Accrued Expense vs Accounts Payable: What's The Difference

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Proper bookkeeping requires you to understand multiple accounting terms and financial reports.

For instance, your company's balance sheet provides you with essential information about your business, displaying the total amount of assets, liabilities, and owner's equity as of a specific date.

Two of the most important items found on your balance sheet are accrued expenses and accounts payable.

Both accounts are expenses and are considered short-term liabilities, meaning that they're due and payable within less than a year. Though both are liabilities, there are several differences between the two.

What Is an Accrued Expense?

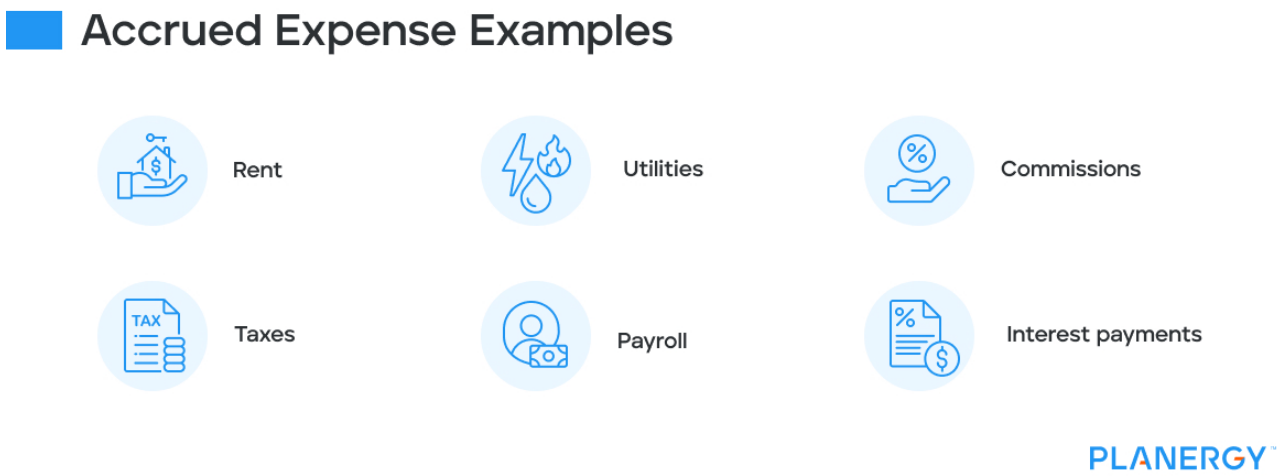
Accrued expenses are expenses that are recorded in your general ledger before payment is made. If you're using cash basis accounting, there's no need to accrue expenses, since they're recorded when money is exchanged. But if you're using accrual basis accounting, there will be occasions when you will need to accrue expenses.

An accrued expense is a regular expense that does not have a corresponding invoice. In some cases, an accrued expense will become an accounts payable item. This happens when an expense occurs, but a vendor or supplier invoice has not yet been received. Once the invoice has been received, the accrual is reversed and the invoice is processed as an accounts payable item.

But in many cases, an invoice will never be received for the expenses. The following are some of the expenses that may need to be accrued:

- Rent
- Utilities
- Commissions
- Taxes
- Payroll
- Interest payments

An accrued expense, like accounts payable, directly impacts your cash flow statement and ultimately, your net income totals.



What Is an Example of an Accrued Expense?

Let’s take a look at examples of accrued expenses. Your employees are paid every two weeks, with the next payday on July 7, which is for work completed in the last two weeks of June. For payroll expenses to be accurately posted in the correct period, you will need to accrue all related payroll expenses in June, since payroll will not be processed until July.

For example, the total payroll for the last two weeks in June was $5,650. You will need to debit your payroll expense accounts $5,650 and credit accrued expenses for $5,650. When payroll is later paid on July 7, you will need to reverse the accrual for the exact amount previously posted, or payroll will be overstated for July.

Remember, if employee wages are not accrued, financial statement totals for the month will be understated, since they won’t reflect the actual cost of payroll for June.

What Are Accounts Payable?

Accounts payable is a liability account that represents the amount due to vendors, suppliers, and other creditors for goods or services purchased on credit.

If you’re using accrual accounting, you will need to account for the purchase in

the month that it occurred, not the month that it is paid.

If an expense is accounts payable, you will receive an invoice for the expense. In some cases, if the invoice is late, you may need to accrue the accounts payable expense until the invoice is received.

