Accounts Payable Policy: What Is It, Best Practices, and an Example Template



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Creating and having staff adhere to set policies helps establish guidelines for completing tasks by setting parameters that can be useful for business

operations.

That’s why creating and maintaining a consistent accounts payable policy is so important to your business.

Setting accounts payable policies can help ensure that consistent policies are used across the board.

A comprehensive accounts payable manual can also serve as a training document for new employees and can easily answer routine questions staff may have throughout the AP process.

What Is an Accounts Payable Policy?

An accounts payable policy is the guidelines that are put into place to ensure that AP processing is completed on time and accurately.

Accounts payable policy looks at all aspects of your current AP system and creates a policy around those procedures.

For example, an AP policy may state that all invoices need to be approved by two employees or that invoice discrepancies need to be handled by a specific designee.

What Are the Functions of Accounts Payable?

The primary function of the AP department is to review, manage, and pay for goods and services received from vendors and suppliers in a timely manner.

But the accounts payable department is also responsible for finding new vendors and suppliers, vetting them, and maintaining a good business relationship with them.

Accounts payable is also responsible for providing accounting with all necessary AP reports.

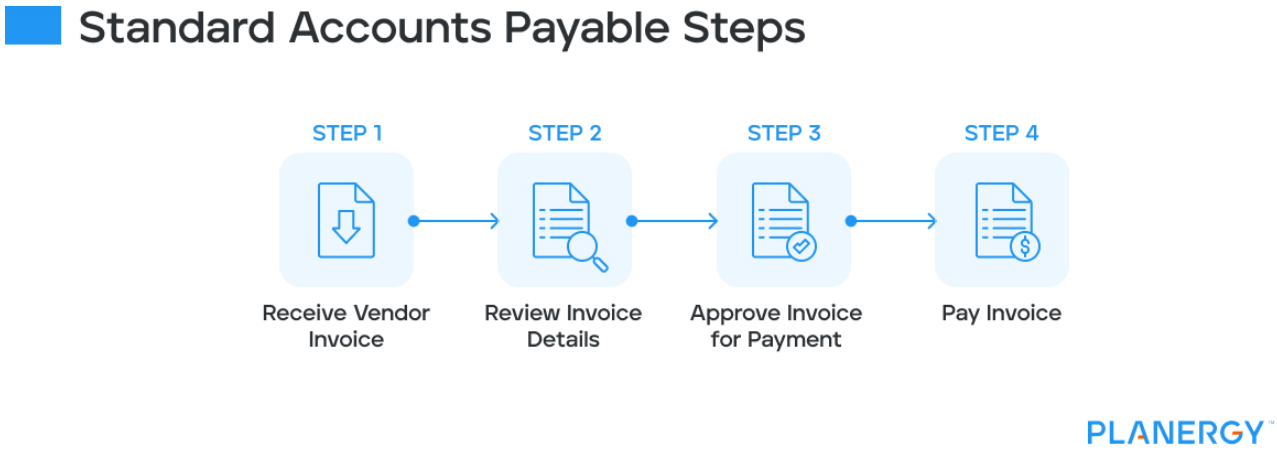
Finally, the account payable department is responsible for ensuring that all

original invoices match purchase orders and shipping receipts.

