

The Company records a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company records interest and penalties related to unrecognized tax benefits in interest expense and operating, selling, general and administrative expenses, respectively, in the Company's Consolidated Statements of Income. Refer to [Note 9](#) for additional income tax disclosures.

In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* ("ASU 2018-02"). This ASU provides that the stranded tax effects from the Tax Cuts and Jobs Act of 2017 ("Tax Act") in accumulated other comprehensive loss may be reclassified to retained earnings. The Company adopted this ASU on February 1, 2018, which resulted in an immaterial negative adjustment to retained earnings.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* . This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The Company adopted this ASU on February 1, 2018, using the modified retrospective approach and applied this ASU only to contracts not completed as of February 1, 2018. The accounting policies and other disclosures are below as well as the disclosure of disaggregated revenues in [Note 15](#) . The impact of adopting this ASU was not material to the Consolidated Financial Statements.

Net Sales

The Company recognizes sales revenue, net of sales taxes and estimated sales returns, at the time it sells merchandise to the customer. eCommerce sales include shipping revenue and are recorded upon delivery to the customer. Additionally, estimated sales returns are calculated based on expected returns.

Membership Fee Revenue

The Company recognizes membership fee revenue both in the U.S. and internationally over the term of the membership, which is typically 12 months. Membership fee revenue was \$1.4 billion for each of fiscal 2019, 2018 and 2017, respectively. Membership fee revenue is included in membership and other income in the Company's Consolidated Statements of Income. Deferred membership fee is included in accrued liabilities in the Company's Consolidated Balance Sheets.

Gift Cards

Customer purchases of gift cards are not recognized as sales until the card is redeemed and the customer purchases merchandise using the gift card. Gift cards in the U.S. and some countries do not carry an expiration date; therefore, customers and members can redeem their gift cards for merchandise and services indefinitely. Gift cards in some countries where the Company does business have expiration dates. While gift cards are generally redeemed within 12 months, a certain number of gift cards, both with and without expiration dates, will not be fully redeemed. Management estimates unredeemed balances and recognizes revenue for these amounts in membership and other income in the Company's Consolidated Statements of Income over the expected redemption period. Management periodically reviews and updates its estimates.

Financial and Other Services

The Company recognizes revenue from service transactions at the time the service is performed. Generally, revenue from services is classified as a component of net sales in the Company's Condensed Consolidated Statements of Income.

Contract Balances

Contract balances as a result of transactions with customers primarily consist of receivables included in receivables, net, and deferred gift card revenue included in accrued liabilities in the Company's Condensed Consolidated Balance Sheets. The following table provides the Company's receivables and deferred gift card revenue from transactions with customers:

<i>(Amounts in millions)</i>		As of January 31, 2019	
Assets:			
Receivables from transactions with customers, net	\$		2,538
Liabilities:			
Deferred gift card revenue	\$		1,932