



# **ANTICIPATED REBATE STRATEGY**

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.

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### What is the Anticipated Rebate Strategy?

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

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.

💝 Edit GL Account: 160	016 - Anticipa	ated Rebates - Chemica	als	
📕 Save 🛛 🕼 Refresh	🔇 Exit			
Account Number:	16016	Asset		View List
Account Description:	Anticipated H	ebates - Chemicals		
Active?		Subtotaled? Print If Zero Balance?		
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Reconcile this account:		Inventory Account?	Γ	

General Ledger > Manage > Chart of Accounts

# Anticipated Rebates Inventory Cycle

#### **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 antipacted 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.

TipBoth options will benefit from generous use of the Comments fields on each<br/>transaction. It makes the audit trail easier to follow later.

#### Option 1: Using an Offsetting Cost Adjustment

Tip	This is the <b>recommended option</b> .
	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 Invoice Date Due Date Comments Non-Invents	Zendosh Overs Jau 13, 2011 Aug 12, 2011	eal Supply (St	Refere Locatio	nce Number: 11 an Ei Cost Adjustments	10713-01 dmonton	nt	Totals Total Non-Inventory: Total Inventory: Total Cost Adjustments Total Taxes: Total Purchase Inves		\$3.5 \$3.5	\$0.00 60.00 \$5.00 \$0.00	matches tota on supplier's invoice
Frod. > GRO	iet WFASTER - Gro	wFaster 4L ju	g	Reference 110713-01	Location Edmonton	PO Reference	Guanthy Unit 35 0000 JUG	unit cos cost on purchas rebate	t is the act the supplice invoice is included	unit Cent \$100.00 ual er's (no 1)	Line Total \$3,500.00

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.

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Inventory	Receipt	Jun 09, 2011	110609-01	St. Albert	\$50.00	3.0000
Inventory	Receipt	May 16, 2011	110516-01	Edmonton	\$50.00	2.0000
Inventory	Receipt	Feb 15, 2011	110215-01	Edmonton	\$50.00	35.0000
4 Inv. Activities found	d View	Details	Select All	Deselect All	Total Selected:	35.0000
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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.

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Supplier:	Zenobah (	hemical Supply	(50013)		• Find	Add	Total Non-Inventory	\$1,750.00	end up with
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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.

🔄 Add Purchase Invoice						- • ×
Save Refresh Supplier Account Activity	😢 Exit					
Supplier:       Zenobah Chemical Supply (S0013)         Invoice Date:       Feb 15, 2011       Referent         Due Date:       Mar 17, 2011       Location         Comments       using the black box for more accurate provide the black box for	nce Number: n: Edmon duct marings Cost Adjustments T	nton	Add •	Totals Total Non-Inventory: Total Inventory: Total Cost Adjustments: Total Taxes: Total Purchase Invoice:	\$0.00 \$1,750.00 \$0.00 \$0.00 \$1,750.00	
Product SROWFASTER - Grow 4L jug	Reference 110215-01	Location Edmonton	PO Reference	Quantity Unit 35.0000 JUG	GST [GST Incl. Unit Cost \$50.00 unit cost is what you think it WILL BE after future rebates	Line Total \$1,750.00
Add Inventory Receipt Import Inventory Receipt Link to PO Pricing/Taxes Show D	etails	w			Inventory Subtotal:	\$1,750.00

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.



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.

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#### 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.

	2	1000400		-		Totals	41 37 6 65	
ner:	Zenoban Chemical Supp	7 • • · ·		Find	A00	Total Non-Inventory	\$1,750.00	
oe Date:	Feb 15, 2011	Reference	Number: [11	0215-04		Total Inventory:	50.00	
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Add R	ow Edit Row	Remove Rov				Non	-Inventory Subtotal	\$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*.

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upplier:	Zenobah (	Diemical Supply	(\$0013)		• Find	Add	Total Non-Inventory:	(\$1,750.00)	
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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.

>	V V	110215-03 110215-05	Feb 15, 2011 Feb 15, 2011	Invoice Invoice		\$1,750.00 \$1,750.00
>	<b>V</b>	110215-05	Feb 15, 2011	Invoice		\$1,750,00
						\$1,750.00
	Reference	Invoice Date	Due Date 🔺	Orig. Amount	Outstanding	Amount to Apply
	tgjd	Dec 14, 2010	Jan 13, 2011	\$6,000.00	\$6,000.00	\$0.00
		E 1 45 0044	Mar 17 2011	\$3,500,00	\$2,500,00	e1 750 00
	110215-02	Feb 15, 2011	Mai 17, 2011	\$3,300.00	\$3,000.00	\$1,700.00

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

# Dealing with Anticipated Rebate Left Overs

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 balanc**e (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)

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

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