



Accounts Payable (AP) Overview

AP Fundamentals

<b>Definition:</b> Accounts Payable (AP) represents the short-term liabilities a business owes to its suppliers or vendors for goods or services received but not yet paid for.
<b>Purpose:</b> Managing AP efficiently ensures timely payments, maintains good supplier relationships, and optimizes cash flow.
<b>Key Documents:</b> Purchase orders (POs), invoices, receiving reports, and payment vouchers.
<b>Core Process:</b> <div><div>1. Receive Invoice</div><div>2. Verify Invoice Details</div><div>3. Record Invoice in Accounting System</div><div>4. Approve Payment</div><div>5. Make Payment</div><div>6. Reconcile AP accounts</div></div>

Invoice Processing

<b>Invoice Receipt</b>	Collect invoices from suppliers via mail, email, or electronic data interchange (EDI).
<b>Invoice Verification</b>	Ensure invoice accuracy by matching details against POs and receiving reports. Verify quantities, prices, and terms.
<b>Data Entry</b>	Input invoice information (vendor, date, amount, due date) into the accounting system. Code to the appropriate GL accounts.
<b>Approval Workflow</b>	Route invoices for approval based on predefined rules. Approval thresholds may vary by amount or department.
<b>Payment Scheduling</b>	Schedule payments considering due dates, early payment discounts, and cash flow projections.

Important AP Metrics

<b>Days Payable Outstanding (DPO):</b> Measures the average number of days a company takes to pay its suppliers. $DPO = (Accounts\ Payable / Cost\ of\ Goods\ Sold) * Number\ of\ Days\ in\ Period$
<b>Invoice Processing Time:</b> Time taken from invoice receipt to payment. Shorter times can indicate efficiency.
<b>Payment Error Rate:</b> Percentage of payments with errors or discrepancies. Lower rates indicate accuracy in processing.

Accounts Receivable (AR) Overview

AR Fundamentals

<b>Definition:</b> Accounts Receivable (AR) represents the short-term assets a business is owed by its customers for goods or services delivered but not yet paid for.
<b>Purpose:</b> Managing AR effectively ensures timely collections, reduces bad debts, and improves cash flow.
<b>Key Documents:</b> Sales orders, invoices, customer statements, and credit memos.
<b>Core Process:</b> <div><div>1. Credit Evaluation</div><div>2. Invoice Generation</div><div>3. Invoice Delivery</div><div>4. Payment Collection</div><div>5. Reconciliation of AR accounts</div><div>6. Follow-up on Overdue Invoices</div></div>

Invoice and Collection Process

<b>Invoice Generation</b>	Create accurate invoices promptly after providing goods/services. Include all necessary details (customer info, items, prices, terms).
<b>Invoice Delivery</b>	Deliver invoices to customers via preferred methods (email, mail, online portal). Confirm receipt to ensure awareness.
<b>Payment Collection</b>	Offer various payment options (credit card, ACH, check). Record payments accurately and promptly upon receipt.
<b>Overdue Follow-Up</b>	Implement a system for tracking overdue invoices. Send reminders and escalate collection efforts as needed. Document all communication.
<b>Dispute Resolution</b>	Establish procedures for handling invoice disputes. Investigate and resolve disputes promptly to avoid payment delays.

Important AR Metrics

<b>Days Sales Outstanding (DSO):</b> Measures the average number of days it takes a company to collect payment after a sale. $DSO = (Accounts\ Receivable / Total\ Credit\ Sales) * Number\ of\ Days\ in\ Period$
<b>Bad Debt Ratio:</b> Percentage of AR that is deemed uncollectible. $(Bad\ Debt\ Expense / Total\ Credit\ Sales) * 100$
<b>Collection Effectiveness Index (CEI):</b> Measures the efficiency of collection efforts. $(Total\ Credit\ Sales - End\ AR + Beginning\ AR) / (Total\ Credit\ Sales) * 100$

## AP/AR Reconciliation & Reporting

### Reconciliation

<b>Purpose:</b> Ensure the accuracy of AP and AR balances by comparing them to supporting documents and bank statements.
<b>AP Reconciliation:</b> Match AP ledger balances with vendor statements. Investigate and resolve any discrepancies.
<b>AR Reconciliation:</b> Compare AR ledger balances with customer account details and bank deposits. Investigate and resolve any discrepancies.
<b>Frequency:</b> Reconcile AP and AR accounts regularly (e.g., monthly) to identify and correct errors promptly.

### Reporting

<b>AP Aging Report</b>	Categorizes AP balances by due date ranges (e.g., current, 30 days overdue, 60 days overdue). Helps prioritize payments.
<b>AR Aging Report</b>	Categorizes AR balances by age (e.g., current, 30 days overdue, 60 days overdue). Helps identify slow-paying customers and potential bad debts.
<b>Cash Flow Forecast</b>	Projects future cash inflows from AR collections and cash outflows for AP payments. Supports cash management decisions.
<b>Vendor Analysis</b>	Analyzes vendor performance based on factors like pricing, delivery reliability, and payment terms. Supports vendor selection and negotiation.
<b>Customer Analysis</b>	Analyzes customer payment behavior, creditworthiness, and profitability. Supports credit policy decisions and sales strategies.

## Best Practices & Internal Controls

### Best Practices

<b>AP Best Practices:</b>
Centralize invoice processing to improve efficiency and control.
Take advantage of early payment discounts to reduce costs.
Automate AP processes (e.g., invoice capture, approval workflows) to streamline operations.
<b>AR Best Practices:</b>
Establish clear credit policies and terms to minimize payment delays.
Offer multiple payment options to facilitate timely payments.
Implement automated reminders and collection processes to improve collection rates.

### Internal Controls

<b>Segregation of Duties</b>	Separate responsibilities for invoice processing, payment approval, and bank reconciliation to prevent fraud and errors.
<b>Approval Authority</b>	Define clear approval limits for AP invoices and AR credit memos to ensure proper authorization.
<b>Regular Audits</b>	Conduct periodic audits of AP and AR processes to identify weaknesses and ensure compliance with internal policies and regulations.
<b>Document Retention</b>	Maintain organized records of all AP and AR documents (e.g., invoices, payments, correspondence) for audit and compliance purposes.
<b>System Access Controls</b>	Restrict access to AP and AR systems based on job responsibilities to prevent unauthorized transactions and data breaches.