

Free Product from Vendor

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Free product is often given by vendors as payment. The method of posting the product depends on the situation and, in the case of rebates, depends on how the gain should be recognized on the financial statement. Following are some examples:

- **Free product is given as a type of compensation for a customer appreciation meeting** – The value of this product should be posted into a promotional/advertising account without affecting the current Average Cost of the free product. This is accomplished by entering the product with a Purchase Invoice using the current Average Cost. This creates an Accounts Payable bill, which may be paid using a memo check. After selecting the *Memo Check* option, change the checking account general ledger account to the promotional/advertising account.
- **Free product is given as a reimbursement for re-spray** – It is recommended to follow the process outlined in *Re-spray Reimbursement Options*.
- **Free product is given as a rebate for the amount of inventory purchased** – The Average Cost of the product should be affected and the value recognized over time as this product is sold. Enter a Purchase Invoice using a zero cost for the product. This decreases the Average Cost of the product. As the product is sold, the Profit Margin is higher due to the decrease in Average Cost, therefore giving a higher income over a period of time.
- **Free product is given as a rebate for the amount of inventory purchased** – To recognize the value of the product in the current month, enter the free product as an Inventory Adjustment. This increases the amount on hand by the amount of free product, therefore increasing the inventory asset value using the current cost as the basis for valuation. The total Estimated Cost of this product is reflected as income for the current month.