

Accounts Payable: What Is It, Definition, Job Description, Process, and Software



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What Is Accounts Payable?

Accounts payable is the money a company owes to its suppliers for goods and services received on credit.

Accounts payable is also the department within the finance team who are responsible for paying the invoices received from suppliers related to the company's purchases.

From an accounting perspective, accounts payable is an account within the general ledger that tracks a company's liabilities to pay short-term debt to its creditors.

Understanding Accounts Payable

When a company purchases goods and services on credit, it records them as accounts payable because they are liable to pay the vendor later.

Accounts payable is also sometimes referred to as trade debt or trade payables, but trade payables are actually a sub-set of accounts payable.

Trade payables is related only to inventory related goods.

Is Accounts Payable a Liability or an Asset?

Accounts payable is a current liability on the balance sheet that needs to be settled within one year, representing money owed to other entities in exchange for goods and services.

It should not be confused with accounts receivable, which refers to the money customers owe a business. This is an asset.

The accounts receivable ledger tracks these amounts owed and helps businesses keep track of payments due, monitor customer balances, and generate reports for accounting purposes.

AR is an important part of managing the finances of any business, but it can be considered as the opposite of AP.

What's the Difference Between Accounts Payable and Notes Payable?

Accounts payable should also not be confused with notes payable.

Notes payable are long-term liabilities payable beyond 12 months while accounts payable should be payable within a 12-month period.

What's the Difference Between an Accrued Expense and Accounts Payable?

Accrued expenses and accounts payable have some similarities, they are both monies owed for example, but there are also key differences between accrued expenses and accounts payable.

Accrued expenses are liabilities that have built up over time and the company is obligated to pay in the future. Invoices may not have been received yet and the amount owed may be estimated.

Accounts payable are liabilities related to ongoing expenses where invoices have been received and payment must be made in a defined period, usually within 12 months of the expense being incurred.

Is Accounts Payable a Credit or a Debit?

There is often confusion about if accounts payable is a credit or a debit. Accounts payable is a liability account and should have a credit balance.

But individual accounts payable records can be credit (at the point of purchase) or debit (when the payment is processed).

Accounts Payable Example

You make a purchase of \$1,000 worth of stationary on behalf of the company from your supplier, AB Stationary.

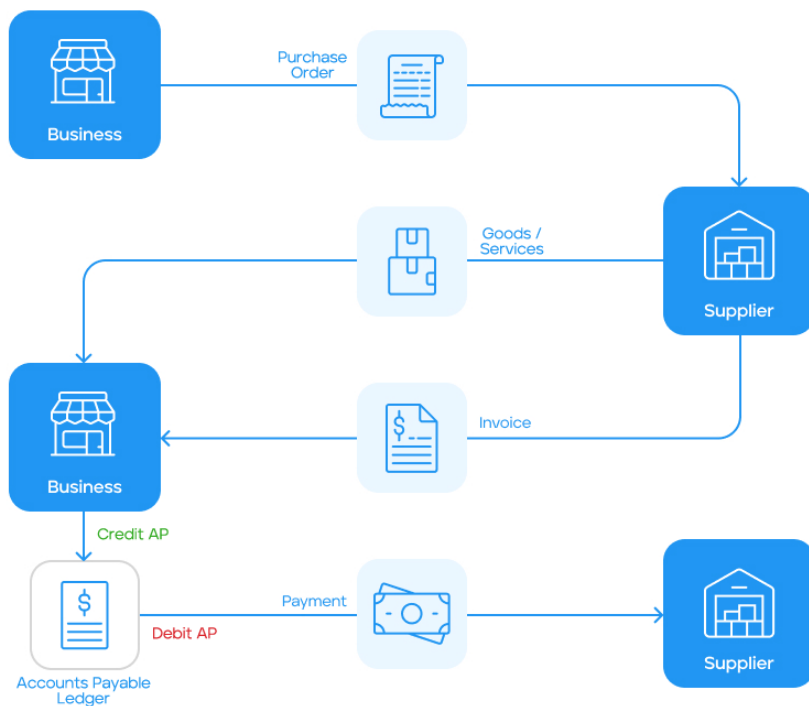
Based on your agreed credit terms the purchase is on credit and will be due to be paid in 14 days.

This \$1,000 will be added to your accounts payable ledger as a credit until against AB Stationary until the payment is processed.

When the payment is processed the accounts payable ledger will have a debit of \$1,000 recorded.

This follows accrual accounting practices where expenses are recognized when they are incurred.