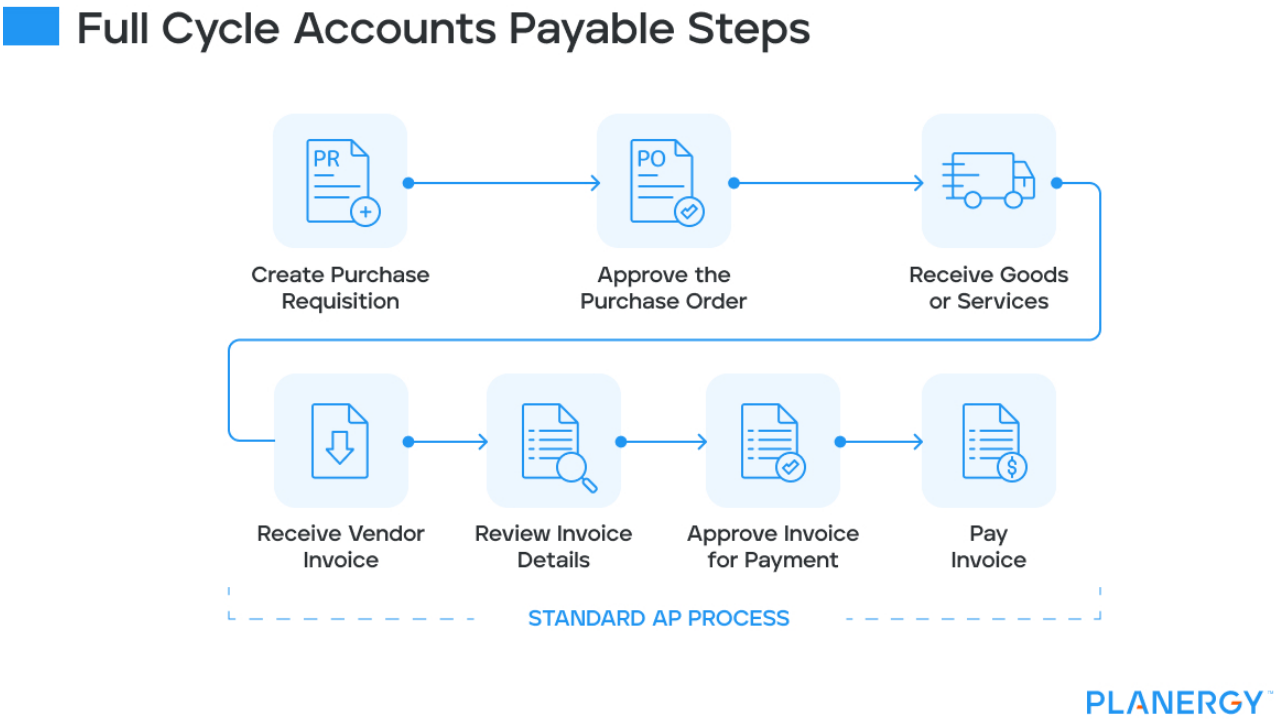
What Is the Typical AP Process?

The typical basic accounts payable process consists of four steps:

1. Receiving the supplier or vendor invoice
2. Reviewing the vendor name, account number, and invoice number for accuracy and completing the three-way match process if using a purchase order or procurement system
3. Approving the invoice for payment
4. Paying the invoice



If you’re using a procurement system, you’ll also want to include steps used in the procurement process as well, covering full cycle accounts payable.



What Are Internal Controls for Accounts Payable?

Internal controls for accounts payable cover four areas:

1. ## Obligation to Pay

   Obligation to pay controls include purchase order approval and/or invoice approval, three-way matching, which matches invoice numbers, purchase order numbers, and shipping receipts, and regular auditing for errors and duplicate payments.

2. ## Data Entry

   Date entry controls include when to record the invoice, invoice number guidelines, and proper recording of the expense in the appropriate GL account.

