Initially, when we provided the gift certificates to the customers, they are unearned revenues and therefore, should be treated as a liability. So, we add a $7,000 entry for each customer into the Unearned Revenues account (which is a liability).

However, when the customer redeems the code and used $2,300 for the same, we can deduce that they have used 38% of the unearned revenues, meaning that the gross profit would be 0.38 x $2,300 = $874.

Thus, we add this to the Gift Cards Revenue (as an asset) $2,300 and decrease the same from the Unearned Revenues (leaving $7,000 - $2,300 = $4,700 as deferred revenue).

The Gross margin for profit reported would be : $874 with $2,300 - $874 = $1,426 as the COGS (cost of goods sold).