firm's operations." The pretest mean was 2.82 whereas the

[2] Although this activity was implemented at two different universities, the survey results are presented on a combined sample basis. The results from the individual samples were similar to one another and the combined sample results.

posttest mean moved to 3.67. This difference in sample means was in the anticipated direction and significant at the p<0.001 level. The remaining four pretest and posttest items were each statistically significant in the intended direction. The related pretest versus posttest differences along with t-statistics are presented in Table 3.

Table 3. Student survey results (pretest versus posttest)

#	Item	Pretest Mean (Std. Dev.)	Posttest Mean (Std. Dev.)	Difference	T Statistic [a]
1	Liabilities are detrimental to a firm's operations.	2.82 (1.23)	3.67 (1.22)	-0.85	-3.87***
2	Certain liabilities could be viewed as favorable to a firm's operations.	1.91 (0.80)	1.36 (0.49)	0.54	4.61***
3	As future economic sacrifices, liabilities represent a negative consequence associated with a past event.	3.02 (1.05)	3.64 (1.03)	-0.62	-3.61***
4	For a firm like Starbucks, unearned/deferred revenues will typically represent a small portion of the firm's total liabilities.	2.62 (1.18)	3.25 (1.31)	-0.63	-3.16**
5	The only way to reduce an unearned/deferred revenue liability is by providing the product or service for which the customer has prepaid.	2.29 (1.20)	2.91 (1.53)	-0.62	-2.56*

Note. N = 55 [a] T-statistics and levels of significance are based on pretest/posttest difference.
* Significant at the p<0.10 level.
** Significant at the p<0.01 level.
***Significant at the p<0.001 level.

Additionally, the six quantitative items exclusive to the posttest survey were compared with both a neutral (3 – *Neither Agree or Disagree*) as well as a 2 (*Agree*) value. In each case, the results showed a highly significant effect that students strongly benefited from and enjoyed the activity. All six items had averages that were at or below 1.33 (5-point Likert scale with 1 – *Strongly Agree*). Two statements with which students agreed strongly were questions 9 and 11 (“this activity was helpful in illustrating the potential economic benefits a firm can derive from certain liabilities” and “this activity was a valuable use of class time”) displaying averages of 1.25 (p <0.001). The results of the exclusive posttest questions are presented in Table 4.

Qualitatively, students were extremely positive about the benefits of this classroom activity. In particular, a number of students indicated that they enjoyed that this activity was done in groups and used actual company data. A summary of comments provided by students is included in Table 5.

Table 4. Student survey results (posttest items)

#	Item	Posttest Mean (Std. Dev.)	T Statistic [a] Versus 3 = neutral	T Statistic [a] Versus 2 = agree
6	This activity helped me to better understand the magnitude of unearned/deferred revenues for a firm like Starbucks.	1.24 (0.42)	-25.76***	-11.15**
7	This activity helped me to better understand the accounting for unearned/deferred revenues.	1.29 (0.47)	-22.36***	-9.28***
8	This activity exposed me to how firms handle unclaimed or unused balances on gift cards.	1.31 (0.38)	-21.88***	-8.94***
9	This activity was helpful in illustrating the potential economic benefits a firm can derive from certain liabilities.	1.25 (0.35)	-25.04***	-10.97***
10	Completing this activity as a team was beneficial to my understanding of the issues.	1.33 (0.58)	-17.19***	-6.92***
11	This activity was a valuable use of class time.	1.25 (0.32)	-25.03***	-10.69***
12	Please provide any comments or feedback that you would like to offer about this activity.	n/a	n/a	n/a

Note. N = 55 [a] T-statistics and levels of significance are based on the difference between both sample mean and a neutral response (3 – *Neither Agree or Disagree* on the 5-point Likert scale) and the sample mean and agree response (2 on the 5-point Likert scale).
** Significant at the $p<0.01$ level.
***Significant at the $p<0.001$ level.

Table 5. Student survey results (qualitative comments)

- This was a very effective activity and working in groups was very helpful.
- It was very helpful and actually nice to do in class so that we can ask questions to you or other classmates in the classroom.
- It was a great opportunity to understand how some companies benefit from unearned revenues.
- I love this activity! It was very cool to be able to work with a real-world example.
- I enjoyed learning about accounting material as it relates to a real-life companies reports.
- I would actually like more of these type of examples if you could find the class time to do more of these.
- Good idea and very interesting.
- Very challenging questions that were fun to work through.
- I believe that this was a great activity to further the understanding of the unearned revenue liability.
- I enjoyed the activity and I think that it helped me better understand unearned revenue.
- Very helpful, it really helps seeing how real-life events are in accounting and it is not just a problem from the book. It is good practice seeing real numbers and scenarios to better understand how companies function and operate.
- I enjoyed this activity because it gave me a chance to analyze real life scenarios.
- It was a fun yet challenging activity. It was nice to get to work in groups to solve problems.