3. ## Invoice Payment

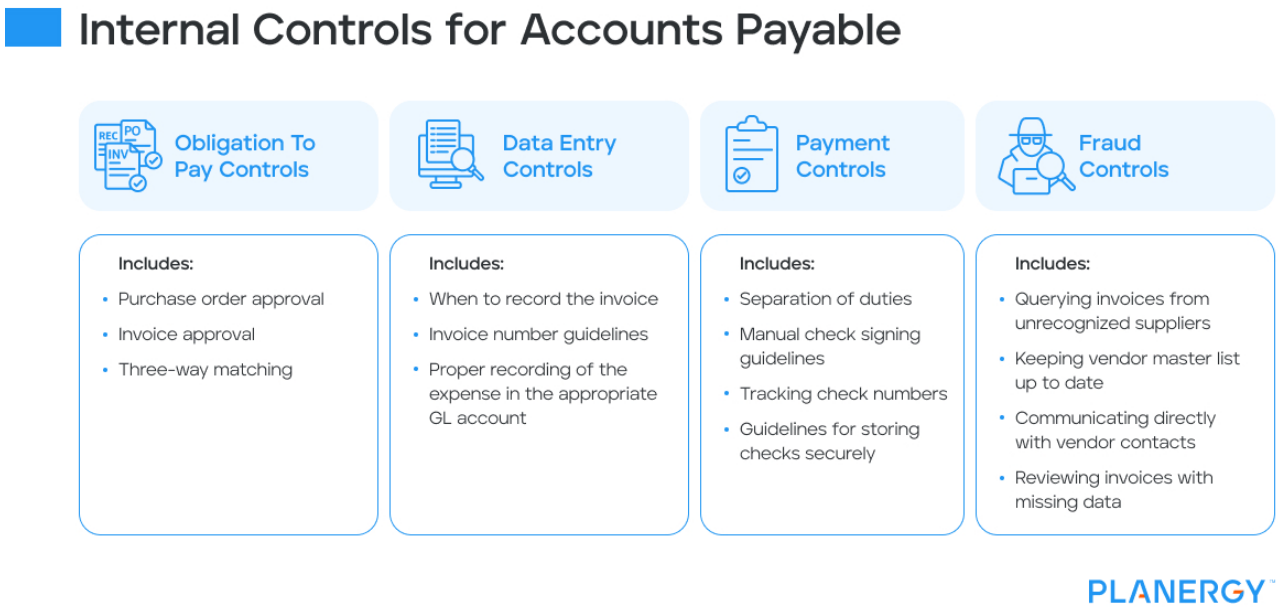
   Established payment controls should always include separation of duties, manual check signing guidelines, tracking check numbers, and guidelines for storing checks securely.

   Invoice payment guidelines should also include instructions for paying invoices electronically via ACH or wire transfer.

4. ## Fraud Controls

   Many of the internal controls instituted in AP are designed to reduce payment fraud and procurement fraud.

   Additional checks might include reviewing invoices with missing data more carefully and querying invoices from unrecognized email addresses.



Internal controls are important in AP, as they help to reduce fraud while streamlining the entire AP process.

Establishing internal controls will also increase accuracy, minimize risk, and keep staff members accountable for their actions.

What Is an Accounts Payable Write-Off Policy?

Creating a policy for writing off accounts payable is important, as the International Financial Reporting Standards, or IFRS-9, lists two conditions when accounts payable may be written off.

1. ## Cancellation of Liability

   If a vendor waives the outstanding AP balance or if contract terms have not been met, you are allowed to write off the balance owed to that vendor or supplier.

   This is done by reducing the amount of the current AP balance by the amount canceled, with the same amount credited to Other Income.

2. ## Expiration of the Contract or Term

   This will only occur when a contract or specific payment term is in effect.

   Once the payment term passes, the AP balance can be credited back to other income in the same fashion as explained above.

Write-offs are usually done at the end of the fiscal year.

Best Practices for Creating an Effective Accounts Payable Policy & Procedures Manual

When creating an accounts payable policy and procedures manual for your business, there are several best practices that you should follow.

- ## Fully Document Policies and Procedures

  Simply telling staff members what they're responsible for or how to

perform job tasks is inadequate. All policies and procedures should always be in writing.

- **Share and Make Easily Accessible to Appropriate Staff**

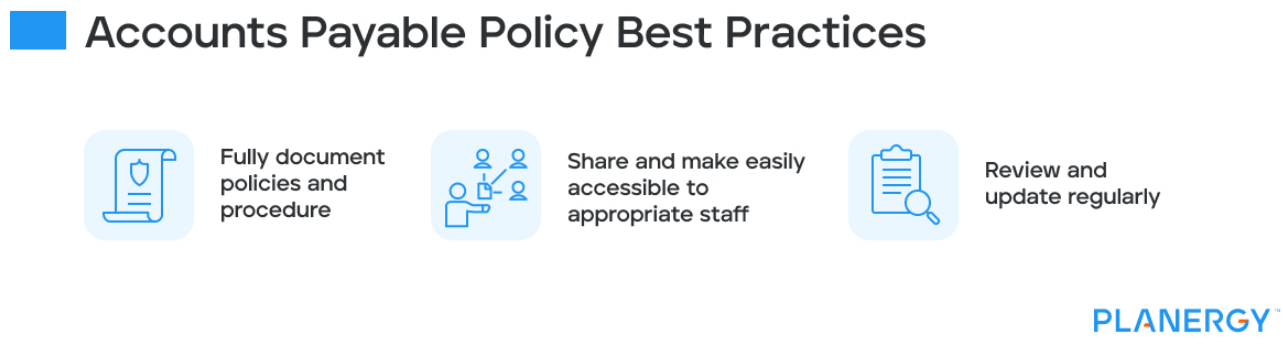
  An AP policy and procedure manual should be shared with all new and current AP staff, and easily accessible, which means the manual can be shared as a printed document or as an electronic file.

