

Full Cycle Accounts Payable: What Is It and How to Manage It



IN THIS ARTICLE

- What Is the Meaning of Full Cycle Accounting?
- What is Full Cycle Accounts Payable?
- What Is the Difference Between Full Cycle AP and Traditional AP?
- What Are the Steps in Full Cycle Accounts Payable?
- What Is the Benefit of Full Cycle Accounts Payable?
- What Is Cycle Time In Accounts Payable?
- What Is the Invoice Cycle Time?
- How Can Software Help You Better Manage Full Cycle Accounts Payable?
- Streamline Your Full Cycle Accounts Payable With Automated Software

There are two major business cycles that companies large and small deal with daily. The Revenue Cycle is the process used for recording revenue received from the sale of goods and services.

The accounts payable cycle is usually considered the processes in finance from the point a vendor invoice is received.

Full cycle accounts payable, or the procure-to-pay cycle, is the full process used

for purchasing and paying for products and services that are purchased.

But before you can understand full cycle accounts payable, you'll need to understand full cycle accounting.

What Is the Meaning of Full Cycle Accounting?

Full cycle accounting is a series of steps that must be completed before financial statements are run at the end of the accounting period.

Typically referred to as the accounting cycle, these steps need to be completed each accounting cycle regardless of whether you use an automated accounting software application or complete your accounting manually.

The eight steps in the accounting cycle are:

1. Identifying Transactions

Your first step is to identify transactions that need to be entered into various subsidiary ledgers, including the accounts payable and accounts receivable ledgers. This step will be done automatically if you're using an accounting software application.

2. Prepare and Record Journal Entries

You'll also have to create journal entries for things such as depreciation or recurring payments such as insurance. Again, much of this can be done automatically through accounting software.

3. Post Transactions to the General Ledger

Posting to your general ledger accounts will need to be completed by you if you're using a manual accounting system, but will likely be completed automatically if you're using accounting software.

4. Prepare an Unadjusted Trial Balance

The adjusted trial balance is run after all journal entries have been posted. This allows you to review your balances and make any additions or corrections as needed.

5. Prepare Worksheets

Worksheets are used to prepare any adjusting entries that may need to be completed. Using a worksheet helps to ensure that adjusting entries aren't overlooked.

6. Prepare and Post Adjusting Entries

Using the worksheets, prepare and post any adjusting entries to the general ledger.

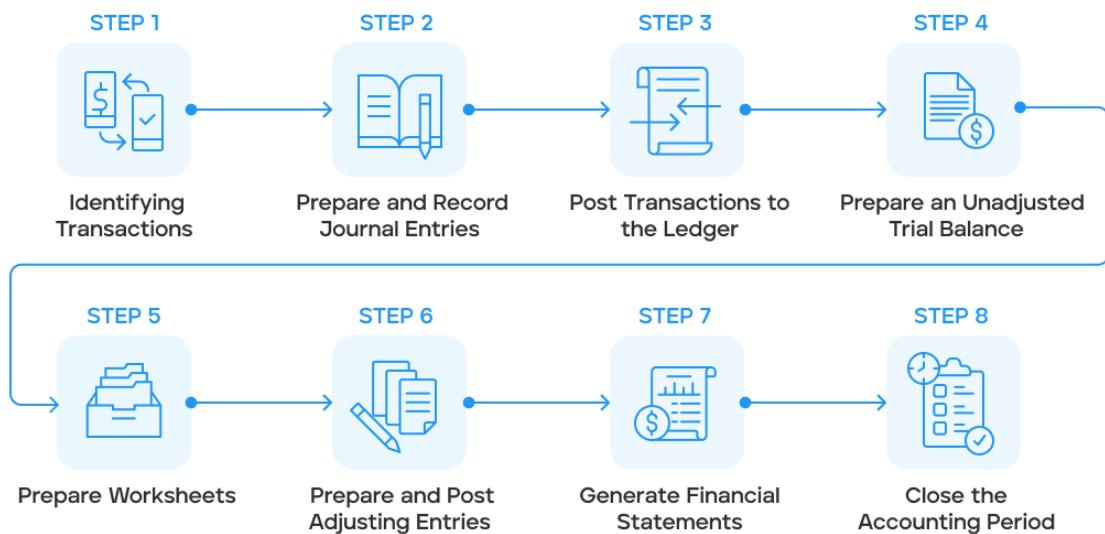
7. Generate Financial Statements

Financial statement generation should be completed every accounting period. Financial statements typically include a balance sheet, income statement, adjusted trial balance, and statement of cash flows.

8. Close the Accounting Period

Closing the books for the period, whether it's done manually or by your accounting software resets the appropriate revenue and expense account balances to zero in preparation for the next accounting period.

8 Steps in the Accounting Cycle



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What is Full Cycle Accounts Payable?

Also referred to as the procure-to-pay process, full cycle accounts payable is the accounting processes that are completed each time goods or services are purchased, from initial purchase order to supplier payment.

