

Best Practices for Accounts Payable: Improving Your Processes For Better Control and Cash Flow



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Best Practices For Accounts Payable Processes

Free Up Capital And Strengthen Your Supply Chain

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Many business owners and accountants underestimate the importance of accounts payable (AP). Often viewed as 'paying the bills,' not managing the AP process properly can directly impact your cash flow, your credit rating, and your business reputation.

That's why implementing the proper AP processes is so important. More than just cutting a check or making an electronic payment, part of a proper AP process is making sure that your vendors are vetted and managed properly, that payments

are made on time, and that you'll have a mutually rewarding relationship with your vendors and suppliers.

What Is the Difference Between Accounts Payable and Accounts Receivable?

Both accounts payable and accounts receivable are an important part of money management for your business.

Accounts payable is the money that the business is yet to pay to their creditors.

Accounts receivable is the money that the business is waiting to receive from their debtors.

Here are some main differences between AP and AR and how each impacts cash management.

Accounts Payable	Accounts Receivable
Money spent	Money received
Purchases on credit	Sales on credit
Bills paid by the business	Payments received from credit customers
Recorded on financial statements as a liability	Recorded on financial statements as an asset

Differences Between Accounts Payable and Accounts Receivable

ACCOUNTS PAYABLE	ACCOUNTS RECEIVABLE
Cash spent	Cash received
Goods and services purchased on credit	Reflects sales on credit
Reflects bills paid by the business	Reflects cash received from credit customers
Recorded on financial statements as a liability	Recorded on financial statements as an asset

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Examples of accounts payable transactions include:

- Entering a utility bill to be paid next month
- Processing and equipment lease payment
- A business loan payment
- Supplies purchased

Examples of accounts receivable transactions include:

- A sale made to a customer on credit
- A payment received on account
- A write-off of bad debt on an uncollectable receivables balance

For your business to run smoothly, both accounts payable and accounts receivable need to be managed properly.

What Are the Responsibilities of Accounts Payable?

The accounts payable department is responsible for a variety of tasks including the following:

- Reviewing and approving new vendors
- Managing vendor files including updates on costs
- Reviewing invoices for accuracy and authenticity
- Matching invoices with purchase orders and shipping and receiving documents
- Invoice processing including preparing invoices for entry into AP
- Preparing and processing check, ACH, or credit card payments
- Posting AP transactions to the general ledger when necessary
- Reconciling bank statements to AP journals
- Handling any vendor or supplier questions
- Preparing month-end analysis of all AP accounts
- Manage all AP files properly to maintain a proper audit trail

Depending on the software your business uses, some of these tasks may be automated. For example, if you're using artificial intelligence (AI) software, you may be uploading invoices rather than entering information manually.

How Does the Accounts Payable Process Work?

A solid accounts payable system is more than entering invoice information and paying vendors and suppliers. The accounts payable cycle, also known as the “Procure to Pay” cycle starts at the very beginning when it’s determined what goods are needed. The AP team is responsible for the following AP workflows:

1. Determining what goods or supplies are needed.
2. Begin the search for the appropriate vendor or supplier.
3. Once the vendor or supplier(s) are located and have been vetted, a request for proposal is created and sent.
4. Review the completed proposal and negotiate terms.
5. Once approved, create a purchase order for the goods or services being purchased.
6. Review confirmation of purchase from supplier or vendor including the shipping notice.
7. Inspect received goods for both quality and quantity and verify that services have been successfully performed.
8. Review the invoice for the purchase and match it with the purchase order and/or the shipping/receiving report.
9. After invoice approval, enter the invoice into the AP system, including the due date and any discounts that may be available.
10. Send the list of payments due to management for review and approval.
11. Pay the invoice via check or using another payment method such as ACH/electronic transfer before the specified due date.
12. Follow-up on all payments issued by check that has not been cashed before month-end reconciliation. Contact vendors if necessary and reissue any checks that have not been received.

What Are the Biggest Challenges for Accounts Payable?

While it’s common to think that accounts payable is just the department that pays the bills, accounts payable is responsible for much more than that. And like every other department in your business, AP comes with its own set of challenges.

• **Still Using Manual Systems**

When you continue to use manual systems to manage cash and AP, it requires a lot of effort to manage incoming cash and outgoing expenses.

The best solution for time-consuming manual data entry systems is to go paperless, switching to accounts payable automation software, suitable for small to mid-sized businesses.