Discussion and Conclusion

The version of this exercise's requirements presented is somewhat introductory. However, there are several opportunities to delve deeper, depending on the instructor's or students' interests. For example, one option could be for students to conduct research to determine Starbucks' balance of deferred revenues for a more recent period. Additionally, student teams could be asked to consider other retailers and report their balance sheet liabilities and disclosures related to issued gift cards.

The Starbucks Card exercise can also be adapted for use in several alternative contexts. For classes that have a legal or governmental accounting focus, a deeper dive into unclaimed property requirements for gift cards (varying by state) might be appropriate. The activity could also be broadened to could include other accounting topics (e.g., exploring how gift card revenue relates to total revenue, review of deferred revenue's impact on the statement of cash flow, and other financial statement analyses).[3]

Instructors may also want to explore the nature of financial statement disclosures—especially because no definitive gift card disclosure requirements exist (Hennes and Schenck 2014). Starbucks no longer publishes the *Historical Starbucks Card Statistics.* Instead, it provides a *Starbucks Card, Loyalty and Mobile Dashboard* that provides only summary information for data related to Starbucks Card transactions, total dollars loaded, and number of active members in the Starbucks loyalty program.[4] To explore this further, students might be asked to consider why Starbucks discontinued publishing the detailed statistics and the information that might be beneficial to financial statement users. Additionally, an added objective might be to discuss the confidentiality of data and its potential impact on customers, media, or competitors.

For students studying marketing, the concept of hedonic versus utilitarian spending provides an avenue for further study. For classes focusing on ethics, additional discussion centering on accounting estimates behind unredeemed gift cards may prove fruitful.

In conclusion, this stored value gift card class activity uses real data that was available for the Starbucks Card program. While the most recently presented data is from several years ago, the activity provides students with an intuitive and fairly simple example of gift card liability accounting. In fact, the growth of the Starbucks' liability from the last published period of 2012 compared to 2017 provides some interesting discussion points about the magnitude and growth of these liabilities for firms.

This simple to execute activity generates significant student interest and helps students better understand accounting and financial reporting information. The pretest/postest survey data indicates that students' understanding of key issues surrounding gift card accounting was significantly enhanced as a result of this activity. The exercise helps students consider what is meant by an accounting liability and that this classification should not necessarily be viewed as negative circumstance. Finally, this activity helps students think critically about the multidisciplinary nature of issues associated with gift card programs.

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[3] To assist with the variety of directions this activity can be guided, the Consolidated Balance Sheets and Consolidated Statements of Cash Flows for the three periods ending on September 30, 2012 have been included in Appendix E.

[4] As of the publication date, this information can be retrieved by clicking the *Starbucks Card, Loyalty, and Mobile Dashboard* link found by visiting this site: https://investor.starbucks.com/financial-data/supplemental-financial-data/default.aspx

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Appendix A

Starbucks Corporation Consolidated Balance Sheets

STARBUCKS CORPORATION
CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	Sep 30, 2012	Oct 2, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,188.6	$ 1,148.1
Short-term investments	848.4	902.6
Accounts receivable, net	485.9	386.5
Inventories	1,241.5	965.8
Prepaid expenses and other current assets	196.5	161.5
Deferred income taxes, net	238.7	230.4
Total current assets	4,199.6	3,794.9
Long-term investments — available-for-sale securities	116.0	107.0
Equity and cost investments	459.9	372.3
Property, plant and equipment, net	2,658.9	2,355.0
Other assets	385.7	409.6
Goodwill	399.1	321.6
TOTAL ASSETS	$ 8,219.2	$ 7,360.4
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 398.1	$ 540.0
Accrued liabilities	1,133.8	940.9
Insurance reserves	167.7	145.6
Deferred revenue	510.2	449.3
Total current liabilities	2,209.8	2,075.8
Long-term debt	549.6	549.5
Other long-term liabilities	345.3	347.8
Total liabilities	3,104.7	2,973.1
Shareholders' equity:		
Common stock ($0.001 par value) — authorized, 1,200.0 shares; issued and outstanding, 749.3 and 744.8 shares, respectively (includes 3.4 common stock units in both periods)	0.7	0.7
Additional paid-in capital	39.4	40.5
Retained earnings	5,046.2	4,297.4
Accumulated other comprehensive income	22.7	46.3
Total shareholders' equity	5,109.0	4,384.9
Noncontrolling interests	5.5	2.4
Total equity	5,114.5	4,387.3
TOTAL LIABILITIES AND EQUITY	$ 8,219.2	$ 7,360.4

See Notes to Consolidated Financial Statements.

