

# ANTICIPATED REBATE STRATEGY

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With advanced planning, you can use the **Anticipated Rebate Strategy**<sup>i</sup> to estimate your final product rebates, resulting in more accurate product costs and margins all year long.

## What you'll find:

What is the Anticipated Rebate Strategy?.....	1
The Example Scenario .....	2
Preparing for Anticipated Rebates.....	3
Adding the GL Account(s).....	3
Anticipated Rebates Inventory Cycle .....	4
Recording the Inventory Receipt.....	4
Recording the Purchase Invoice .....	4
Recording the Actual Rebate.....	9
What If I Get a Cheque Instead of a Credit on Account? .....	10
(optional) Applying Supplier Credits .....	12
Dealing with Anticipated Rebate Left Overs .....	13

## What is the Anticipated Rebate Strategy?

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The **Anticipated Rebate Strategy** uses a **GL account** (or several of them) for the purpose of estimating the dollar amount of the rebate(s) you think you are going to get in the future. You use the dollars in this account to record a more accurate product cost *now*, even though the rebate dollars may not have arrived yet (i.e. you are *anticipating* a rebate and treating the cost of the product as though you have received the rebate already). When you receive the actual rebate from the supplier, you'll apply those funds against the Anticipated Rebate Account: in a perfect world, your estimated rebate will match the actual rebate and the ending value of the Anticipated Rebate GL account would be \$0.

### Why Would I Want More Than One GL Account?

You may decide to have a separate **Anticipated Rebate GL Account** for every rebate that you're going to get, or you may want to differentiate them by product type or supplier or manufacturer.

**Note:** If you use a 4-9 account, the value in the GL will be cleared as part of year end procedures.  
If you need the value to carry over from year to year, use a 1 2 or 3 account.  
Or check with your accountant to see what they'd prefer.

### When Would I Use an Anticipated Rebate Strategy?

You would use **Anticipated Rebate GL Accounts** when you want the cost of a product to reflect the anticipated rebate all year long, not just *after* you receive the rebate.

## The Example Scenario

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All the examples in this paper are based on the following scenario:

You purchase **35 jugs** of the chemical GrowFaster. At the time of purchase it **costs \$100/jug** and you receive an invoice from your supplier for \$3500. You **anticipate** that you are going to get a **\$50/jug rebate** at the end of the season. You want to record the cost of GrowFaster now as if it already included the rebate, so that your product margins are more accurate throughout the entire growing season.

**Notes:** When you follow the Anticipated Rebate strategy, after selling the product agrē will post \$50 to the COGS account (the cost you have decided to use, as it includes the 'anticipated rebate') instead of \$100 (the full cost).

All margin calculations will be based on the 'anticipated' \$50 cost.

# Preparing for Anticipated Rebates

**Note:** This is a task you will do only once.

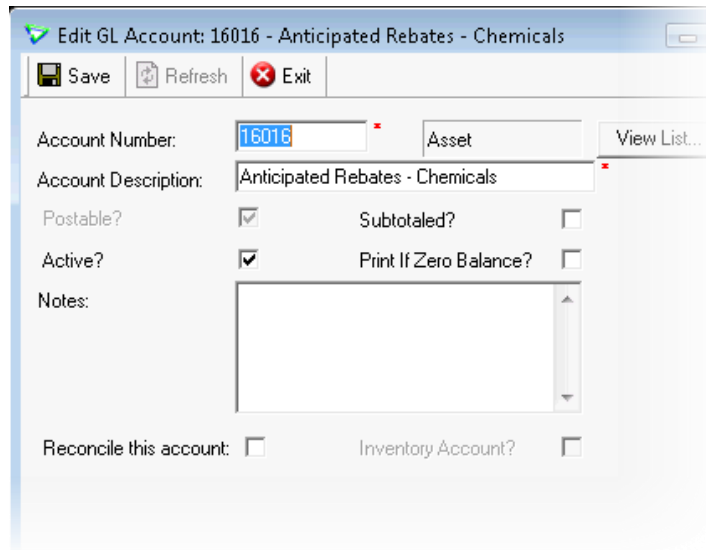
Once the Anticipated Rebate GL(s) are setup, you won't need to do it again.

## Adding the GL Account(s)

The first thing you need to do is create one or **several Anticipated Rebate GL Accounts**.