- **Review and Update Regularly**

  It's important that the accounts payable manual be a working document that is regularly updated at least once a year, or when there is a major change.

When creating a policy manual, it's important that the manual reflects the actual accounts payable process used in your business, including step-by-step instructions and screenshots, when appropriate.

It's always better to make the manual too detailed rather than not detailed enough.



Accounts Payable Policy Template

Starting from scratch with a policy can be a daunting task.

Often it is easier to work from an existing template and edit it to suit your own

business.

It can then be improved and updated over time.

The Macomb Township Accounts Payable Policy and Procedure document is a good example of what a completed policy may look like for smaller businesses.

Larger businesses may be better served by creating a larger document using a template like this one from the State of Victoria in Australia, which provides a general structure for a manual, allowing you to delete the areas that don't apply to your business.

Steps to Create an AP Policy and Procedure Manual

If the thought of creating a manual is overwhelming, following these steps can help guide you through the entire process from initial creation to distribution.

1. You can create your manual outline from scratch or use some variation of the sample outline below.
   Overview
   - Responsibilities

   Approval Process
   - Invoices
   - PO

   Receiving Documents
   - How they are sent to AP
   - How they are stored in AP

   Mail (postal, email, and fax)
   - Sorting
   - Review

   Invoice Processing
   - Where invoices should be sent
   - The AP process for entering, reviewing, and scheduling payment

- Three-way matching or alternatives
- Handling disputed invoices
- Handling non-PO invoices

Payments

- Checks
- Printing
- Signing
- Mailing
- ACH

Credit card payments

- Wire transfers

Payment Policy

- Timing
- Early payment discount
- Late payment fees

Duplicate Payments

Chart of Accounts

- General ledger Coding
- Responsibility for GL Coding

Month end Accruals

Vouchers/ Check request forms

- Payment requests and check requisitions

Handling Lost checks

- Issuing stop payments
- Handling un-cashed checks

Master Vendor Policy

Dealing with Customer Inquiries

Statements

- Policy regarding paying from statements

- Requesting and reviewing vendor statements

Reports

- For management reporting
- For departmental evaluation
- For the staff

Collecting Vendor Taxpayer Number Information

- Policy for requesting W-9
- Payments to independent contractors
- Use of TIN Matching
- Issuance of 1099s
- Information reporting (to IRS)
- 1042