Appendix B

Starbucks Corporation Notes to Consolidated Financial Statements
(Excerpt from Summary of Significant Accounting Policies)

Stored Value Cards

Revenues from our stored value cards, primarily Starbucks Cards, are recognized when redeemed or when the likelihood of redemption, based on historical experience, is deemed to be remote. Outstanding customer balances are included in deferred revenue on the consolidated balance sheets. There are no expiration dates on our stored value cards, and we do not charge any 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 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, card balances may then be recognized in the consolidated statements of earnings, in net interest income and other. For the fiscal years ended September 30, 2012, October 2, 2011, and October 3, 2010, income recognized on unredeemed stored value card balances was $65.8 million, $46.9 million, and $31.2 million, respectively. In fiscal 2012, we recognized additional income associated with unredeemed gift cards due to a recent court ruling relating to state unclaimed property laws.

Customers in the US, Canada, and the UK who register their Starbucks Card are automatically enrolled in the My Starbucks Reward program and earn points ("Stars") with each purchase. Reward program members receive various benefits depending on the number of Stars earned in a 12-month period. The value of Stars earned by our program members towards free product is included in deferred revenue and recorded as a reduction in revenue at the time the Stars are earned, based on the value of Stars that are projected to be redeemed.

Appendix C

Historical Starbucks Card Statistics

Starbucks Coffee Company
Historical Starbucks Card Statistics - Total Company
(Updated as of September 30, 2012)

