

Accounts Payable Department Structure: AP Functions In A Modern Business



Thanks to accounts payable automation software, today's AP departments can streamline operations.

It's because of this technology and rapid changes in the industry Changes the way accounts payable handles Core Business processes.

To get ahead and adapt to these changes, it's a good idea to consider a new organizational structure for your company's AP department.

Shifting rules for accounts payable better alliance with financial management strategic and analytical goals.

What Are Accounts Payable?

Accounts payable are a company's short-term liabilities. Companies that use the accrual basis of accounting have accounts payable or money the company owes its vendors and suppliers and accounts receivable or money that is owed by its customers.

The Accounts Payable Department

Accounts payable are represented on a company's balance sheet. They are listed on the right-hand side under current liabilities.

Liabilities have to be listed according to when they are due to be paid tables are listed first because they generally need to be paid within 30 days.

The accounts payable department is responsible for more than just processing and paying approved vendor invoices by their due date. They also:

- Obtain W9 or other tax identification information from vendors
- Process and pay valid and approved business-related travel reimbursements as well as small expense reimbursements not charged on a business card
- Preparing financial reports related to accounts payable

The accounts payable department is central to your business because they ensure good relationships with your suppliers. They make sure supplier information is up-to-date and accurate in the company's systems and ensure that the suppliers are paid on time to improve relationships. Ultimately, this makes it easier to secure favorable payment terms and early payment discounts.

Why Structure or Restructure Your AP Department?

The main objective and creating a structure or restructuring your accounts payable department is to prevent fraud through the separation of duties both inside and outside the department structure. The proper separation of duties is necessary for good internal controls. Another objective is to match responsibilities and roles with the redefined automated process workflow.

Handling both of these things saves your company money while also improving cash flow. The second objective will also help your company save time by reducing or eliminating the need for manual and voice processing, stopping repetitive vendor inquiries about payment dates that require follow-up, and removing inefficient workflow process issues.

Accounts payable automation software works for a variety of business sizes from small businesses to enterprise-level companies. The seamless integration of a software-as-a-service solution with your accounting software scales with your company as it grows.

Your AP department structure keeps one person from having too much to do or too much control over the financials.

Separation of Duties of Accounts Payable and Internal Controls

No matter the size of your business, achieving strong internal controls is a goal for all businesses. But, it is a bit more challenging for small businesses. Startups and businesses that have a small number of employees aren't able to separate duties to the extent that larger and more established companies can. As they grow, startups hire to adequately staff departments which helps establish better internal controls.

To prevent paying fraudulent invoices and expenses, processing vendor invoices in the payable system and matching invoices with purchase orders and receiving reports should only occur inside the accounts payable department.

the accounts payable department should also be the only one involved in paying the Durand voices in batches or via a bill pay after vendor payment approvals have been achieved. They should also be the only ones in charge of generating Financial reports for cash requirements and disbursements.

The accounts payable department should handle preparing checks to replenish the petty cash fund requests waste any expense reimbursement vouchers attached. They should be responsible for paying child travel and business expense reports I'm paying purchasing cards, credit cards, or debit cards. Other tasks should be handled by those outside the AP department.

Using accounts payable automation software provides time-saving and cost-saving measures but also helps to improve internal control. Internal control enhancements include:

- Improved system security
- Built-in audit trails
- Automated recognition of duplicate invoices
- Stronger approval process for payments
- Self-service supplier onboarding, submission of contact information, uploading of better invoices, and any tax forms
- Better visualization of spend management
- Reduction of data and accuracy as a result of human error
- Supplier verification
- Automatic reconciliation of accounts payable to the general ledger for improved accuracy in financial statements
- And more

The AP Process

The basic AP process looks like this: the AP clerk received an invoice. The clerk manually enters the data and checks the invoice against the purchase order along with the relevant general ledger account. From there, the clerk routes the invoice for approval. Once approved, the clerk schedules payment against the invoice.

In the AP process, it's crucial to understand Double Entry bookkeeping and the concept of debits and credits. Double Entry bookkeeping aims to eliminate accounting errors because it logs every financial transaction twice. A debit in one account and a credit in another.

For example, say company ABC purchases \$500 in inventory in August from one supplier who sent the invoice in August due net 30 days in September. The bookkeeper creates an accounts payable journal entry for the supplier and credits that account \$500. It also debits \$500 from the inventory asset account.

Generally, when a company receives a bill, it credits accounts payable and debits an asset or an expense account in the general ledgers. When company ABC pays the bill from the supplier, a debit to AP account and credits the inventory asset account.

Ways to Organize Your Accounts Payable Department

Start with the right documentation. Always require a purchase order for goods and services. Maintain a vendor Master file which serves as the hub for all vendor information. That should include tax identification numbers and W-9.

Centralize records. Enter invoices into the system promptly if using software. It's best to do this as they arrive. After the invoice has been processed, include a date stamp. Record all accounts payable in the journal. Maintain all records of this single place.

Reconcile accounts daily. Confirm that the invoice matches the purchase orders. Track disputes and resolutions.

Segregate duties and responsibilities. Accounting is one department where mistakes and outright fraud is most likely to occur. Please different people in charge of approving and processing payments.

Include electronic payment methods. Automated Clearing House (ACH) transfers encrypted payment data to maintain security while allowing the companies to take advantage of discounts as a result of expedited payments.

Consider electronic data interchange or EDI. Paperless processes save time and improve accuracy. This helps companies take advantage of favorable payment terms and discounts. Companies that make use of supplier relationship management systems for procurement can automate purchase orders and invoice receipt in approval. This also allows for better tracking and payment for inventory and services received.

Implement AP process automation. Automating accounts payable saves time and money while also protecting your business from costly errors. AP automation can reduce the days payable outstanding by an average of 5 1/2 days according to research.

How Automation Software Improves AP Department Efficiency

A survey from The Institute of Finance and Management indicates that accounts payable is the “most time-consuming, laborious, and paper-intensive finance and administrative function.”

AP automation software digitizes the entire process so the majority of invoices can be processed through the accounting system without the need for manual human intervention. This allows the AP department to focus on outliers and exceptions which saves time and improves the accuracy of the entire process.

With this system, invoices are emailed or scanned and read by the accounting automation software. The management function allows businesses to manage vendor lists, track bills and payables, and make payments without ever needing to enter detailed debits and credits.

The invoices are routed for approval according to the rules and workflow built into the system. Payments post to the general ledger as an expense and the amount of the payment is automatically deducted from accounts payable. Invoices are stored in a central database to ensure tax and regulatory compliance and businesses maintain a real-time picture of payables and cash flow.

Automated accounts payable processes embed payment controls as simple and repeatable processes. Automation designates separate roles by creating login credentials and dashboards for all the necessary staff members. With the dual-factor authentication for logging in, it becomes difficult to forge approvals. A log of all approvals is maintained in a central location for easy auditing. AP automation automatically matches invoices to purchase orders and flags anything that doesn't match for review.

With this approach, accounting becomes more strategic to the business and moves away from being considered a cost center. The department takes steps to ensure improved accuracy and faster invoice processing times while also offering business insights to optimize payment timing and terms with suppliers.

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