

Best Practices for Accounts Payable Processes



Paying the piper may not be the most enjoyable aspect of doing business, but accounts payable (AP)—like every part of a successful company—has an important part to play in keeping your organization profitable, growing, and competitive. How you manage your accounts payable processes can have a huge impact on not only your bottom line, but your cash flow, creditworthiness, and reputation.

Fortunately, implementing best practices for accounts payable is a straightforward affair. Invest the necessary time and resources into smart and professional policies that pay for themselves in lower costs and added value.

Why Developing Effective Accounts Payable Processes Matters

To be truly effective, every part of your accounts payable system should support your company's overall success by ensuring vendors and creditors receive correct payment in a timely fashion.

When you develop and implement accounts payable best practices, you'll find you have fewer time-

consuming errors to correct. You'll also avoid costly fees and penalties, which means your company will have more available working capital—not to mention healthy and rewarding relationships with creditors and vendors alike.

Essential Accounts Payable Best Practices

Strong internal controls are a good start for any successful AP system, but you'll need some more robust strategies to get the most from your accounts payable department.

1. Simplify, Consolidate, and Streamline with Purchasing Software

The potential savings afforded by improved accounts payable procedures are substantial, but require total integration and transparency to be fully realized. So if you don't already have a comprehensive [procurement software solution](#) in place, research and implement one, either as your main software or in tandem with existing Enterprise Resource Planning (ERP) software.

In addition to centralizing and automating your accounts payable processes and ensuring clear and complete communication of *all* transactional data, properly implemented AP automation lets you:

- **Create and manage a vendor master file.** Whether it has a dozen entries or a thousand, your vendor list should contain carefully evaluated and approved suppliers who are interested in building strategic and mutually beneficial relationships with your company. Software makes it easier to monitor vendor compliance and ensure vendor contact and payment information, as well as terms and special considerations (such as early payment discounts) are correct and properly factored into every purchase.
- **Track key performance indicators (KPIs).** Tracking vendor performance goes hand in glove with tracking your own payment data and behaviors, including invoice processing, late or early payments, cross-referencing purchase orders to invoice numbers, and more. A software solution greatly simplifies this tracking and enables you to identify potential problem areas, strengthen audit trails, and ensure every carefully-vetted creditor and vendor in your supply chain is getting your best performance as a client.
- **Digitize your data for total transparency.** AP automation means your accounts payable staff isn't bogged down with manually tracking every paper invoice and delivery receipt. Plus, inside and outside of AP, when every stakeholder has full access to the information and documents they need to ensure prompt orders, approvals, and payment, your whole company benefits. This singular process improvement lets you build policies, practices, and hierarchies that support your overall procurement strategy, with fewer roadblocks and greater efficiency. It also simplifies internal audits, forecasting, and financial reporting.
- **Reduce human error.** Once you've set up a real-time AP system that makes complete transactional information immediately available, it becomes much easier to spot, and

eliminate, potential errors. Duplicate payments, late payments, lost delivery receipts, missing original invoices or incorrect invoice amounts are just some of the potential chinks in your AP armor that can be addressed by a well-implemented payable system.

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2. Forge a Sturdy and Supportive Supply Chain

Dealing with suppliers and creditors is more than just clicking the “payment” button or ordering more goods and services. Clearly communicated expectations and a flexible approach, teamed with a commitment to transparency, can help you build successful and enduring strategic partnerships.

- **Don’t forget the W-9.** The first step to onboarding any vendor (once they’ve been vetted and approved) is to request and file a W-9 form. You’ll need to have this document for tax purposes when generating a 1099—and without one, you could run afoul of tax law, accumulating a hefty pile of fines.
- **Knowledge is power.** Welcome new suppliers with a friendly letter that includes complete information on:
 - Where to send invoices
 - Information needed for invoice processing (e.g., vendor ID numbers and contact information)
 - Any additional documentation that needs to be submitted with the invoice.
- **Make good relationships even better.** Tracking and analyzing your purchase patterns, and keeping an eye out for supplier discounts offered throughout the year. Both data and discounts can help you maximize your savings and leverage (for example) economies of scale while building strong ties with your best suppliers and encouraging even better terms and pricing down the road. In addition, ensure your system always has the latest version of the terms and conditions for each supplier available to anyone who may be purchasing from them to ensure both parties meet obligations and expectations.

Don’t forget that accounts payable interfaces with internal customers as well as outside suppliers. Scheduling team-building exercises and internal training for the proper and effective use of procurement software to request, approve, and order goods and services gets everyone involved and keeps them up-to-date on proper practices and policies.

3. Commit to Better Invoice Management

While automation certainly simplifies invoice tracking and payment, there's always room for process improvement.

