

## ***Supplier rebates in focus***

### ***Accounting practices for supplier rebates face media scrutiny***

Recent media attention has brought into question retailers' accounting for rebates. Reports allege that retailers have maximised rebates on stock not yet sold and recorded these rebates as income or reductions in other expenses. If true, such practices could be in breach of accounting standards.

In response, the boards and audit committees of retailers are asking for greater transparency and assurance regarding their rebates practices and reporting.

### ***What do the accounting standards say?***

There are no specific accounting standards for rebates. Rebates typically relate to cost of goods sold and are therefore captured under AASB 102 *Inventories*. The IFRS Interpretations Committee (IFRIC), which provides guidance and interpretations on existing standards, confirmed many years ago that any cash discounts and on time payment settlement discounts companies receive should be deducted from the cost of inventories. These should then be recognised as a reduction in cost of sales when the inventory is sold rather than recorded as income upfront. However, rebates that specifically and genuinely refund selling expenses would not be deducted from the cost of inventories.

In reality, rebates are often complex arrangements reflecting the different elements of the goods and services exchanged between suppliers and retailers. These include not only the purchase of the inventory from the supplier, but also the marketing and promotion services retailers may coordinate and provide to suppliers. The accounting should follow the substance of these arrangements.

### ***Five key steps to getting rebate accounting right***

The key to getting your rebate accounting right is to ensure you understand both the contractual form and commercial substance of your rebates and the appropriate accounting treatment. This will put you in the best position to respond to questions from your board, audit committee or other stakeholders about your rebate accounting. The following five steps may assist you in developing a good picture of your rebate profile and a well thought out response to any questioning:

1. Prepare an executive summary of rebates by value and type.
2. Compare rebate values and types to prior periods and expectations to enable an assessment of trends and unusual movements.
3. Summarise the accounting treatment for each rebate type and assess if it genuinely reflects the substance of the arrangement.
4. Compare the proportion of systemised rebate processing (generally lower risk) with manual paper-based processing (generally higher risk).
5. Consider obtaining third party assurance over the data that you've relied on in making the above assessments.

Ultimately, getting rebate accounting correct relies on a culture and leadership that encourages accounting for the commercial substance of rebate arrangements and discourages short-term profit maximisation.

*For more information or for a deeper discussion on how these issues might affect your business, contact your usual PwC advisor or:*



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