

How To: Recording Supplier Rebate Cheques

Instead of giving you a credit on your account, your supplier has sent you an actual cheque. The money needs to end up in the bank, but you would like to use the funds as a reduction to Cost of Goods sold.

When you receive a cheque from a supplier, even if you don't know exactly what it's for until later (when you receive more details from the supplier), you'll enter it as a non-inventory purchase on a Purchase Invoice.



The cheque transaction is not a credit on our 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. The balance on the supplier's account will look like you "owe" them for the amount of the rebate cheque until you specify what it's for. It's also not like the usual credit on our supplier account, because the funds are coming to us directly and going into the bank, not just showing up as a credit line on our statement.

So, how do we record this?

First, we deal with the cheque:

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

When the details as to what the rebate cheque was for are known, you can record them as Cost Adjustments so that your product margins are more accurate, or you can record them as a general reduction to Cost of Goods Sold so that your overall margin reflects the reduced cost.

- Create a new Purchase Invoice. Enter the cost adjustments as you normally would, as **negative amounts**.

or

- Create a new Purchase Invoice. Enter a non-inventory purchase as you normally would with **negative amounts** and select the COGS account.

The net effect to the supplier's account of both purchase invoices 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 "rebates they owe you" (the cost adjustments).*