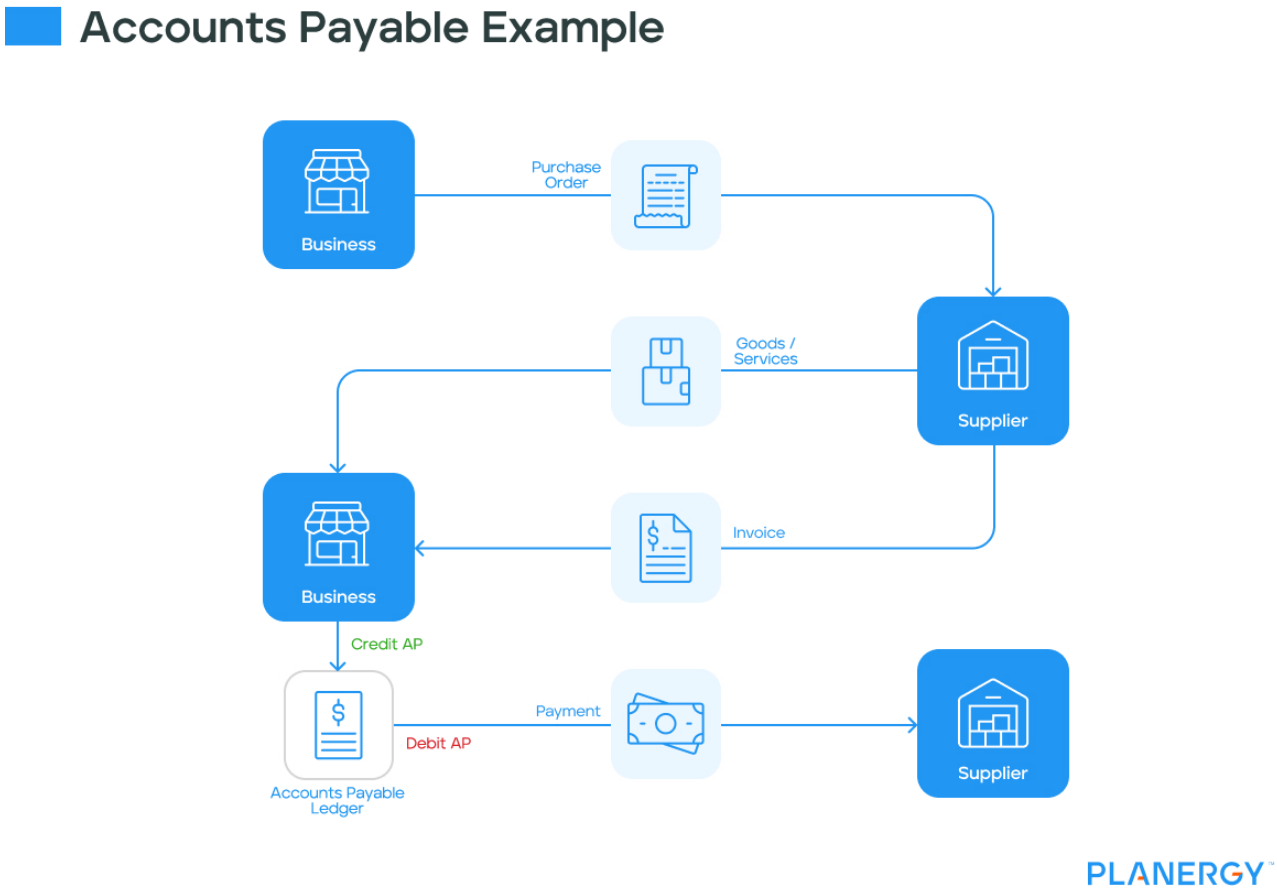
What Is an Example of Accounts Payable?

An example of how accounts payable works is:

On June 1, a business ordered $1,500 worth of office supplies. The supplies arrive on June 5, with the invoice received on June 8.
The invoice is immediately matched with the corresponding purchase order and shipping receipt, checked for accuracy, and routed for approval.

AP receives the approved invoice back on Jun 12 and enters the invoice details into the general ledger, debiting the office supplies account for $1,500 and the accounts payable account for $1,500.

Even though the invoice will not be paid until July, it has been recorded in June as an unpaid bill, which is when the expense was incurred.



What Is the Difference Between an Accrued Expense and Accounts Payable?

