Accounts Payable Management: What Is It, Challenges, Benefits, and Best Practices



IN THIS ARTICLE

- What is Accounts Payable Management?
- How to Manage Accounts Payable Effectively
- What is an Example of Accounts Payable Management?
- What is the Major Objective of Managing Accounts Payable?
- What Are the Challenges Faced When Managing Accounts Payable?
- How Do I Go Paperless in Accounts Payable?
- What Are the Best Practices When Managing Accounts Payable?
- Accounts Payable Management Is Essential for All Businesses

Properly managing both internal and outside spending is an essential part of running a business, which is why proper management of accounts payable is so vital.

When managed properly, the AP department, long considered a necessary back-office function and nothing more, holds the key to lower costs and more streamlined operations.

Let’s explore what accounts payable management is and why it should be part of your business operations.

What is Accounts Payable Management?

Accounts payable management is the process of managing business debts owed to vendors and suppliers for purchases made on credit.

Accounts payable management impacts everything from your business credit to your cash flow, as well as your vendor and supplier relationships, which is why the entire payable process be managed properly.

While processing invoices for timely payment is part of accounts payable management, it also includes the following tasks:

- ## Acquiring Trade Credit Lines

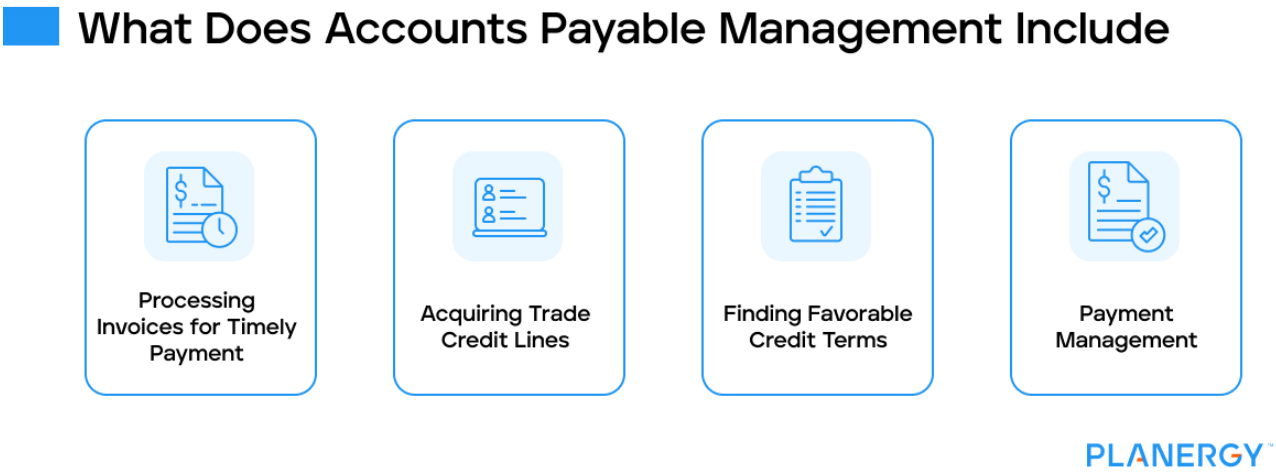
  Before a purchase can be made on credit, the accounts payable team must first find the appropriate vendor or supplier that offers the goods or services desired for a reasonable cost.

- ## Finding Favorable Credit Terms

  Once a vendor or supplier has been found, the AP department must then negotiate favorable credit terms for purchases, including volume discount pricing, early payment discounts, or faster shipping.

- ## Payment Management

  Once a vendor or supplier is found and terms have been successfully negotiated, the AP department is responsible for processing vendor and supplier invoices and making payment on or before the due date.



How to Manage Accounts Payable Effectively

Managing accounts payable effectively always starts with creating policies and procedures that all AP staff follow. These policies should:

Establish Internal Controls

Having clearly written internal controls for accounts payable helps management and employees handle the entire accounts payable process more efficiently.

Create a Streamlined Workflow Process

While this works better when using AP automation, even a manual AP system can benefit from having a clear workflow process in place.