■ Accounts Payable Example



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Accounts Payable Job Description

Working in accounts payable involves managing the company's financial obligations to its suppliers.

The main tasks of an accounts payable clerk include:

- Processing invoices
- Verifying the accuracy and completeness of the information
- Coding payments
- Determining payment terms
- Creating payment schedules

Accounts payable clerks may also be responsible for the following:

- Preparing reports
- Reconciling differences between invoices
- Making payments to vendors
- Managing vendor relations
- Responding to inquiries
- Resolving outstanding issues with suppliers

To be successful in an accounts payable role, individuals need relevant accounts payable skills.

They should possess strong organizational skills, attention to detail, and the ability to work in a fast-paced environment.

They should also have a good understanding of accounting principles and experience working with accounting software.

As part of the job responsibilities of accounts payable professionals must monitor supplier invoices to ensure the accuracy and timeliness of payments.

They also provide timely updates on payment status to relevant stakeholders such as internal departments and external suppliers.

Accounts payable professionals may also be responsible for reconciling accounts with vendors or calculating any discounts available on payments made within specified deadlines.

They may also provide analysis of unpaid invoices to help identify potential issues with late payments or discrepancies in vendor charges.

If you are hiring in accounts payable you should consider appropriate accounts payable interview questions to help identify the right candidates.

The Accounts Payable Process

The accounts payable process is commonly considered to start when you receive an invoice.

Ideally, the accounts payable process will incorporate a PO process including tracking of receiving of goods and services covering the full procure-to-pay process.

This is also known as Full cycle accounts payable and ensures faster and more accurate invoice processing with fewer exceptions. If the invoice data matches.

1. **Receive and Review Vendor Invoice**

The AP process begins when an invoice is received from a vendor or supplier for goods or services the business purchased on credit terms.

2. **Assign Invoice for Processing**

After the invoice is received, it needs to be forwarded to an appropriate person for invoice processing.

This might be a department manager, the company accountant, or an accounts payable specialist.

If a company is clear on its purchase order about who should receive the invoice, this step can be avoided.

AP automation software can automatically receive, process, and assign invoices to the right people.

3. **Enter Invoice Data Into the Accounting Software**

AP staff must then enter all the invoice data into the accounting software, including vendor details, items, quantities, cost, etc.

All transactions must be recorded in the general ledger. AP staff must be able to keep track of all business expenses, payments, and reimbursements on all liability accounts.

This step is easier with electronic invoicing and when AP automation software is in use.

Invoice data can be scanned and extracted from the invoice using OCR technology and artificial intelligence and entered directly into the accounting system resulting in faster invoice processing times.

4. **Verify Invoice and Payment Information**

Once the information is in the system, accounts payable clerks analyze the payment terms, check for discounts that may be applicable per the contract, and other information that could affect payment accuracy before sending the invoice for approval.

5. **Match Invoice To PO and Receipt**

If you are following a 2-way matching process this will involve comparing the invoice to a PO.

If you are following a 3-way matching process you will match against the PO and also the goods received note or other relevant receiving documents.

6. **Approve Invoice**

The invoice approval process will likely look different depending on how the invoice has been matched. Successfully 3-way matched invoices may not need any additional approval.

Invoices that were not successfully matched or those with exceptions will likely need additional approval.

7. **Make Payment**

The AP department must ensure that all payments are authorized accurately and promptly.

This will ensure invoices can be processed for payment at the optimal time for value and cash flow management.

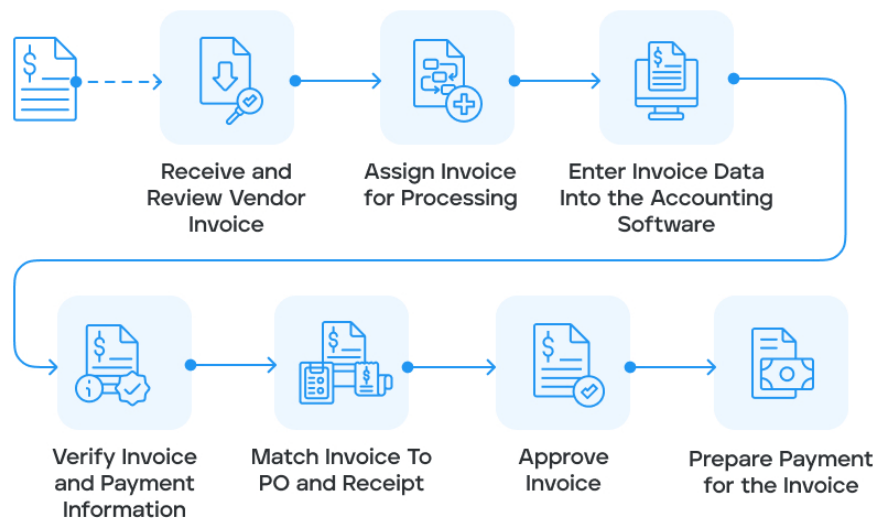
While some vendors may offer an early payment discount, it may not be feasible for you to leverage it.