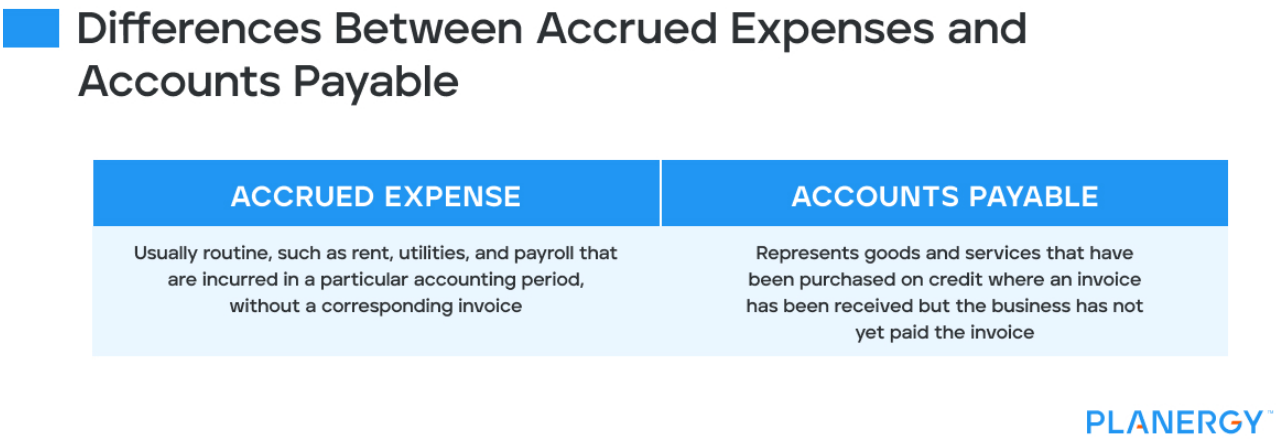
The key differences between accrued expenses and accounts payable are that accrued expenses are usually routine, such as rent, utilities, and payroll that are incurred in a particular accounting period, without a corresponding invoice.

Accounts payable represents goods and services that have been purchased on credit where an invoice has been received but the business has not yet paid the invoice.

Both accrued expenses and accounts payable are recorded on your company's balance sheet.

Though both are expenses, an accrued expense or accrued liability is charged to your business in the month that it is incurred, while accounts payable represent the amount of money you owe your vendors or suppliers for goods and services

purchased on credit for that particular month.



Are Accrued Expenses the Same As Accounts Receivable?

Accrued expenses are a current liability on your balance sheet because, like accounts payable, it represents an amount owed to vendors, suppliers, or other creditors.

Accounts receivable is an asset on your balance sheet since it represents money that is owed to you from your customers.

If goods or services are provided to a customer but the customer has not yet been billed, the revenue total would need to be recorded as accrued revenue, an asset on your balance sheet.

How Does an Accrued Expense Differ From an Expense?

An expense is a general term used to describe the costs that a business incurs during regular operations, while an accrued expense is a specific type of business expense that is recorded in your general ledger to ensure accuracy.
It’s impossible to maintain a business without incurring expenses. Business expenses typically fit into one of three categories:

1. ### Fixed Costs

   Fixed expenses that remain the same from period to period. Fixed expenses usually include rent and insurance payments.

2. ### Variable Costs

   Variable expenses change from period to period. Variable expenses include utility costs and shipping costs.

3. ### Periodic Costs

   Periodic expenses are expenses that only occur occasionally. Employee bonuses and repairs are considered periodic expenses.

Accrued expenses can fall into fixed or variable costs as well as periodic costs, but the main difference between the two is that an expense refers to any item or service that costs money, while an accrued expense is a particular expense that needs to be recorded for a specific accounting period.

When Should You Accrue an Expense?

Accruals are adjusting entries and should be completed as part of financial close management at the end of the accounting period. This is important because if the accrual is not completed before closing the period, financial statements will be inaccurate.

For example, it’s the end of the month and you have yet to receive your utility bill. To properly account for the utility expense for the month, you’ll need to estimate and accrue the utility expense.

Once the actual bill is received, you can reverse the accrual and enter the information from the bill into your accounts payable.

How Are Accrued Expenses Recorded?

You have three top salespeople, Jamie, Linda, and Steven, who are owed a

commission check for June. Because their total commission is paid for sales made in June, the commission checks will not be issued until July.

Jamie is owed $1,100; Linda is owed $750, and Steven is owed $950 with commissions totaling $2,800.

Because the commissions are owed for sales completed in June, the commission totals must be recorded in the same month. To do so, you'll need to accrue them.

The accrual entry would be as follows:

Date	Account	Debit	Credit
June 30	Commission Expense	$2,800	
	Accrued Expenses		$2,800

This journal entry helps ensure that all June expenses are properly accounted for in your financial statements.

Because you're going to be paying the commission checks in July, you'll need to reverse the accrual.