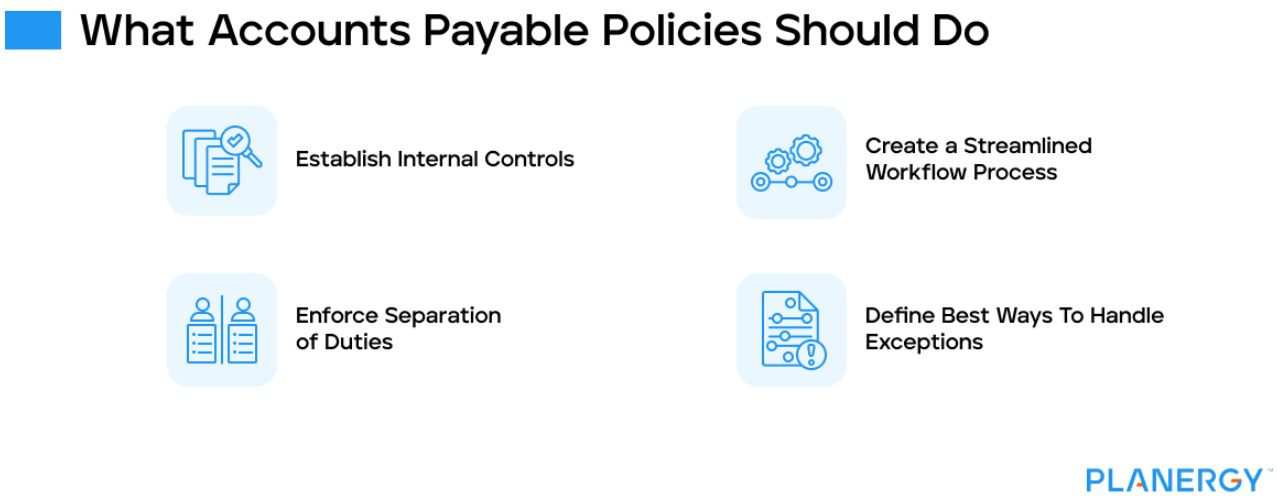
Enforce Separation of Duties

Separation of duties is essential in accounts payable. The staff member placing an order should not be the same person that enters the invoice in the system, approves the invoice once received, signs the check, or authorizes electronic payment.

- ## Define Best Ways To Handle Exceptions

  There are always going to be exceptions. The bigger question is how should these exceptions be best handled.

  Having a set process in place eliminates processing delays and allows management to address issues and still issue payment on time.



What is an Example of Accounts Payable Management?

Aside from managing invoice workflow from receipt to payment, proper accounts payable management also includes managing vendor and supplier relationships, negotiating good credit terms for your business, and instituting payment strategies that are designed to increase cash flow.

The following are a few examples of accounts payable management.

1. ## Staying Actively Engaged With Your Vendors and Suppliers

   While finding the right vendors is an important part of managing AP, staying actively engaged with them is just as important.

   A good vendor relationship means that your vendors will keep you up to

date on any supply issues or possible price increases.

And if you run into cash flow problems, having a good relationship with your suppliers often means they’re willing to work with you through any cash flow issues.

2. ## Ensuring That Processes and Procedures Are Being Followed by AP Personnel

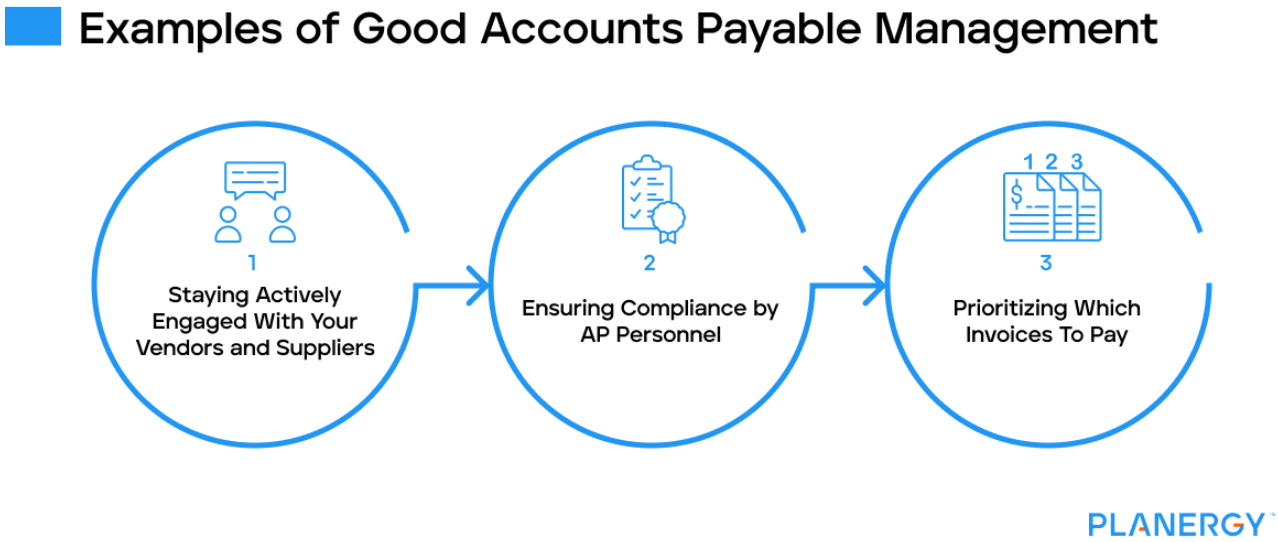
Establishing policies and procedures is an important step in accounts payable management. But if management fails to enforce them, issues will continue.