The payable department should know when it's safe to take advantage of those discounts and when it is better to wait until the due date to make payment.

Once the information is verified and payment is approved, the AP department will prepare vendor payments. Vendor payment details may use EFT payments, ACH transfers or wire transfers.

They are typically outlined in the contract but generally include payment by check, bank transfer, wire, credit card, or debit card.

Accounts Payable Process



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Other Important Accounts Payable Tasks

Reconcile Vendor Accounts

After issuing payment to the vendor, AP staff must periodically reconcile vendor accounts.

This process involves checking to ensure all invoices have been paid correctly and on time.

If there is a discrepancy, it involves reaching out to the vendor to solve the issue – whether it means receiving a refund, more product, or issuing another payment.

It is best to reconcile vendor accounts regularly.

Address Supplier Inquiries Promptly

Occasionally, suppliers may ask questions about when to expect an invoice payment. They may also have questions about orders, delivery, etc.

The accounts payable department must be able to address inquiries, manage invoice disputes, and forward concerns to the relevant department quickly to maintain quality vendor relationships.

Accounts Payable Reporting

Accounts payable reporting is an important part of accrual accounting. Tracking and reporting on AP transactions is key for the day-to-day activities of the department.

The reports generated can vary in different businesses.

This can include accounts payable KPI reports, accounts payable aging reports, accounts payable trial balance, and GRNI reports to help with GRNI Reconciliation.

Challenges in the Accounts Payable Process

There are many challenges in the accounts payable process that need to be managed carefully to ensure optimal performance.

Here is a list of some of the key challenges:

- **Manual Processes and Data Entry**

When your business manually manages bills and invoices, it can take time and resources.

This becomes especially challenging when dealing with large amounts of data or foreign currencies/exchange rates.

Manual processes also leave more room for human error which could

result in incorrect payments or missed deadlines.

Improving AP performance against accounts payable Benchmarks can be difficult, for example, if you're trying to measure and improve your AP turnover ratio.

▪ **Lack of Visibility of Committed Spend**

Without proper visibility into cash flow, businesses could miss out on opportunities to optimize their costs or save money by taking advantage of discounting options from vendors.

Better forecasting of payments in accounts payable can help improve cash flow management and liquidity management.

Furthermore, without visibility into the accounts payable process, it may be difficult to track down duplicate payments or identify fraud attempts quickly enough to prevent them from occurring.

Without upstream visibility of spend accounts payable forecasting will prove difficult and invoice approval times will be slow.

▪ **Inefficient Payment Processes**

This could include sending multiple payments for single invoices or waiting too long to pay vendors, resulting in late fees or other penalties.

Inefficient payment processes also make it difficult to manage accounts payable cash flow because there's no way to know how much money will be available at any given time.

Additionally, inefficient payment processes increase the risk of making duplicate payments. It is hard to keep track of all invoices being processed at any given moment.

Accounts payable automation helps address these challenges by handling invoice reconciliation (with automatic three-way matching to match invoices to receipts and invoices), approval workflows, and more.

• **Delays with Approving Invoices**

Each delay in a step of invoice processing has a knock-on effect with the result of delaying payment processing.

The biggest delay of all is often caused by delays approving invoices. Who needs to approve this invoice?

When you find out they don't have enough information to approve so they need to check the details and get back to you.

When all the required information is not available it becomes harder to approve invoices. An invoice arrives sometimes a month after the purchase.

Without a system in place will people recall the agreed prices? Not always. That's where full cycle accounts payable helps.

• **Managing Documents and Audit Trails**

Working with paper causes many problems, not least is that it goes missing. Paper invoices are no different. Lost in a pile, dropped when moving to another office.

Centralizing and digitizing invoice processing automates the management of relevant documents. Invoices are captured and digitized automatically and backed up to the cloud.

Additional documents can be linked similarly so you don't need to maintain folders and folders of documents.

Recording actions carried out in the accounts payable process can also be labor intensive.

How do your auditors know correct approval processes were followed if you received that on a phone call and there is no audit trail?