Date	Account	Debit	Credit
July 1	Accrued Expenses	$2,800	
	Commission Expense		$2,800

Reversing the accrual allows you to then pay Jamie, Linda, and Steven their commission checks through accounts payable in July, using the following journal entry:

Date	Account	Debit	Credit
July 1	Commission Expense – Jamie	$1,100	
	Commission Expense – Linda	$750	
	Commission Expense – Steven	$950	
	Accounts Payable		$2,800

Because you reversed the accrued expenses from June, when you enter the amounts owed in accounts payable, it will automatically zero out the commission expense for July.

Improve Accuracy With AP Automation

Handling accrued expenses properly requires detailed follow-up if you're using a manual accounting system. Not only do you need to remember to post necessary accruals before month-end, but you also need to make sure the accruals are for the correct amount.

Just as important is remembering to reverse the accruals the following month.

Procure-to-pay software, like PLANERGY, that incorporates accounts payable automation and accounts payable reporting can simplify the entire accrual process for you, ensuring that accruals entries are entered and reversed on time.

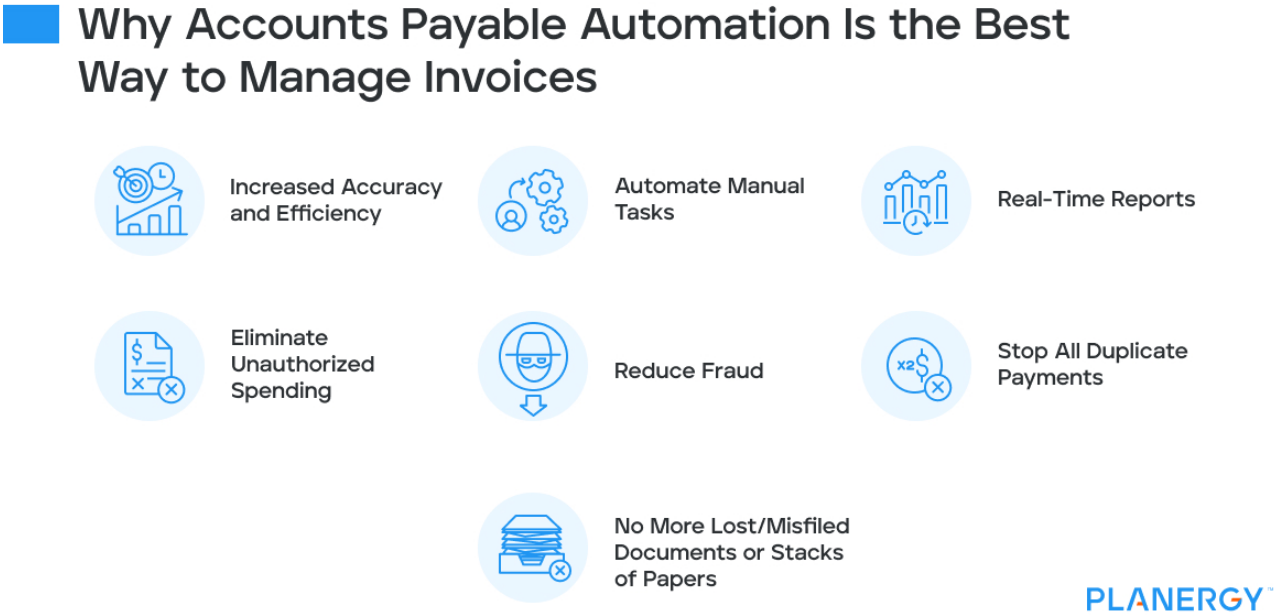
AP automation also provides the following benefits:

- Accuracy and efficiency increase due to the elimination of manual tasks such as data entry and invoice verification.
  And with invoices logged into the system automatically upon receipt, and updated once paid, real-time reports provide a level of accuracy at month-end closing and for year-end accounting.

  This helps with common financial statements such as balance sheets and income statements that are unavailable in manual accounting systems.

- Unauthorized spending and fraud are reduced or even eliminated, while duplicate payments become a thing of the past.
  Anytime, anywhere secure access to your procure-to-pay system makes it easy to work from anywhere.

- The ability to store documents electronically means no more lost or misfiled documents, or stacks of papers on your desk waiting to be processed.



Accounts payable automation software automates the entire AP process, from procurement to invoice payment.

Taking control of accounts payable, including accrued expenses allows you to say goodbye to unwieldy Excel spreadsheets, inaccurate accruals, missing reversals, and misstated financial statements, setting you on the path to financial health.

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