Essentially, you will pretend that you have already gotten a rebate cheque ... even though you haven't yet. You will spend 'anticipated rebate money' from the account to reduce the cost of goods sold now – then when the actual rebate shows up, you will apply it to the 'overdraft' you created.

Add one or more new GL accounts named something obvious.



General Ledger > Manage > Chart of Accounts

# Anticipated Rebates Inventory Cycle

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## Recording the Inventory Receipt

When inventory with an anticipated rebates arrives, it is recorded on an **Inventory Receipt** just like usual.

## Recording the Purchase Invoice

When you add the purchase invoice for this inventory, you want the cost of the inventory to include the anticipated rebate amount. To do this, you have two options:

- **Recommended:** you can cost the inventory just as the supplier charged you (i.e. at full price) and then add a **cost adjustment** that uses the Anticipated Rebate account to reduce that cost by the amount you estimate the anticipated rebate will be.

Using a cost adjustment requires a couple of extra steps, but leaves a clear audit trail of the steps you took.

- **Alternate:** you can cost the inventory at the value you decide and then add a **non-inventory purchase** that uses the Anticipated Rebate account to increase the total of the PI to match the bill you received from the supplier

Using a non-inventory purchase leaves you with a PI that has a 'mismatched' unit cost, but is quicker to enter.

### Tip

Both options will benefit from generous use of the **Comments** fields on each transaction. It makes the audit trail easier to follow later.

## Option 1: Using an Offsetting Cost Adjustment

### Tip

This is the **recommended option**.

Using a cost adjustment to record the anticipated rebate is a two purchase invoice process, but results in a very clear and easy-to-follow audit trail.

Create a new **Purchase Invoice** for the supplier. Add or import the **inventory receipt** for GrowFaster to the **Inventory Purchases tab**. Specify the cost of the product at the actual cost of \$100/jug.

Supplier: Zenobish Chemical Supply (50013) Find Add

Invoice Date: Jul 13, 2011 Reference Number: 110713-01

Due Date: Aug 12, 2011 Location: Edmonton

Comments

Non-Inventory Purchases | **Inventory Purchases (1)** | Cost Adjustments | Taxes and Credits

Product	Reference	Location	PO Reference	Quantity	Unit	GST	GST Incl.	Unit Cost	Line Total
> GROWFASTER - GrowFaster 4L jug	110713-01	Edmonton		35.0000	JUG			\$100.00	\$3,500.00

Inventory Subtotal: \$3,500.00

Buttons: Add Inventory Receipt, Import Inventory Receipt, Remove Row, Link to PO, Pricing/Taxes, Show Details

Totals:

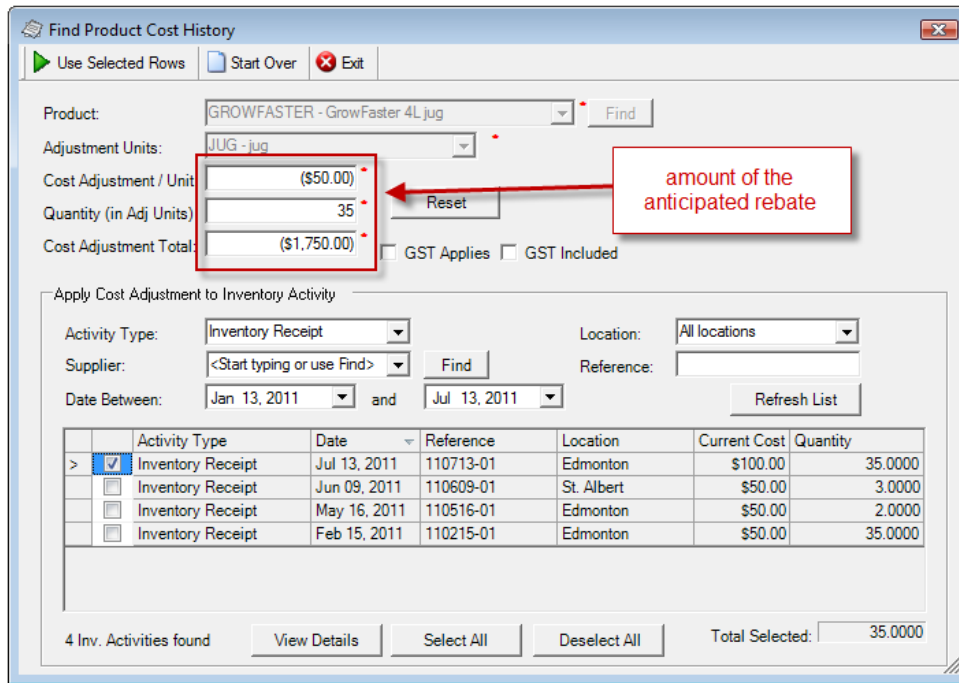
- Total Non-Inventory: \$0.00
- Total Inventory: \$3,500.00
- Total Cost Adjustments: \$0.00
- Total Taxes: \$0.00
- Total Purchase Invoice: \$3,500.00**