Unlike the invoice cycle, which concentrates solely on how quickly an invoice is processed for payment, full cycle accounts payable starts at procurement.

What Is the Difference Between Full Cycle AP and Traditional AP?

Full cycle AP includes the entire procure-to-pay cycle starting with the purchase itself, while traditional AP concentrates on invoice processing that begins with the receipt of a vendor invoice.

Because it is full cycle, full cycle accounting includes tasks the accounts payable department doesn't traditionally deal with, such as sourcing and vetting suppliers and vendors, locating the best cost-effective products and services, and developing and maintaining vendor and supplier relationships.

What Are the Steps in Full Cycle Accounts Payable?

Full cycle accounts payable has several steps starting with the initial procurement process, and progressing to more typical AP tasks such as invoice processing and payment.

1. **Identify a Need**

The first step in full cycle accounts payable is to identify a need. This could be anything like supplies needed to produce products for sale or the purchase of ten desktop computers for the marketing department.

2. **Create a Purchase Requisition**

Creating a purchase requisition includes receiving purchase order approval from the appropriate department head or supervisor for the items or services needed. This should be based on your internal purchasing policies. Once approved, you'll move to Step 3.

3. **Complete a Purchase Order**

Once a vendor or supplier has been identified, a purchase order is issued for the approved items or services. Once received and accepted by the supplier, a legal agreement has been established between both parties.

4. **Receipt of Goods or Services**

Receipt of goods and services includes verification that the products and services were received along with a receiving document that is used in the three-way matching process.

5. **Invoice Received**

An invoice may be received with a delivery or may arrive a few days after delivery. If services are purchased, the invoice may be given to a staff

member after the service has been provided.

6. Invoice Processing

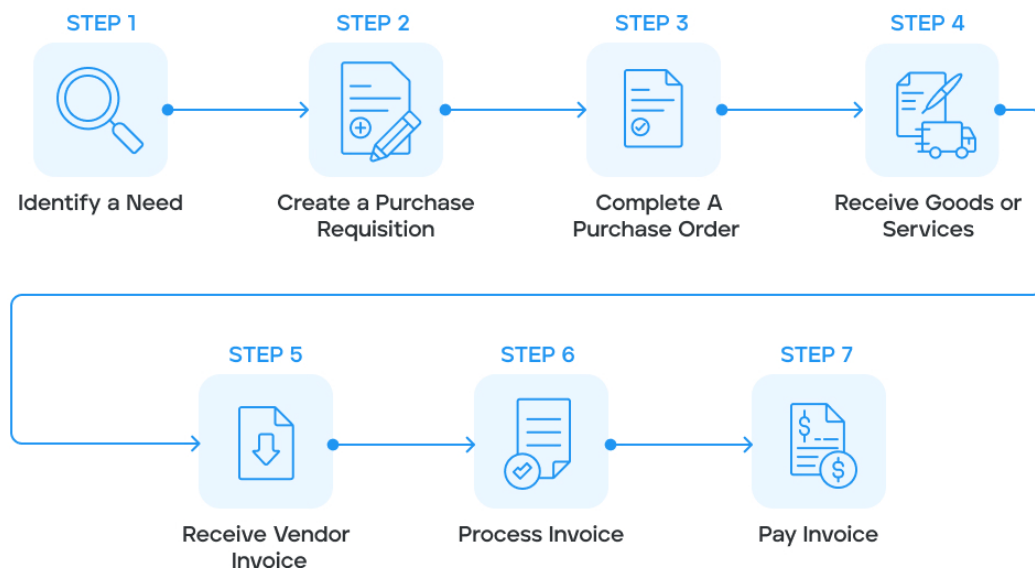
Processing invoices starts with invoice validation. Next is three-way matching, which includes matching invoices with a shipping receipt and a purchase order, any discrepancies are flagged before routing the invoice for approval.

If you already have an approved purchase order, you may be able to forego the approval process, depending on your company's internal controls.

7. Pay Invoices

Approved invoices are entered into your accounting software application and payment is issued on or before the due date.

7 Steps in Full-Cycle Accounts Payable



What Is the Benefit of Full Cycle Accounts Payable?

There are numerous benefits of using full cycle accounts payable. Because full cycle accounts payable starts with the purchasing department, it provides a higher level of financial transparency, giving businesses better control over spending.

It also provides better sourcing and vetting of vendors and suppliers for products and services, while strengthening business relationships.

What Is Cycle Time In Accounts Payable?

Accounts payable cycle time is the time it takes to complete the procure-to-pay cycle from initial purchase to invoice payment.

Full cycle accounts payable is more thorough than invoice cycle time, dealing with both upstream (procurement) and downstream (invoice cycle) processes.

Upstream

Upstream starts with procurement, where supply chain management, vendor sourcing, supplier relationship management, and contract management are handled.