Internal Controls

Recordkeeping

- Record retention policy
- Filing supporting documentation

Petty Cash

- Policy

Reimbursements

- Disbursements
- Reconciliation

Travel expenses and travel reimbursements

Sales tax

Policy and Procedures Manual

- Responsibility for
- Updates
- Communicating policy to all affected parties

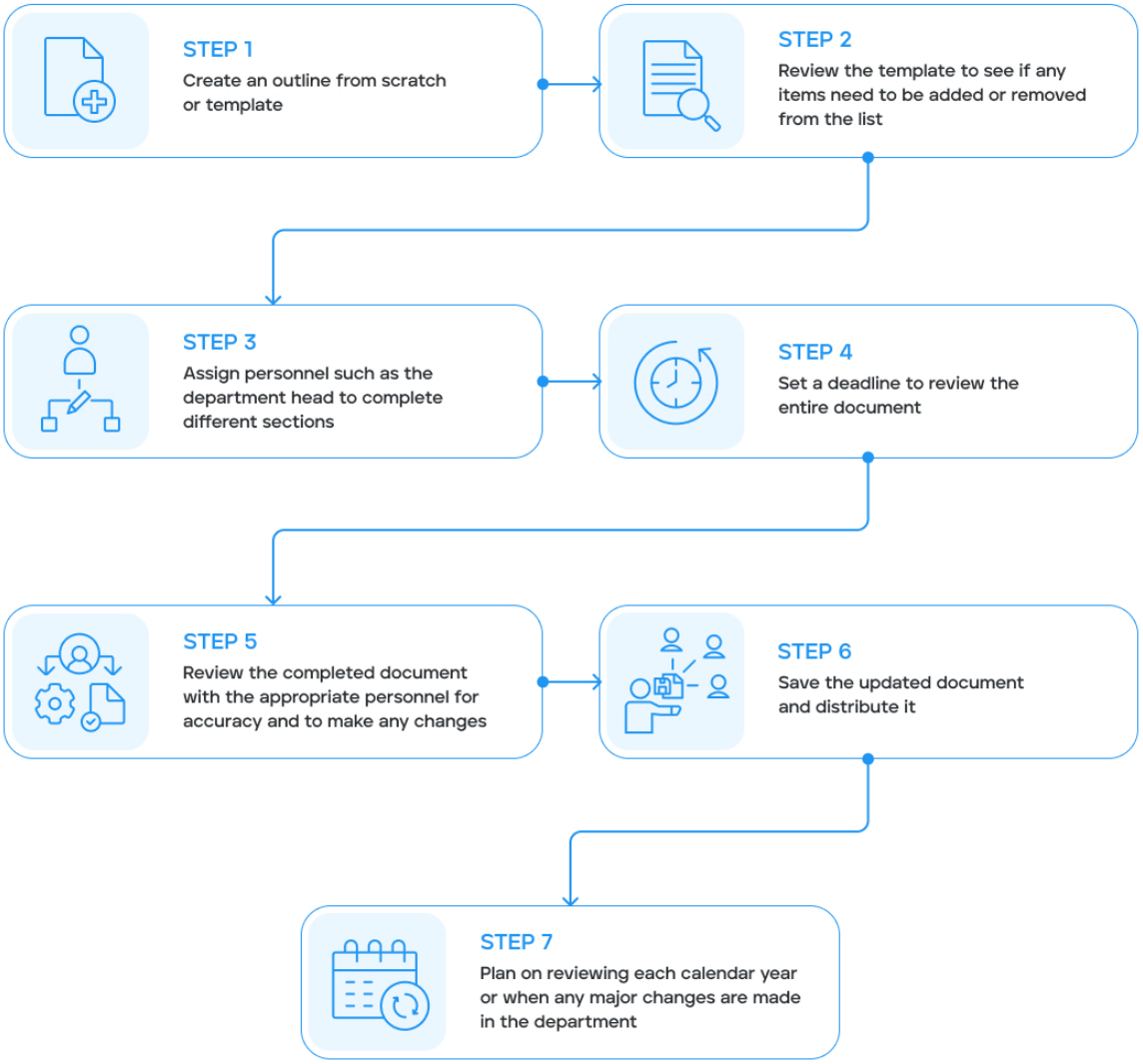
Businesses can easily add or eliminate areas that do not apply to their business when creating the manual.

2. Review the template to see if any items need to be added or removed from

the list.

3. Assign personnel such as the department head to complete different parts of the manual.
4. Set a deadline to review the entire document.
5. Review the completed document with the appropriate personnel for accuracy and to make any changes.
6. Once changes are made, save the document and distribute it as a printed copy or as an electronic file.
7. Plan on reviewing each calendar year or when any major changes are made in the department.

Steps to Create an AP Policy and Procedure Manual



What Should be Included in Your Accounts Payable Policy and Procedures Manual

Whether you're creating a manual from scratch or using a template, there are some topics that you'll want to include in your AP Policy Manual.

These topics include the following:

- ## Department Overview

  The overview should always outline the department structure and provide a detailed list of positions and what each position is responsible for.

- ## AP Responsibilities

  AP responsibilities vary from company to company. It's helpful for auditing purposes as well as for AP team members to know exactly what the department is responsible for.

- ## Procurement Responsibilities

  If your business uses a purchasing or procurement system, you should also clearly spell out exactly what procurement is responsible for. Also, what are the policies related to issuing purchase orders.