3. ## Prioritizing Which Invoices To Pay

While invoices should be paid by their due date, you may want to prioritize which bills to pay early and which can wait.

For instance, if a supplier offers you an early payment discount, you may want to prioritize that payment.

By resisting the urge to pay invoices immediately, it may be better to pay invoices just before they’re due for budgeting purposes or to better manage cash flow. While ensuring nothing goes past dueelectronic to avoid any possible invoice late payment fees.

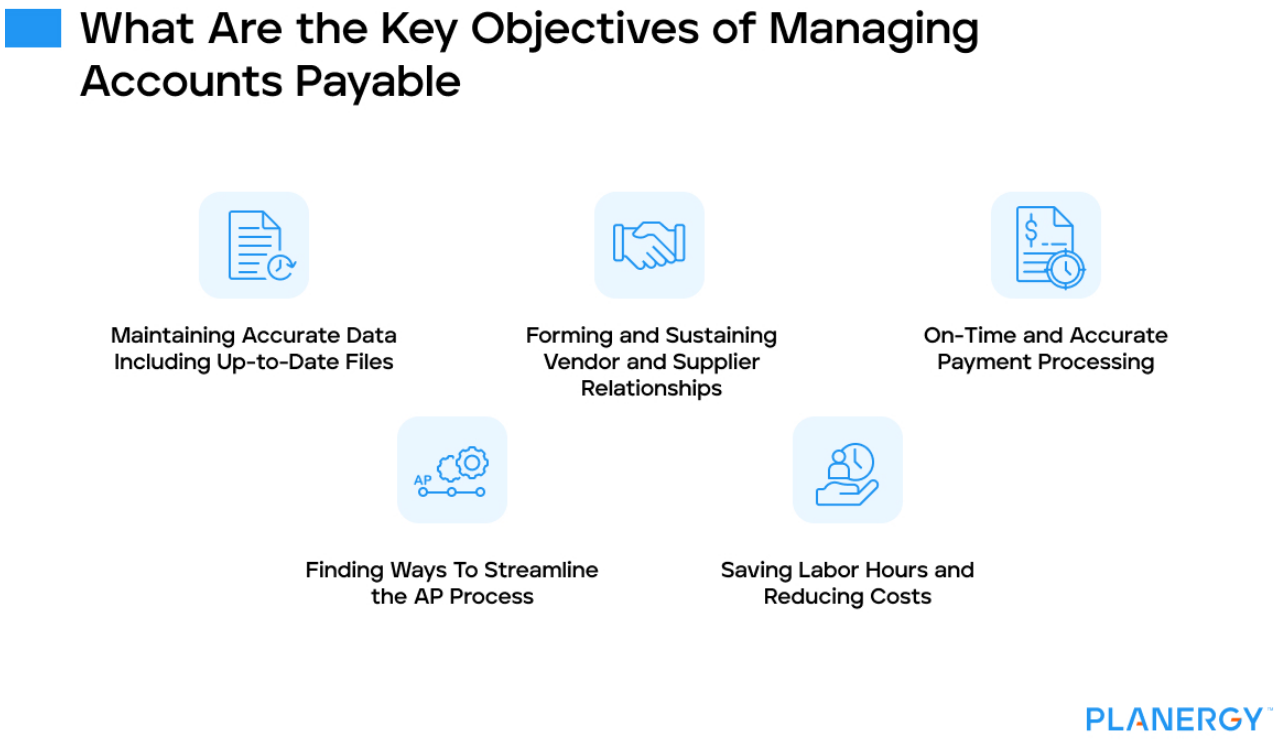


What is the Major Objective of Managing Accounts Payable?

Managing accounts payable always starts with implementing internal controls designed to streamline the entire AP process.

In general, the major objectives of any accounts payable department should be:

- Maintaining accurate data including up-to-date files
- Forming and sustaining vendor and supplier relationships
- On-time and accurate payment processing
- Finding ways to streamline the AP process
- Saving labor hours and reducing costs



What Are the Challenges Faced When Managing Accounts Payable?

There is no shortage of challenges facing the accounts payable department. These inefficiencies may be a minor inconvenience or create major issues for your business.