Annotations:

- matches total on supplier's invoice (blue arrow pointing to Total Purchase Invoice)
- unit cost is the actual cost on the supplier's purchase invoice (no rebates included) (red arrow pointing to Unit Cost)

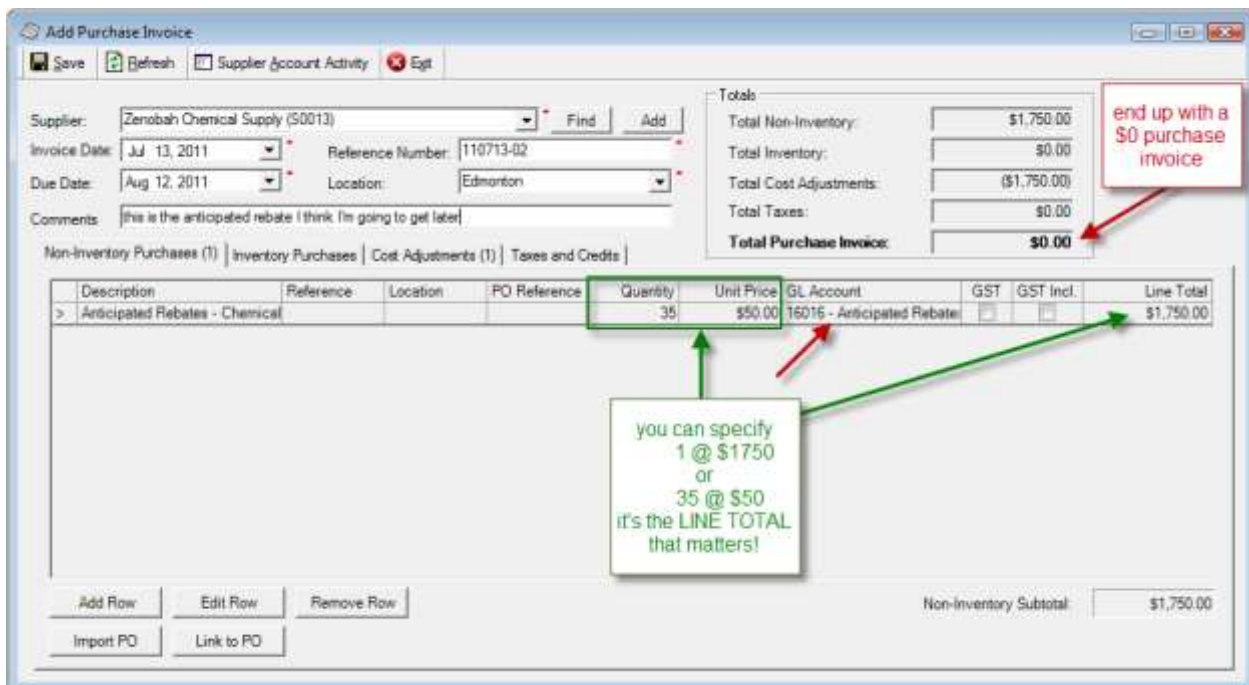
Accounts Payable > Purchase Invoices > Inventory Purchases tab

Create another new **Purchase Invoice** for the supplier. Add a **cost adjustment** to reduce the cost of the product by the amount of the anticipated rebate. That takes care of the costing side of the anticipated rebate.



Accounts Payable > Purchase Invoices > Cost Adjustments tab

Now you need to get the value of the *anticipated* rebate into the Anticipated Rebate Account. On the same PI, switch to the **Non-Inventory Purchases** tab and add a row referencing the **Anticipated Rebates** account. You'll end up with a \$0 purchase invoice.