At the very beginning of full cycle accounts payable, upstream tasks play an important role in the accounts payable process.

Downstream

Downstream takes place after the initial procurement process is complete and includes common AP tasks such as invoice receipt, verification, and payment processing.

Combining these two processes into one complete cycle provides you with a more complete picture of your business finances. When procurement and finance collaborate everyone comes out a winner.

What Is the Invoice Cycle Time?

Invoice cycle time is the number of days it takes to process an invoice; from initial invoice receipt to preparing payment. Unlike full cycle accounts payable, invoice cycle time does not involve any procurement processes, but it does include numerous steps.

1. Invoice Receipt

Invoice receipt includes invoice delivery and how long it takes to get the invoice to the correct person.

Times can vary, depending on how an invoice is delivered and if you have AP automation in place.

For example, in a manual process an invoice that is received by email may need to be printed before routing it to the correct department.

2. Invoice Validation

Once an invoice is received, it will need to be verified for authenticity. Once it's verified, AP will need to complete three-way matching, which matches invoice data to that included on a purchase order and shipping receipt.

3. Invoice Approval Preparation

Once verified and matched, an invoice will need to be routed for approval.

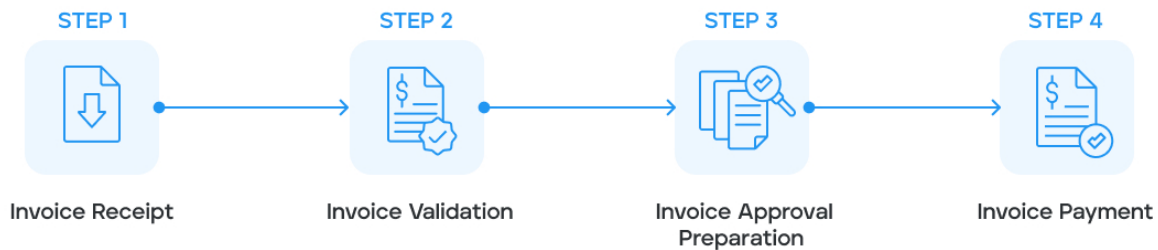
When approvals are routed manually or without a proper workflow in place, delays can often happen, with an invoice often remaining on an approver's desk for days or even weeks in some cases.

This delay can be especially significant if the invoice requires multiple approvers.

4. Invoice Payment

Once an invoice has been approved, it's ready to be entered into your ERP or accounting software application for payment on or near its due date.

■ The 4 Stages of Invoice Cycle Time



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How Can Software Help You Better Manage Full Cycle Accounts Payable?

Procure-to-pay software, like PLANERGY, uses artificial intelligence (AI) and machine learning to automate full cycle AP processes. This incorporates AP Automation software to automate invoice processing and matching.

These are just a few of the benefits of using automated full cycle accounting:

• Streamlining the Entire AP Process

From initial product sourcing until the payment is processed, AP automation streamlines the entire accounts payable workflow for the AP team.

Automation solutions that use AI and machine learning allow you to automate time-consuming, error-prone manual processes like data entry and three-way matching, with every invoice checked against purchase orders and shipping receipts to verify its accuracy, with exceptions

flagged for further investigation.

AP automation also helps reduce the stacks of paper documents that procurement and AP departments typically deal with daily. Digitally archived documents don't go missing as easily as paper.

▪ **Automatic Connection Between Buyers and Suppliers**

AP automation makes it easy to locate the right vendor for each purchase, which reduces incidences of rogue spending and invoice fraud, while also ensuring that credit terms and pricing are accurately reflected on all relevant documentation.

▪ **Reduced Processing Time and Cost**

Streamlining your AP process not only helps you improve AP cycle time, but it also helps eliminate costly penalties including late payments and the resulting late fees or missed early payment discounts.

Automating AP also helps eliminate fraud, duplicate payments, and time-consuming manual processing that end up costing your business a lot.

▪ **Improved Transparency**

Using automation, every step of the procurement process is immediately available, including vendor details, payment terms, and pricing levels. In addition, real-time spend reports are available, and cash flow reporting is more accurate.

▪ **Easier Payment Processes**

In addition to better management of both procurement and invoice processing, AP automation offers electronic vendor payments capability, which means faster vendor and supplier payments along with the ability to take advantage of early payment discounts.

Benefits of Full-Cycle Accounting Automation



Streamlining the Entire AP Process



Automatic Connection Between Buyers and Suppliers



Reduced Processing Time and Cost



Improved Transparency



Easier Payment Processes

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Streamline Your Full Cycle Accounts Payable With Automated Software

Full cycle accounts payable helps you develop a better relationship between procurement and the accounts payable team.

Businesses can strengthen supplier and vendor relationships, get better control of their cash flow, reduce human error, and better manage spending while also mitigating risk.

An investment in accounts payable automation and adhering to internal controls in accounts payable and procurement can help you do that and more.

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.

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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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