

How to Manage Accounts Payable Aging Reports



As procurement's essential partner, the accounts payable department of your company generates several valuable tools to help you manage your spend. One of these tools—the *accounts payable aging report* (AP aging report)—is an often-overlooked resource that can give you the information you need to achieve optimal return on investment (ROI).

If supported by accurate and complete data, accounts payable aging reports can be an invaluable tool for monitoring expenses and optimizing cash flow.

Business owners who take the time to understand how they work, and how to put them to best use, can protect the credit-worthiness and profitability of their companies while maintaining strong vendor relationships.

What is an Accounts Payable Aging Report?

The purpose of the accounts payable aging report is to provide a comprehensive summary report of outstanding amounts owed to the suppliers who provide goods and services to your company.

It is the counterpart to the *accounts receivable aging report*, which is used to track current amounts owed the company by its customers, as well as unused credit memos.

Aging reports are a quick and easy reference, documenting:

- Which creditors you currently owe.
- Current balances with each creditor.
- How long you've owed the balance indicated to each creditor.

Generally speaking, AP aging reports follow a basic format. Suppliers are listed in the first column. The second column lists the total amount currently due to each supplier.

Subsequent columns list payables by days outstanding: fewer than 30 days; 31-60 days; 61-90 days; and more than 90 days. The final column lists the total for each supplier.

A sample aging report might look like this:

SUPPLIER	CURRENT	>30 DAYS	31-60 DAYS	61-90 DAYS	90< DAYS	TOTAL
WidgetCo	\$125.00			\$75.00	\$35.00	\$235.00
BobMart			\$45.00			\$45.00
Xample, Inc.	\$675.00	\$125.00		\$210.00		\$1010.00

A NOTE ON DUE DATES: Because they're based on when vendor invoices are received, and not every vendor has the same payment terms, accounts payable aging reports need to be reviewed carefully.

The bill with the earliest upcoming due date might not be the one that's been in your accounting system the longest.

Consequently, due dates are especially important, since some suppliers offer incentives for early payment or tiered discounts for different payment periods.

It's perfectly possible that paying a vendor with early-payment discounts well before the actual due date can be more cost effective, and better preserve cash flow, than paying an invoice that's due sooner but doesn't carry a similar

enticement.

Aging reports help insulate your company against needless expenses and missed opportunities. Regular review of aging reports is time well spent, even for small businesses whose “accounting team” may be a single person wearing multiple bookkeeping hats.

Why Accounts Payable Aging Reports Matter

Because they provide an at-a-glance breakdown of all your outstanding expenses, AP aging reports are an excellent reference when prioritizing payments in order to capture discounts and maintain vendor relationships while leaving enough play in your budget to achieve adequate cash flow for emergencies, investment, and innovation.

Having a single source for all current and upcoming due dates helps you:

- Build a reliable and accurate budget, correctly generate financial reports, and use financial planning to prioritize payments in future periods.
- Make strategic decisions about contract management, including negotiation of better credit terms based on payment incentives and purchasing behavior patterns.

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AP Aging Reports Rely on Accurate Accounting Information

While their usefulness is undeniable, aging reports are only as reliable and accurate as the data used to generate them.

If your procurement and accounting systems are using antiquated or even simply outdated technology, you may be walking a dangerous path with an inaccurate map.

Manual workflows create an environment where problems such as rogue spend, human error, and delays in approval processes can run rampant.

Without full visibility for all transactional data, it's simply not possible to ensure journal entries are correct, produce a proper balance sheet, or generate complete and accurate reports of any kind, including aging reports.

Investing in a comprehensive procurement solution that incorporates AP automation (or integrates with your existing accounting system) supports accurate aging reports in a number of ways, including:

- **Full data transparency.** Automated and centralized procurement limits purchasing to specified goods and services from approved vendors at approved payment terms and pricing through the use of catalogs. It also captures one-off or project-based spend as well by requiring all transactions to be entered in the system. Every transaction is tracked from beginning to end, across the procure-to-pay (P2P) cycle.

Complete and accurate procurement information leads to complete and accurate accounting information, making it much easier to produce accurate financial statements and reports while improving strategic decision making and financial planning.

Management and executive staff can review AP aging reports and other key reports using dashboards, streamlining the review process and allowing accounting staff to focus on other priorities without interruption.

- **Automated workflows.** Research from the McKinsey Global Institute finds that the average employee spends 19% of their work week searching for information, and 40% of workers spend more than a quarter of their work hours on repetitive, low-value tasks such as data entry and report generation that could easily be automated.

With AP automation, aging reports can be generated on-demand from the centralized data server, using the comprehensive procurement information captured by the system. Staff spends less time, using fewer resources, to create reports, and more time applying the insights gleaned to capture discounts and identify opportunities for additional cash flow

improvements.

These benefits also extend to accounts receivable aging reports, creating a complete solution for strategic budgeting and much more accurate cash flow calculations.

- **Improved collaboration and vendor relationship management.** A complete procurement solution like PLANERGY connects accounts payable with procurement, and buyers with vendors, across the complete P2P cycle. Process automation improves data accuracy and access, and vendor management tools allow suppliers to engage with your company's workflows for shared efficiency improvements.

With accurate aging reports, it's easier to track and pay suppliers at the optimal time to capture all available discounts and incentives while preserving capital. Contract negotiation and management is also improved through powerful data analysis of spending patterns, seasonal and general market trends, and vendor performance.

Leverage Your AP Aging Reports for Significant Savings

While they are but one of many tools in your accounting kit, accounts payable aging reports are a key part of effective cash flow management, budgeting, and vendor relations.

By investing in automation, you can rely on all your accounting information to be correct and complete, protect your credit rating and vendor relationships, and ensure company is getting the most for its money.

What's your goal today?

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