  For example, if your procurement department is responsible for vendor selection and vetting, that should be spelled out in the policy. Likewise, if your AP department typically handles this instead.

- ## Approval Process for Purchase Orders

  If you use purchase order software, you'll need to spell out the approval process for purchase orders.

  Is it based on dollar amounts, or are there specific employees designated

for purchase order approval? And if a purchase order is approved, does the invoice still need to be approved?

Approval Process for Invoices

Specify which employees are responsible for approving invoices, and the process for ensuring that invoices are routed promptly.

Invoice Processing

Invoice processing should include details on when an invoice is entered (before or after approval), when it’s sent for approval, and what needs to be in place before routing the invoice for approval.

Invoice processing should also include details on three-way matching, and steps for invoice processing without a purchase order.

Handling Disputed Invoices

Policy should always include who is responsible for investigation and follow-up if an invoice is incorrect or pricing or product receipt is disputed.

Payment Policies

Establishing payment policies is essential for any AP department, with a clear delineation of responsibilities outlined.

Early Payment Discount

If your vendors regularly offer you early payment discounts, determine a timeline for ensuring that the discount can be utilized.

Handling Lost and Uncashed Checks

All businesses should have a policy in place to handle lost or uncashed checks.

These policies can include establishing a minimum time frame before a stop payment is issued on lost checks.

Collecting and Managing Vendor Data

Specify who is responsible for locating and managing vendor relationships.

This includes requesting W-9s, the payment process for independent contractors, and the issuance of year-end 1099s.

Record Retention Policy

Create and maintain a policy for record retention. Do you keep two years of vendor information in the office and place older years in storage? Whatever your policy is, be sure to spell it out.

Reconciliation

AP accounts should be regularly reconciled for accuracy. Determine whether the process should be monthly, quarterly, or yearly and assign personnel to complete the job.



Accounts Payable Best Practices for Your Business

Your newly created accounts payable policy and procedure manual should always reflect best practices.

These best practices should include the following.

- ## Simplify Workflows with AP Automation Software

  Using AP automation in your business can help you streamline the entire AP workflow process from invoice receipt to payment.

  And for businesses that need a better way to manage AP expenses, implementing a procure-to-pay software that incorporates AP automation

software, like PLANERGY, can help.

Establish Internal Controls for Your Business

Internal controls such as three-way matching and separation of duties are essential components for managing your AP department.

Strategically Manage Payments

Instead of paying by invoice date, pay by invoice due date.

This will allow you to use early payment discounts and take advantage of 30 to 45-day payment due dates to better use your available cash.

Negotiate Terms and Prices with Vendors and Suppliers

If you have a good relationship with your business partners, they may be agreeable to better pricing or more lenient invoice payment terms.

It only takes a minute to ask, and you may be pleasantly surprised by the outcome.

Keep the Lines of Communication Open

Problems or concerns should always be addressed with your vendors.

If you know a vendor or supplier’s payment is going to be late, letting them know will be more beneficial to your business relationship than remaining silent.

Automate Wherever You Can

AP automation isn’t an either/or prospect. If you’re reluctant to automate your entire accounting department all at once, there are plenty of applications on the market that can help you with the automation process.

There are options including OCR readers for automating invoice processing to AI and machine learning applications that automate the three-way matching process, it’s okay to start slow. It’s more important to just start.

- ### Continue to Review AP Accounts Regularly

  Whether you’re using a completely automated accounting system or are still using a manual system, it’s important to review and reconcile AP accounts regularly.

  Doing so will help you identify potential trouble spots and correct any errors sooner rather than later. Busier AP departments may want to consider implementing a regular accounts payable audit.

Having a Current Accounts Payable Policy and Procedure Manual is Essential

Whether you’re a small business with a two-page manual or a large operation with a comprehensive manual, having a working set of procedures in place is key for an efficient and well-organized accounts payable department.

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:

- Read our case studies, client success stories, and testimonials.
- Visit our Accounts Payable Automation Software page to see how PLANERGY can automate your AP process reducing you the hours of manual processing, stoping erroneous payments, and driving value across

your organization.
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Book a Live Demo

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

Download a free copy of our guide to future proofing your accounts payable department. You’ll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

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3. Learn best practices for purchasing, finance, and more

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