Accounts Payable > Purchase Invoices > Non-Inventory tab

## Option 2: Using an Offsetting Non-Inventory Purchase

**Caution** When you use this option, you end up with a 'mismatched' unit cost (the cost on the agrē PI won't match the cost on the paper PI the supplier sent you) so the audit trail can be harder to follow later on, but it is quicker to enter.

Create a new **Purchase Invoice**. Add or import the **inventory receipt** for GrowFaster to the **Inventory Purchases tab**. Specify the cost of the product at the "anticipated cost" of \$50/jug.

The screenshot shows the 'Add Purchase Invoice' window with the following details:

- Supplier: Zenobah Chemical Supply (S0013)
- Invoice Date: Feb 15, 2011
- Due Date: Mar 17, 2011
- Location: Edmonton
- Comments: using the black box for more accurate product marings

**Totals:**

Total Non-Inventory:	\$0.00
Total Inventory:	\$1,750.00
Total Cost Adjustments:	\$0.00
Total Taxes:	\$0.00
<b>Total Purchase Invoice:</b>	<b>\$1,750.00</b>

Product	Reference	Location	PO Reference	Quantity	Unit	GST	GST Incl.	Unit Cost	Line Total
> GROWFASTER - Grow 4L jug	110215-01	Edmonton		35.0000	JUG	<input type="checkbox"/>	<input type="checkbox"/>	\$50.00	\$1,750.00

Inventory Subtotal: \$1,750.00

unit cost is what you think it WILL BE after future rebates

Accounts Payable > Purchase Invoices > Inventory Purchases tab

The inventory purchase accounts for \$1750 of the supplier's invoice. Put the amount of the **anticipated future rebate** as a **non-inventory purchase**, referencing the appropriate GL account, so that the total on the *agrē* purchase invoice matches the total on the *supplier's* invoice.

Supplier: Zenobah Chemical Supply (50013)

Invoice Date: Feb 15, 2011 Reference Number: Location: Edmonton

Due Date: Mar 17, 2011

Comments: Using the black box for more accurate product markings

Description	Reference	Location	PO Reference	Quantity	Unit Price	GL Account	GST	GST Incl.	Line Total
> Anticipated Rebates - Chemical				35	\$50.00	16016 - Anticipated Rebate			\$1,750.00

Totals:

Total Non-Inventory:	\$1,750.00
Total Inventory:	\$1,750.00
Total Cost Adjustments:	\$0.00
Total Taxes:	\$0.00
<b>Total Purchase Invoice:</b>	<b>\$3,500.00</b>

Non-Inventory Subtotal: \$1,750.00

You can specify:  
1 @ \$1750  
OR  
35 @ \$50  
it's the LINE TOTAL that matters!

total amount of anticipated rebate

matches total on supplier's invoice

Accounts Payable > Purchase Invoices > Non-Inventory Purchases tab



## Recording the Actual Rebate

When you receive the rebate as a credit on your account from the supplier, you'll reduce the amount you owe the supplier and reduce the dollar amount of **Anticipated Rebates** in the GL Account (because you got an actual rebate, it's not anticipated anymore).

Create a new **Purchase Invoice**. On the **non-inventory purchases tab**, record the amount of the rebate as a negative amount. This will decrease your supplier balance by the amount of the rebate (you will owe them less), and reduce the dollar amount of "anticipated rebates" in the GL Account.

Description	Reference	Location	PO Reference	Quantity	Unit Price	GL Account	GST	GST Incl	Line Total
> Anticipated Rebates - Chemical				1	(\$1,750.00)	16016 - Anticipated Rebates			(\$1,750.00)

Accounts Payable > Purchase Invoices > Non-Inventory Purchases tab

**Caution** Make sure you take the *actual* rebate out of the **same Anticipated Rebate Account** you used to record it!

## What If I Get a Cheque Instead of a Credit on Account?

When you receive an actual **cheque** from the supplier you'll need to put it in a bank or clearing/holding account and reduce the value of the Anticipated Rebate Account (now that you have an actual rebate, it's not anticipated anymore).

### Record the Cheque

The cheque transaction is not a credit on your account, it is technically a charge: Imagine if one day a supplier just decided to write you a cheque; you would actually owe them for that cheque. It's like you're "buying" cash from them. Once you record the receipt of the cheque, the balance on the supplier's account will look like you "owe" them for the amount of the cheque - until you specify what it's for. It's also not like the usual credit on the supplier account because the funds are coming to you directly and going into the bank, not just showing up as a credit on your statement.