If you work with a lot of vendors and suppliers, you may also want to consider implementing a procurement software application that can help automate the entire AP process.

• **Late Payments**

No one likes to be paid late, including your vendors and suppliers. Yet, without proper AP processes in place, the odds are good that at least a few of your payments will be paid late.

On top of ruining your professional relationship with vendors, late payments can also hurt your creditworthiness, and can even affect your ability to obtain credit from other vendors.

• **Fraud**

Without the proper safeguards in place, your business is extremely vulnerable to theft, particularly when it comes to accounts payable. If you don't properly vet new vendors and review payments, think about just how easy it would be for your employees to create a new vendor and issue payments.

Giving your employees easy access to bank accounts and check stock without the proper workflow approvals in place is just asking for trouble.

• **Duplicate Payments**

If you've ever inadvertently paid a vendor twice, you know how difficult it can be to get those funds back. While duplicate payments can be a red

flag for fraud, even simple mistakes can be costly.

Biggest Challenges for Accounts Payable



Still Using Manual Systems



Late Payments



Fraud



Duplicate Payments

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Putting in place best practices for your accounts payable team is essential. The best place to start is by automating your AP processes.

What Are Accounts Payable Best Practices?

From the initial purchase order to vendor and supplier payment, it's important that AP is managed properly from the start. Implementing the proper AP system will mean fewer errors to correct, fewer penalties that you'll have to pay, and a strong, healthy relationship with your vendors and suppliers.

• Simplify Workflows and Document Management

Accounts payable best practices should always include having the proper systems in place, starting with AP automation software .

If you have a growing business and a busy AP department, you should also consider implementing Procure to Pay software that can be used in conjunction with your accounting software to provide a seamless AP solution.

Establish and Maintain the Proper Internal Controls

The proper internal controls for accounts payable include everything from reviewing reports for duplicate invoices to restricting system access to certain individuals.

These controls should begin with a clear separation of duties so that AP tasks are not exclusively handled by a single employee. A three-way match for all invoices should also be required.

It's also important a manager or supervisor approve all new vendors added to the system, and multiple staff members should be available to handle the payment process, with one person processing invoices and a second staff member approving payment.

▪ Manage Payments for Better Cashflow

Immediate payment isn't always the best. Instead of paying a bill immediately upon receipt, take advantage of the thirty to sixty-day window you have at your disposal and pay invoices when they're due.

While the idea of having no bills may be appealing, the reality is that once you're in business, you're always going to have bills. Paying them when they're due makes good sense and helps you preserve your cash flow.

▪ Negotiate With Your Suppliers

Chances are your vendors and suppliers value your business more than they value a specific due date. If your current payment terms aren't working for you, don't hesitate to pick up the phone or drop your vendor rep an email requesting different terms.

If you always pay your bills on time and have a good vendor relationship, chances are good that they will meet you halfway.

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Communicate With Suppliers Openly

Part of maintaining a good relationship with your vendors is to keep the lines of communication open. That means that if you run into financial difficulties and know you'll be a few days late getting their payment out, let them know.

Letting them know in advance instead of silently ignoring the invoice due date goes a long way towards making sure you don't damage a relationship that you worked so hard to create.

▪ Request a Discount

Again, if you have a good relationship with your vendors and suppliers, why not ask them for a discount? This can be particularly useful if you order a lot of products from one particular vendor or supplier. It certainly doesn't hurt to ask, and if they refuse, it may give you the impetus to look at other vendors.

▪ Automate Repetitive Manual Tasks

There are a lot of products out there designed to simplify the AP process. From OCR readers to AI automation applications that reduce bottlenecks and cut manual processes in half, making the move to a more automated system can save you both time and money.

These systems may sound intimidating, but with a little time spent upfront learning the ins and outs, they will save you a tremendous amount of time. PLANERGY uses OCR and AI to automate 3-way matching.

▪ Continue To Review Accounts Regularly

Automation does not mean that you shouldn't take the time to review and reconcile accounts regularly. Mistakes can still happen and the quicker those mistakes are caught, the less harm they'll do to your business.

- Regularly reviewing accounts can also cut down on fraud and can help you stay up to date on current cash flow. Regular accounts payable audits

will ensure that things are running smoothly.