Current Quarter	Activations	Value of Activations	Avg Activation Transaction	Reloads	Value of Reload Transactions	Avg Reload Transaction	Redemptions	Value of Redemptions (Net Sales)	Avg Redemption Transaction
Q4 2012	14,500,000	$ 160,400,000	$ 11.00	23,900,000	$ 538,800,000	$ 23.00	148,100,000	$ (690,300,000)	$ (5.00)
Q3 2012	15,700,000	$ 186,800,000	$ 12.00	22,700,000	$ 518,300,000	$ 23.00	151,700,000	$ (703,200,000)	$ (5.00)
Q2 2012	13,400,000	$ 154,300,000	$ 12.00	20,800,000	$ 476,600,000	$ 23.00	162,900,000	$ (745,500,000)	$ (5.00)
Q1 2012	31,300,000	$ 437,200,000	$ 14.00	19,600,000	$ 460,300,000	$ 23.00	137,200,000	$ (666,900,000)	$ (5.00)
Q4 2011	9,500,000	$ 124,800,000	$ 13.00	16,700,000	$ 393,300,000	$ 24.00	116,800,000	$ (531,100,000)	$ (5.00)
Q3 2011	13,000,000	$ 173,600,000	$ 13.00	16,000,000	$ 381,900,000	$ 24.00	121,100,000	$ (546,300,000)	$ (5.00)
Q2 2011	10,000,000	$ 128,800,000	$ 13.00	14,300,000	$ 341,100,000	$ 24.00	130,800,000	$ (583,900,000)	$ (4.00)
Q1 2011	27,000,000	$ 393,300,000	$ 15.00	12,600,000	$ 309,700,000	$ 25.00	105,300,000	$ (496,500,000)	$ (5.00)
Q4 2010	8,300,000	$ 116,200,000	$ 14.00	11,400,000	$ 283,600,000	$ 25.00	94,900,000	$ (410,400,000)	$ (4.00)
Q3 2010	11,200,000	$ 148,400,000	$ 13.00	10,100,000	$ 250,500,000	$ 25.00	91,300,000	$ (394,000,000)	$ (4.00)
Q2 2010	8,500,000	$ 113,300,000	$ 13.00	8,800,000	$ 218,400,000	$ 25.00	106,600,000	$ (460,500,000)	$ (4.00)
Q1 2010	22,900,000	$ 339,700,000	$ 15.00	6,400,000	$ 168,500,000	$ 26.00	72,200,000	$ (312,000,000)	$ (4.00)
Q4 2009	6,600,000	$ 96,800,000	$ 15.00	5,900,000	$ 156,200,000	$ 26.00	67,500,000	$ (271,900,000)	$ (4.00)
Q3 2009	9,200,000	$ 129,700,000	$ 14.00	6,000,000	$ 157,200,000	$ 26.00	74,900,000	$ (298,000,000)	$ (4.00)
Q2 2009	7,300,000	$ 100,100,000	$ 14.00	5,900,000	$ 151,000,000	$ 26.00	103,200,000	$ (418,300,000)	$ (4.00)
Q1 2009	26,700,000	$ 406,200,000	$ 15.00	5,800,000	$ 151,100,000	$ 26.00	74,700,000	$ (323,400,000)	$ (4.00)
Q4 2008	7,900,000	$ 122,600,000	$ 16.00	5,300,000	$ 139,400,000	$ 26.00	64,000,000	$ (262,500,000)	$ (4.00)
Q3 2008	11,000,000	$ 158,100,000	$ 14.00	4,600,000	$ 125,400,000	$ 27.00	68,700,000	$ (281,100,000)	$ (4.00)
Q2 2008	8,700,000	$ 129,600,000	$ 15.00	4,000,000	$ 105,700,000	$ 26.00	91,700,000	$ (378,200,000)	$ (4.00)
Q1 2008	27,400,000	$ 413,600,000	$ 15.00	3,800,000	$ 104,700,000	$ 28.00	66,900,000	$ (291,200,000)	$ (4.00)
Q4 2007	7,800,000	$ 112,700,000	$ 14.00	3,600,000	$ 97,800,000	$ 27.00	53,100,000	$ (217,400,000)	$ (4.00)
Q3 2007	10,900,000	$ 157,100,000	$ 14.00	3,800,000	$ 98,600,000	$ 26.00	60,800,000	$ (244,600,000)	$ (4.00)
Q2 2007	8,000,000	$ 115,400,000	$ 14.00	3,700,000	$ 96,400,000	$ 26.00	82,200,000	$ (327,700,000)	$ (4.00)
Q1 2007	23,600,000	$ 352,200,000	$ 15.00	3,400,000	$ 90,500,000	$ 27.00	59,100,000	$ (248,000,000)	$ (4.00)
Q4 2006	6,900,000	$ 93,500,000	$ 14.00	3,300,000	$ 83,900,000	$ 25.00	45,200,000	$ (175,500,000)	$ (4.00)
Q3 2006	8,600,000	$ 120,900,000	$ 14.00	3,100,000	$ 83,500,000	$ 27.00	50,200,000	$ (195,200,000)	$ (4.00)
Q2 2006	6,700,000	$ 93,000,000	$ 14.00	3,300,000	$ 85,300,000	$ 26.00	66,600,000	$ (257,800,000)	$ (4.00)
Q1 2006	17,900,000	$ 257,400,000	$ 14.00	3,000,000	$ 76,100,000	$ 25.00	46,300,000	$ (188,800,000)	$ (4.00)

Note: The *Historical Starbucks Card Statistics* were retrieved from the supplementary financial data section of the Starbucks investor relations website. However, the data presented above from 2006 to 2012 represents the last time that Starbucks made this data publicly available. Instead, since 2013 they have presented a *Starbucks Card, Loyalty and Mobile Dashboard* that does not provide all of the information necessary for users to reconcile deferred revenue account balances.

Appendix D

Starbucks Exercise Questions

The following questions are provided to the students along with information from Appendices A, B, and C:

1. To what financial statement line item (on the attached balance sheets) does the Starbucks Card relate? What dollar amounts are shown for this caption on the balance sheets?

2. What does Starbucks do to reflect that some Starbucks Cards (or partial balances) are likely to not be redeemed or fully redeemed?

3. Using 2012 statistics (and information from the excerpt from the *Notes to the Consolidated Financial Statements*), prepare an analysis that reconciles 2011's financial statement line item total (identified in question 1) to 2012's.

4. How does the pattern of the financial statement item change by quarter? What causes this? What cash flow implications result from this?

5. When you are given a Starbucks Card (or other gift card), does it alter your buying behavior?

6. What benefits does Starbucks receive from its customers' purchase and use of Starbucks Cards? So…is the significant liability related to the Starbucks Card detrimental to the firm's operations? Is a liability necessarily a *negative thing*?