Slow Invoice Processing Times

Slow invoice processing costs business owners both time and money.

According to Ardent's State of ePayables 2023, 49% of survey respondents felt that invoice approval was too slow. In most cases, the culprit is the use of a manual AP system that creates bottlenecks when processing even routine invoices.

Invoice Reviewing Delays

Mistakes happen to the best of us.

Unfortunately, if you or your vendor are using a manual accounts payable system, those mistakes can seriously impact the entire AP process.

Issues like duplicate invoice numbers, invoices billed in the wrong amount, or incorrect quantities, services, or products listed on an invoice are all fairly common when an automated system is not being used.

And any issue that is flagged during review requires further investigation, which will delay invoice processing even more.

Matching Issues

Accounts payable management should always include three-way matching, which matches an invoice to a purchase order and a shipping receipt (or goods received note).

The purpose of three-way matching is to determine the authenticity of the invoice.

However, every time there is an error in the three-way matching process, it requires investigation, which again, will impact the entire accounts payable department.

Duplicate or Unauthorized Payments

Duplicate payments are a common problem when AP processes aren't followed. A duplicate payment often results from manual input errors or not properly recording invoice payment.

Unauthorized payments are another common issue. Sometimes these unauthorized payments result from a payment made before goods or services are received.

At other times, they result from an employee circumventing procedure to process a payment for a supplier requesting immediate payment. Unauthorized payments can also be the result of employee fraud.

Lost or Misplaced Invoices

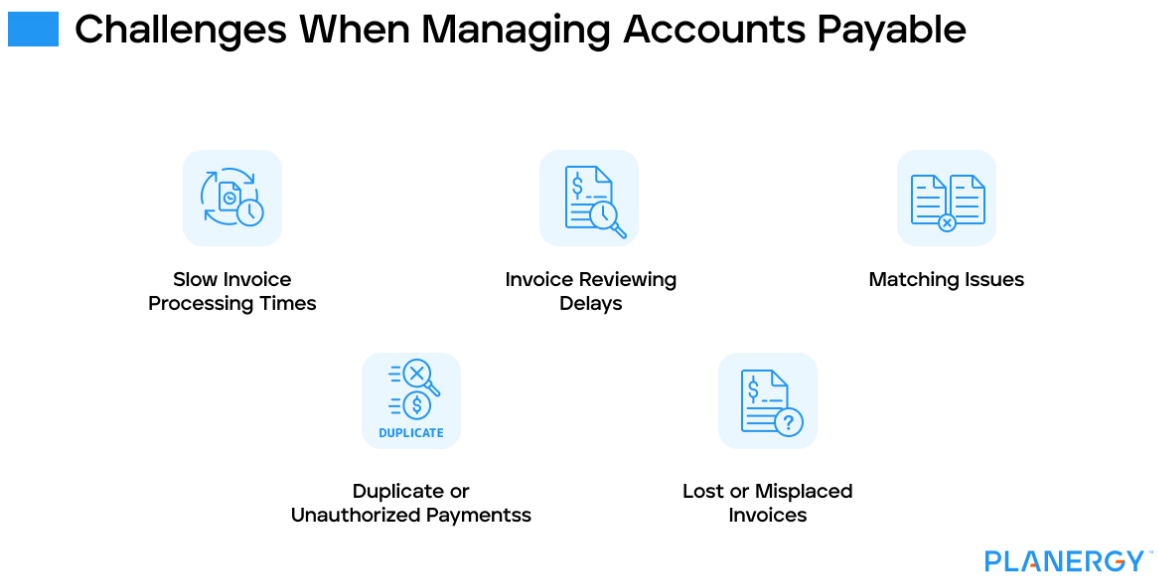
One of the biggest delays in processing invoices is getting them approved promptly.

Even if an invoice is reviewed for accuracy and matched with a purchase order and shipping receipt, a manual approval process can significantly delay processing.

It’s not unusual for invoices to be shuffled from department to department, with no one aware until a late payment notice arrives.

At other times, the invoice sits on someone’s desk, waiting to be approved. In all cases, this delay can be expensive, resulting in lost discounts, late payment fees, and even ruined vendor relationships.

Having good invoice dispute management processes in place can help maintain better vendor relations but avoiding the dispute in the first case is better.



In most cases, these challenges can be significantly reduced or eliminated by establishing set policies for accounts payable and making the switch from paper processing to an automated accounting system.

How Do I Go Paperless in Accounts Payable?

According to Forbes, the average American worker uses an average of 10,000 sheets of paper each year, with U.S. businesses alone spending upwards of $120 billion a year on printed forms.

That's a lot of paper.