Best Practices for Accounts Payable



Simplify Workflows and Document Management



Establish and Maintain Proper Internal Controls



Manage Payments for Better Cashflow



Negotiate With Your Suppliers



Communicate With Suppliers Openly



Request a Discount



Automate Repetitive Manual Tasks



Review Accounts Regularly

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Why You Should Automate Accounts Payable?

Many tasks in accounts payable are manual and repetitive, this makes them perfect candidates for automation.

Manual Accounts Payable Process

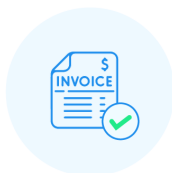
STEP 1



Receive an invoice from your supplier



STEP 2



Invoice assigned for invoice processing



STEP 3



Invoice data manually input into accounting software



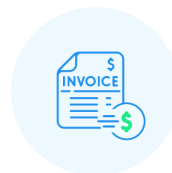
STEP 4



Invoice manually checked and approved for payment



STEP 5

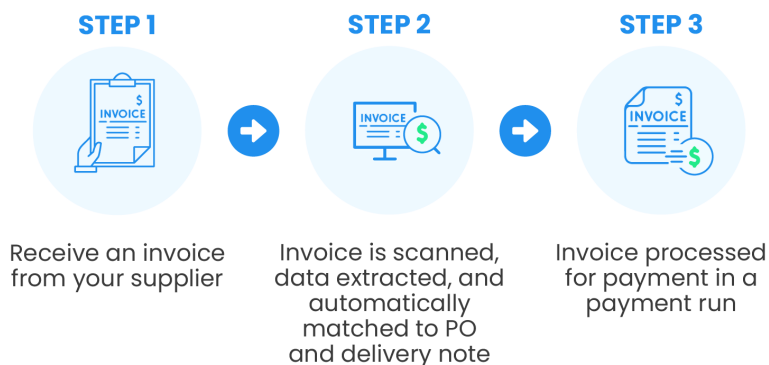


Invoice processed for payment in a payment run

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With the wide variety of software options available at affordable prices, there is no reason not to automate your accounts payable. PLANERGY can help streamline your accounts payable processes and implement an automated 3-way matching process.

Automated Accounts Payable Process



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Automating AP, and more broadly following a policy of digital transformation in accounts payable, will save you time, money, and a lot of potential headaches down the road. The following are just a few of the reasons why you should automate your accounts payable processes.

• **Faster and Easier Invoice Approvals**

Almost any accounts payable manager has experienced approval delays. Paper invoices become lost on a manager's desk or they're out of town and don't see them. Automating streamlines the entire approval process, no matter how many approvers there are.

• **Reduce Human Errors**

Manual processes usually mean a higher occurrence of errors. And even though most of these errors are found during the review stage, a check processed in the wrong amount requires an additional check to be cut for the correct amount.

Take Advantage of Discounts and Avoid Late Payment Penalties

Automating AP means that you can schedule an invoice to be paid on a specific date, making it easy to take advantage of early payment discounts. It also means that you can be sure that your payments are processed on time, eliminating late fees, while also creating a better relationship with your vendors and suppliers.

▪ Eliminate Invoice Fraud

Everyone believes that their employees are honest, and in most cases they are. But why take a chance? AP automation eliminates the need for paper checks and offers various verification protocols that will alert you to anything that may appear to be fraudulent.

▪ Improved Flexibility for Your Finance Team

Automating AP makes your workforce more flexible. Recent experience with the pandemic is a good example of why it's important to offer flexibility.

Using a manual system means that your employees need to be at their desks, in your office, to do their work. Switching to an automated system lets them work from anywhere, keeping your business running smoothly, no matter what.

▪ Accurate Real-Time Reports

Reporting options are better when information is tracked centrally automatically. Switching to automated accounts payable allows you to print reports in real-time, which provides a more accurate view of your business finances.

For example, you report on current committed spend and accruals data to speed up month-end closing process .

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Benefits of Automating Accounts Payable



Faster and Easier Invoice Approvals



Take Advantage of Discounts



Avoid Late Payment Penalties



Eliminate Invoice Fraud



Improved Flexibility For Your Finance Team



Accurate Real-Time Reports

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Creating best practices for your accounts payable team is essential. The best place to start is by automating your AP processes. AP automation solutions including a procure-to-pay application can take reduce workload, eliminate costly errors, and even allow your employees to work from home.

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, stopping erroneous payments, and driving value across your organization.
- Learn about us, and our long history of helping companies just like yours.

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.

download a free copy of our guide

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

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

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