Appendix E

Consolidated Statements of Earnings and Consolidated Statements of Cash Flows

STARBUCKS CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS
(in millions, except per share data)

Fiscal Year Ended	Sep 30, 2012	Oct 2, 2011	Oct 3, 2010
Net revenues:			
Company-operated stores	$ 10,534.5	$ 9,632.4	$ 8,963.5
Licensed stores	1,210.3	1,007.5	875.2
CPG, foodservice and other	1,554.7	1,060.5	868.7
Total net revenues	13,299.5	11,700.4	10,707.4
Cost of sales including occupancy costs	5,813.3	4,915.5	4,416.5
Store operating expenses	3,918.1	3,594.9	3,471.9
Other operating expenses	429.9	392.8	279.7
Depreciation and amortization expenses	550.3	523.3	510.4
General and administrative expenses	801.2	749.3	704.6
Restructuring charges	—	—	53.0
Total operating expenses	11,512.8	10,175.8	9,436.1
Gain on sale of properties	—	30.2	—
Income from equity investees	210.7	173.7	148.1
Operating income	1,997.4	1,728.5	1,419.4
Interest income and other, net	94.4	115.9	50.3
Interest expense	(32.7)	(33.3)	(32.7)
Earnings before income taxes	2,059.1	1,811.1	1,437.0
Income taxes	674.4	563.1	488.7
Net earnings including noncontrolling interests	1,384.7	1,248.0	948.3
Net earnings (loss) attributable to noncontrolling interests	0.9	2.3	2.7
Net earnings attributable to Starbucks	$ 1,383.8	$ 1,245.7	$ 945.6
Earnings per share — basic	$ 1.83	$ 1.66	$ 1.27
Earnings per share — diluted	$ 1.79	$ 1.62	$ 1.24
Weighted average shares outstanding:			
Basic	754.4	748.3	744.4
Diluted	773.0	769.7	764.2
Cash dividends declared per share	$ 0.72	$ 0.56	$ 0.36

STARBUCKS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

Fiscal Year Ended	Sep 30, 2012	Oct 2, 2011	Oct 3, 2010
OPERATING ACTIVITIES:			
Net earnings including noncontrolling interests	$ 1,384.7	$ 1,248.0	$ 948.3
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	580.6	550.0	540.8
Gain on sale of properties	—	(30.2)	—
Deferred income taxes, net	61.1	106.2	(42.0)
Income earned from equity method investees, net of distributions	(49.3)	(32.9)	(17.2)
Gain resulting from acquisition of joint ventures	—	(55.2)	(23.1)
Stock-based compensation	153.6	145.2	113.6
Other	23.6	33.3	75.5
Cash provided/(used) by changes in operating assets and liabilities:			
Accounts receivable	(90.3)	(88.7)	(33.4)
Inventories	(273.3)	(422.3)	123.2
Accounts payable	(105.2)	227.5	(3.6)
Accrued liabilities and insurance reserves	23.7	(81.8)	(18.7)
Deferred revenue	60.8	35.8	24.2
Prepaid expenses, other current assets and other assets	(19.7)	(22.5)	17.3
Net cash provided by operating activities	1,750.3	1,612.4	1,704.9
INVESTING ACTIVITIES:			
Purchase of investments	(1,748.6)	(966.0)	(549.0)
Maturities and calls of investments	1,796.4	430.0	209.9
Acquisitions, net of cash acquired	(129.1)	(55.8)	(12.0)
Additions to property, plant and equipment	(856.2)	(531.9)	(445.8)
Cash proceeds from sale of property, plant, and equipment	5.3	117.4	5.1
Other	(41.8)	(13.2)	2.3
Net cash used by investing activities	(974.0)	(1,019.5)	(789.5)
FINANCING ACTIVITIES:			
(Payments)/proceeds from short-term borrowings	(30.8)	30.8	—
Purchase of noncontrolling interest	—	(27.5)	(45.8)
Proceeds from issuance of common stock	236.6	250.4	132.8
Excess tax benefit from exercise of stock options	169.8	103.9	36.9
Cash dividends paid	(513.0)	(389.5)	(171.0)
Repurchase of common stock	(549.1)	(555.9)	(285.6)
Minimum tax withholdings on share-based awards	(58.5)	(15.0)	(4.9)
Other	(0.5)	(5.2)	(8.4)
Net cash used by financing activities	(745.5)	(608.0)	(346.0)
Effect of exchange rate changes on cash and cash equivalents	9.7	(0.8)	(5.2)
Net increase (decrease) in cash and cash equivalents	40.5	(15.9)	564.2
CASH AND CASH EQUIVALENTS:			
Beginning of period	1,148.1	1,164.0	599.8
End of period	$ 1,188.6	$ 1,148.1	$ 1,164.0
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest, net of capitalized interest	$ 34.4	$ 34.4	$ 32.0
Income taxes	$ 416.9	$ 350.1	$ 527.0