Challenges in the Accounts Payable Process



Manual Processes and Data Entry



Lack of Visibility of Committed Spend



Inefficient Payment Processes



Delays with Approving Invoices



Managing Documents and Audit Trails

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Accounts payable is the lifeblood of a business. Without proper management of payables and receivables, a business will falter.

Benefits of Using AP Automation Software

Managing accounts payable can be complex and time-consuming, but it can become easier with the right software.

Accounts Payable software is designed to streamline and automate many tasks required to pay suppliers on time while minimizing human errors that could lead to inaccuracies or delays.

PLANERGY's procure-to-pay software, incorporating AP automation software, makes AP automation easy. We connect with your accounting software or ERP to make managing procurement and accounting easier.

AP software allows companies to eliminate mundane tasks and focus their resources on more important projects.

AP automation software provides numerous benefits, including:

• **Cost Savings**

Automation eliminates the need for additional staff and the amount of time staff need to spend processing invoices.

Accounts payable process costs can be greatly reduced resulting in significant savings.

▪ **Faster Cycle Time**

By automating approval workflows and invoice processing you will greatly reduce the time it takes to process invoices right through to payment.

A lower invoice cycle time is a desirable outcome from improving AP processes.

Tracking the change in accounts payable KPIs, like accounts payable days, accounts payable turnover, and days payable outstanding will show this improvement.

Where there are no exceptions you could even embrace straight-through invoice processing.

▪ **Greater Efficiency**

Automation reduces invoice processing time and frees up time that would otherwise be spent on tedious tasks, allowing employees to work on more productive pursuits.

▪ **Better Accuracy and Reduced Errors**

Invoice process automation is far more accurate than manual processes, ensuring accuracy in data entry and other operations.

Plus, it helps ensure you are moving towards a paperless accounts payable workflow, so you don't have to worry about losing documents and reduces the risks of AP fraud.

▪ **Data Security**

Cloud software digitizes your records, digitally archives your documents, and ensures your financial data is securely backed up.

It also allows your team to work remotely, giving you the benefits of remote working while reducing the risks of fraud.

▪ **Data Collection & Analysis**

As automation tracks each step within a process, it creates records that can be used to analyze performance and identify weaknesses or improvements that need to be made.

The reports can help you see things like accounts payable write-offs and accounts payable recovery audits.

▪ **Scalable**

Manual processes limit how many invoices you can process per employee. When you exceed those levels you need to hire more staff and this can be challenging and time-consuming.

Removing the manual processes and automating ensures your accounts payable team are ready to scale with the company much more easily.

▪ **Improves Forecasting**

The earlier you know your committed spend the easier it is to forecast for budgets and cash-flow.

Spend visibility helps when preparing accounts payable accruals which in turn helps with month-end closing and when preparing year-end accounts.

Benefits of Using AP Automation Software



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Popular Accounting Software Options

Popular accounting software used for managing accounts payable lack the functionality of a dedicated AP solution like PLANERGY.

But luckily there are integration options for all leading accounting software and ERP.

Popular solutions often used to manage AP include:

• **Microsoft Dynamics GP**

Microsoft Dynamics Great Plains is an installed business accounting or enterprise resource planning (ERP) software offering powerful yet easy-to-use tools that help manage customer relations and finances.

It is still in common use in businesses and continues to be supported but Microsoft have announced there will be no further new features added after version 18.5, released in October 2022.

The updated cloud offering from Microsoft is Microsoft Dynamics 365.

▪ **QuickBooks**

QuickBooks is a powerful financial management software hosting a wide range of features to help businesses stay on top of their accounts. Available in Online and Desktop versions.

PLANERGY integrates with QuickBooks Online directly and has an integration with QuickBooks Desktop too.

▪ **Xero**

Xero is accounting software offering cloud-based access, making it easier for business owners to stay organized and in control of their finances.

Xero has extensive options for integrating with additional software to extend it's functionality. PLANERGY integrates with Xero to offer spend management and AP automation functionality.

▪ **Sage Intacct**

Sage Intacct is an award-winning cloud based accounting and financial management software with features designed to help businesses process payments, reconcile accounts and create accurate reports.

Sage Intacct accounts payable software provides automation tools to streamline invoice processing, reduce errors, and improve overall efficiency in managing payables.

PLANERGY integrates directly with Sage Intacct as well as other Sage software's like Sage 200 and Sage 50.

▪ **NetSuite**

NetSuite is a leading cloud ERP that covers CRM, business accounting, and ecommerce but does not effectively cover AP Automation.

