Can You Defend Your Rebate Accrual?

A 7-question self-assessment for finance leaders at manufacturers & distributors

Off-invoice economics — the rebates, billbacks, chargebacks, and incentives you pay your customers and channel partners — is often the largest number on the income statement that no one can fully explain. This is a five-minute check of whether yours would survive an auditor's questions. Score one point for each "yes."

1. **Method — Can you state, per program, how the accrual is estimated?** ☐ Yes ☐ No
   Expected value or most-likely-amount? Documented, or "the way we've always done it"? The revenue-recognition rules require the method to be chosen and documented, program by program.

2. **Constraint — Is the estimate constrained, and is the constraint evidenced?** ☐ Yes ☐ No
   The rules only let you book the portion you're confident won't reverse later. Can you show why your number sits where it does?

3. **Reassessment — Is the accrual re-estimated every reporting period?** ☐ Yes ☐ No
   Not just trued-up at year-end — reassessed each close as new sales data arrives.

4. **Traceability — Can you trace any single accrual dollar to the transaction that created it?** ☐ Yes ☐ No
   Pick a number in the reserve. Can you get to the originating invoice, agreement, and tier in under ten minutes?

5. **Tie-out — Does the accrual reconcile to actual settlements without a plug?** ☐ Yes ☐ No
   When rebates are paid, does the liability roll forward cleanly, or is there an unexplained adjusting entry?

6. **Independence — Does the number come out of a system — not a spreadsheet someone maintains?** ☐ Yes ☐ No
   If the person who owns the workbook left tomorrow, could the number be reproduced?

7. **Audit readiness — When your auditor asks "how was this calculated?", is the answer retrievable on demand — not reconstructed from memory?** ☐ Yes ☐ No

6–7 — Defensible

Your off-invoice accrual is governed. Rare. Most organizations we've studied are not here.

3–5 — Exposed

The number exists, but parts of it rest on convention, spreadsheets, or memory. This is where most manufacturers sit — and where year-end surprises and audit friction come from.

0–2 — At risk

The accrual is effectively indefensible. A material number is being reported that cannot be substantiated on demand. This is a finding waiting to happen.

This assessment reflects what we found studying the rebate-disclosure practices of 201 U.S.-listed manufacturers and distributors: **73% never disclose how their rebate accrual is estimated.** *Off-invoice economics is under-governed almost everywhere — not because finance teams are careless, but because no system was built to govern it. That is the category Aurgus exists to create. If you scored below 6 and want to see what "defensible" looks like on your own numbers, reply and we'll show you.*

For your auditor: Q1–Q7 map to FASB ASC 606-10-32-8 · 32-11 · 32-14 · 606-10-50 · 32-25 · ICFR · 606-10-50.