While paper can permeate every part of your business, it can be especially overwhelming in accounts payable, where a manual AP process means you're dealing with purchase orders, invoices, shipping receipts, paper checks, and envelopes daily.

By implementing resources like document scanning, electronic invoices, optical character recognition capability (OCR), document management systems, and electronic payments, you can process AP without using a single sheet of paper.

Utilizing paperless invoice processing also allows you to do away with invoice copying and manually matching invoices to purchase orders and shipping receipts – because all of that is completed for you.

Paperless invoicing automatically captures invoices as they're received using OCR technology to read the invoice.

Once the invoice has been captured, the system will automatically match the invoice to the correct purchase order and shipping receipt, red-flagging any invoices that don't match.

Once matched, the invoice is electronically routed to designated approvers.

Once it's approved, the invoice is ready to be paid, preferably using an electronic payment system.

Once payment is made, the invoice is digitally filed for easy future reference and to maintain an audit trail.

The benefits of paperless invoicing are numerous, including:

Increased Efficiency

A paperless process eliminates many of the issues cited in The State of ePayables 2023 including delayed payment approvals, a high exception rate, and high invoice processing costs.

Reduced Human Error

Human error when using manual data entry can create several issues for businesses. Using an automated system eliminates most data entry, saving businesses time and costly errors.

Protects Against Fraud

Using paper checks can increase the possibility of accounts payable fraud. While no system is 100% foolproof, using an electronic payment system makes committing fraud a lot more difficult.

Increased Visibility

It’s difficult to determine your true spending levels when invoices are constantly lost, misplaced, or sitting on someone’s desk waiting to be approved.

It’s also difficult to rely on financial statements if you know that those expenses are not included in your reports.

Because electronic invoices are processed upon receipt, reports such as your balance sheet and income statement are available in real-time and will accurately reflect spending levels.

Easy Document Access

Locating a document can be a nightmare, particularly if filing isn’t up to date.

Implementing a paperless system allows authorized personnel to easily access needed documents while helping to ensure that proper audit trail

controls are being followed.



What Are the Best Practices When Managing Accounts Payable?

Accounts payable best practices start with AP automation. Even the most efficient manual system remains error-prone and costs businesses time and money.

Eliminating time-consuming manual processes also expedites the entire invoice process from the initial receipt until the invoice has been paid.

And when your AP system is coupled with procurement in a procure-to-pay software solution, like PLANERGY, the entire procure-to-pay process is automated from the initial purchase to vendor or supplier payment.

Other best practices that businesses should consider include:

- ## Establishing Controls

  The company CFO or accounting manager must establish departmental controls and work to ensure that they’re being adhered to at all times.

Digitize Invoice Processing

Start slowly by implementing OCR technology that can automatically scan invoices into your accounting software application.

This process alone will drastically reduce the number of errors made during manual data entry or by using a spreadsheet application.

Automate Your AP System

While digitizing invoices is a great start, moving to a completely automated system will eliminate time-consuming tasks like three-way matching, manual approval routing, data entry, and invoice coding.

This can often include creating a supplier portal, where invoices can be automatically uploaded.

Be Proactive in Managing Payments

Instead of paying all outstanding invoices, only pay the ones that are due. This allows you to make better use of company cash, increasing your working capital and your bottom line.

Negotiate Terms and Prices With Vendors

Periodically review current payment terms and pricing with vendors.

If you've been a loyal customer for a long time, chances are that you'll be able to negotiate better pricing or more lenient payment terms. It doesn't cost anything to ask.

Review AP Regularly

Making the move to an automated AP software application can help eliminate common issues like duplicate payments, payments made in error, or departmental fraud.

But just because you've automated your system, you shouldn't stop doing

a periodic review of the AP department. Following accounts payable audit procedures and implementing a regular AP Audit Program are beneficial.

AP accounts still need to be reconciled, outstanding checks still need to be followed up on, and processes need to be reviewed to ensure adherence.

Using accounts payable metrics and KPIs and accounts payable benchmarking to determine the efficiency of the AP department can also be useful. Tracking and improving your invoice cycle time or cost of processing an invoice, for example.

Of course, if you're still using a manual AP system, regular reviews are even more important.



Accounts Payable Management Is Essential for All Businesses

Whether you're a small business processing ten invoices or a mid-size corporation processing thousands of invoices monthly, having accounts payable management

strategies in place is a must.

Proper management processes provide your staff with the policies and procedures needed to do their job properly, institute safeguards to mitigate fraud, and ensure that vendors are paid accurately and on time.

What’s your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

We’ve helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

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2. Download our guide “Preparing Your AP Department For The Future”

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