PLANERGY has integration options for NetSuite customized to your specific NetSuite implementation.

PLANERGY Best Practices for Managing Accounts Payable

When managing accounts payable there are some key things you should do. Here is a list of accounts payable best practices to ensure you are processing invoices accurately and efficiently.

• **Standardize Invoice Processing**

No one is perfect, and there will be occasional mistakes, especially if you still use manual processes and your vendor is the same.

You may be accidentally billed for more office supplies than you received or for a longer period of time than your contract indicates. Duplicate invoices are common. It is often not fraud but just a manual error by the staff at your supplier.

Creating a standard process for how invoices are handled following best practices ensures that information stays consistent across the board. This consistency makes it easier to spot errors during invoice processing, and allows for faster validation.

• **Enforce Internal Controls**

A clear accounts payable policy should be defined with relevant internal controls for accounts payable and invoice processing. Compliance can be enforced more easily with dedicated software.

This should include a set of procedures for invoice approval, incorporating segregation of duties, and a workflow that sends the invoices to the appropriate department, person, or team, such as the CFO, help to streamline the process.

Automation can route invoices to the appropriate team member, and PLANERGY allows “Out of Office” settings that allow another user to temporarily step in with the same user permissions to keep things running smoothly while someone is on vacation or out on leave.

• **Negotiate Payment Terms with Suppliers**

To maximize your cash flow, your procurement team should negotiate more favorable pricing and payment terms with suppliers whenever possible.

If you can take advantage of an early payment discount, that's great, but the goal is to keep cash flow positive while having all of your bills paid on time to avoid late fees or penalties.

• **Use AP Automation**

Automated processes can reduce the time, effort, and cost associated with manual data entry by streamlining invoice management.

This increases accuracy and reduces errors. Automation also eliminates manual tasks such as matching invoices to orders and purchase orders, which can save significant time and resources.

Automation also improves the efficiency of accounts payable departments by updating payment terms with suppliers quickly and accurately.

This can result in early payment discounts or other incentives that benefit the company's bottom line.

By reducing the risk of human error, automated accounting processes help ensure compliance with applicable laws and regulations. It can also help ensure you can track and improve on established KPIs.

• **Digitally Archive Documents**

Creating digital copies of your invoices and credit notes is important for accurate accounting. By automatically creating digital copies, you can effortlessly store them in a central repository for easy access.

This reduces the chances of misplacing important documents, so you always have an up-to-date record of your transactions.

Keeping supplier contracts in a central repository also keeps them readily

available for review if any issues arise during the relationship.

Having all contracts stored in one place makes it easier to stay on top of legal requirements and ensure compliance.

• **Monitor and Audit AP Regularly**

Keeping an eye on things ensures both you and your vendors comply with all the clauses in the contract. It also helps ensure you comply with reporting requirements, tax regulations, and other relevant industry standards.

Implementing an accounts payable audit program to regularly review your internal processes will ensure compliance and performance does not slip.

Accounts payable audit procedures are often overlooked but are important to maintain any improvements are built on.

• **Use Risk Management Techniques**

To further reduce the issues between you and your vendors, conduct a risk assessment and integrate risk management techniques, like proactive risk management.

This can be done by establishing a threshold of acceptable levels of risk per contract and proactively monitoring those contracts on an ongoing basis.

This can help identify issues early on, with the ability to take action before any major compliance problems arise.

Additionally, integrating digital and automated processes for supplier management will help streamline the process and increase visibility.

Best Practices for Managing Accounts Payable



Standardize Invoice Processing Workflows



Enforce Internal Controls



Negotiate Payment Terms with Suppliers



Use AP Automation



Digitally Archive Documents



Monitor and Audit AP Regularly



Use Risk Management Techniques

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Future Trends in Accounts Payable

The future of accounts payable is focused on automation and digitalization.

Accounting departments are increasingly adopting automated processes to streamline operations, reduce costs, improve accuracy, and ensure compliance with regulatory requirements.

Integrating cloud-based platforms with accounts payable systems enables companies to manage their payments securely and efficiently.

Linking together procurement and accounts payable more effectively with procure-to-pay software that incorporates advanced AP automation will enable better collaboration between finance and procurement.

In the future, artificial intelligence (AI) and machine learning will be used to automate the accounts payable process further and improve accuracy.

New technologies such as blockchain will also provide secure ways for companies to make payments quickly and easily.

This is why now is the perfect time to implement AP automation and digitize accounts payable in your business.

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

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