- **Don't pay invoices from a copy.** *Always* pay the original invoice. This is greatly simplified in a paperless environment, but if you must pay from a copy, cross-check with the original to verify the invoice number, amount, due date, related purchase order, and terms.
- **Say goodbye to paper invoices—or better yet, go completely paperless.** Why wait for snail mail and risk late or lost payments? Digital invoices are also much easier to link to purchase orders, delivery receipts, and other transaction-related documentation, too. If your suppliers offer paperless billing, you can save significant time, money, and work hours.
- **Upgrade your invoice procedures.** Effective procedures pair well with automation and provide additional security and accountability.
 - Ensure all invoices are sent to accounting for logging before they're routed for approval.
 - Always cross-check *every* invoice against the receipt paperwork to avoid losing time and money to fraud. An automated AP system that cross-checks for you will keep would-be opportunists from simply cold-calling with an invoice they assume will be paid before they're discovered.
 - Include both vendor and accounting codes on every invoice. Ensure every invoice contains detailed information about special terms, handling, or delivery. Make sure you have a clear policy on how invoice numbers, codes, and other information should be listed to avoid confusion and errors.
 - Enter the full amount of the invoice as billed. If you need to pay an amount other than what's indicated on the invoice, make sure your team knows how to properly explain and document the discrepancy in your AP system (e.g., a credit memo that can be cross-referenced with the invoice). This reduces the risk of errors and provides crucial context for reporting and audits.
 - Avoid batch entries. Your AP software should connect each invoice to its corresponding P.O. and delivery ticket or packing list, but individual entry ensures an unbroken and clear audit trail.
- **Get vendor buy-in.** Ideally, your software solution and the one used by your approved vendors are compatible and can share information without exposing either party to needless risk or allowing them to access information they shouldn't. If they're not, however, it's a good idea to ensure your suppliers are familiar with your protocols and policies and how your system handles invoice numbers, format, payment, etc.

If your procurement software supports a supplier portal, ensure they have been trained in how to access and use it, and provide detailed instructions for any potential vendors using the portal to apply for consideration.

Ensuring everyone is working with the same information will help you avoid misunderstandings, miscommunications, and expensive fees or fines.

- **Assign roles carefully.** Make sure your accounting department assigns separate staff members, teams, or departments to each of these functions:
 - Purchase approval
 - Receiving
 - Payments
 - Reconciliation

With a centralized system, each team member or group will have access to the information they need without increasing the risk of fraud (intentional or otherwise).

4. **Take the Pain out of Payment**

Managing the who, what, when, and how of accounts payable doesn't have to be an ordeal. A few policy changes can greatly simplify the lives of folk in your accounting department.

- **Watch due dates carefully.** Late payments can not only generate late fees, but could result in a duplicate payment if the vendor has to issue a second invoice. AP software can create reminders and automatic payment authorizations to ensure your vendors get their money when they need it.
- **Pay early and save.** If a vendor offers early payment discounts, take advantage. Pay these suppliers first, and keep more working capital on hand for other uses.
- **Credit cards offer unique rewards.** Using a business credit card to pay your vendors adds another layer of easy-to-track data to your information stream for reporting, forecasting, and audit purposes. Depending on the card, the issuing bank, and your total spend, you may also receive incentives like rebates or special payment terms.
- **Establish a dispute resolution team.** Maybe you received a fraudulent invoice. Maybe the goods purchased were late, damaged, or destroyed. Whatever the case, having a person or team trained and ready to address and resolve disputes as they happen will make it easier to minimize escalation, preserve important relationships, and ensure both parties are compensated fairly.

5. **Always Have a Back-up**

Work with IT to create a working plan for maximizing cyber security and prevent the loss of critical data in the event of an emergency. As needed, provide additional training and access for staff members in order to prevent unintended security risks or unauthorized access to your system.

If the unthinkable happens and you lose your system, make sure you have a back-up in place. Make sure all accounts payable best practices for data management are documented, and procedures are broken down into easy-to-use checklists for storing, retrieving, and restoring backed-up data, as directed by IT.

Best Practices Pay Rich Rewards

Accounts payable represents a golden opportunity for businesses willing to invest in continuous process improvement and take the necessary steps to build an accounts payable system built on transparency, security, and reliability. Upgrade your payable processes, and discover how easily you can maintain a healthy cash flow, meet your obligations, and build lasting, productive relationships with your suppliers and internal customers.

Manage Accounts Payable Effectively and More with One Easy Package

[Find Out How](#)



— About **PurchaseControl**

PurchaseControl is cloud based procurement software for business spend management. We empower businesses by providing greater transparency and oversight into the purchasing process. With PurchaseControl, you have the flexibility to manage how spend actually happens instead of how you wish it would happen.

The entire PurchaseControl team has experience within a range of businesses, and as such, we bring a practical, holistic approach to purchasing. We understand what it takes to run a business and apply that knowledge to make PurchaseControl as effective as possible for all users.

Learn more at www.purchasecontrol.com

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