Create a **Purchase Invoice** and add a **non-inventory purchase** for the **positive amount** of the cheque and select the GL for bank receipts. This records the receipt of the cheque.

Description	Reference	Location	PO Reference	Quantity	Unit Price	GL Account	GST	GST Incl.	Line Total
> Clearing Account				1	\$1,750.00	Clearing Account (11111)			\$1,750.00

Accounts Payable > Purchase Invoices > Non-Inventory Purchases tab

## Record the Change to the Anticipated Rebate Account

You know that the cheque is part of the anticipated rebated dollar value in the Anticipated Rebate Account, so you record it as a *reduction* to the remaining dollar value in the Anticipated Rebate Account.

On a new **Purchase Invoice** (to make following the audit trail easier) **or** on the same purchase invoice (to keep all related transactions together), record the reduction to the Anticipated Rebate Account by entering the **negative amount** of the rebate cheque on the **non-inventory purchases tab**.

Description	Reference	Location	PO Reference	Quantity	Unit Price	GL Account	GST	GST Incl.	Line Total
> Anticipated Rebates - Chemical				1	(\$1,750.00)	19016 - Anticipated Rebates			(\$1,750.00)

Non-Inventory Subtotal: (\$1,750.00)

Accounts Payable > Purchase Invoices > Non-Inventory Purchases tab

**Caution** Make sure you take the *actual* rebate out of the **same Anticipated Rebate Account** used to record the *anticipated* rebate!

The net effect to the supplier's account is \$0. To make it easier to remember, think of it this way:

*You're "paying back the cash you owe them" (the cheque)  
with the "rebates they owe you" (the Anticipated Rebate Account reduction)*

## (optional) Applying Supplier Credits

You can apply the credits from the above transactions now, or you may want to wait until a more convenient time.

The screenshot shows a software window titled "Apply AP Credits" with a menu bar containing "Save", "Start Over", "Auto Apply", and "Exit". The window is divided into two main sections: "Unapplied Credits" and "Apply to".

**Unapplied Credits Table:**

Apply	Reference	Date	Type	Credit Available	
<input checked="" type="checkbox"/>	110215-03	Feb 15, 2011	Invoice	\$1,750.00	
>	<input checked="" type="checkbox"/>	110215-05	Feb 15, 2011	Invoice	\$1,750.00

Buttons: Select All, Deselect All, View Item

**Apply to Table:**

Reference	Invoice Date	Due Date	Orig. Amount	Outstanding	Amount to Apply
tgjid	Dec 14, 2010	Jan 13, 2011	\$6,000.00	\$6,000.00	\$0.00
110215-02	Feb 15, 2011	Mar 17, 2011	\$3,500.00	\$3,500.00	\$1,750.00
>	110215-04	Feb 15, 2011	\$1,750.00	\$1,750.00	\$1,750.00

Available Amount: \$0.00 View Item

Accounts Payable > Supplier Accounts > Supplier Details/Advanced > Apply Credits

## Dealing with Anticipated Rebate Left Overs

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Unless you are a truly gifted forecaster, the actual dollar value of the rebates you receive will not equal the amount you anticipated (the amount you posted to the Anticipated Rebate Account).

Run the **GL Account Transaction Detail Report** for the Anticipated Rebate Account.

- if there is a **positive balance** (money left over) that means the rebates you actually received were less than you thought you'd get, and your **COGS is more** than you thought it would be
- if there is a **negative balance** that mean the rebates you actually received were more than you thought you'd get, and your **COGS is less** than you thought it would be

It's best to ask your accountant how to deal with any dollar values – positive or negative - left in the Anticipated Rebate Account.

Options you and your accountant may consider:

- applying the dollars as a cost adjustment to inventory you have on hand, further reducing or increasing product costs
- placing the dollars into an expense account
- placing the dollars directly into COGS (where the overall product margin will be affected as seen on the Income Statement, but individual product margins will not change)

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**Note:** If you have any questions or require further assistance with the Anticipated Rebate Strategy, please contact your CSC at [support@tronia.com](mailto:support@tronia.com).

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<sup>i</sup> also referred to as The Black Box Strategy