

Accounts Payable

(Cheat Sheet)

Accounting
Coach[®]

Our materials are copyright © AccountingCoach, LLC and are for personal use by the original purchaser only. We do not allow our materials to be reproduced or distributed elsewhere.

Accounts Payable

Accounts payable are sometimes referred to as *trade payables*. Accounts payable involve the amounts that a company owes to vendors and others who have supplied goods or services on credit.

Accounts payable can also refer to the department within a company that is responsible for reviewing and paying bills. The review is likely to include:

- matching the vendors' invoices with the company's purchase orders, receiving reports, contracts, etc.
- being certain that proper approvals have been obtained
- making certain that the general ledger accounts are proper

Accounts Payable is also the title of the current liability account in a company's general ledger. Under the *accrual method of accounting*, the bills and vendor invoices which have been approved for payment are recorded in Accounts Payable.

Amounts owed but not yet recorded in the Accounts Payable account will need to be accrued through an adjusting entry. The adjusting entry will credit a liability account such as Accrued Expenses Payable or Accrued Liabilities Payable. The debit amounts are typically expense or asset accounts.

The balances in Accounts Payable and Accrued Expenses Payable will be reported on the company's balance sheet under the heading of *current liabilities*.

Vendor Invoice

The sales invoice issued by the supplier of goods or services will be referred to as a vendor invoice by the company receiving the goods or services. The vendor invoice will include the relevant details (date of service or shipment of goods, amounts, payment terms, etc.) concerning the goods and/or services provided.

Purchase Order

A purchase order could be a multi-copy paper document or an electronic document. It is prepared by the company that ordered the goods/services. One copy is sent to the vendor, one is forwarded to the company's accounts payable person or department, one copy will be kept by the person ordering, etc. The purchase order will specify the goods/services being ordered, the quantity, unit prices, and other information.

Receiving Document

A receiving document could be a paper document or an electronic record that is prepared by the person receiving the goods. It contains a description and the quantity of goods received. One copy is sent to the accounts payable person or department so that it can be compared with the goods listed on the vendor's invoice and on the company's purchase order.

Three-Way Match

The three-way match is a technique used to verify that a vendor's invoice is acceptable for payment. The three-way match involves comparing the information shown on three documents: 1) the vendor's invoice, 2) the company's purchase order, and 3) the company's receiving document. After the descriptions, quantities, prices and terms are found to be consistent, the vendor's invoice can be recorded into the general ledger account Accounts Payable.

Accrual Adjusting Entry

An accrual adjusting entry is also needed at the end of each accounting period for vendor invoices and/or other documents that have been received and which represent legitimate obligations, but have not yet been fully processed. Hence, these items are not yet recorded in Accounts Payable. These items will likely be reported as the current liability Accrued Expenses Payable or Accrued Liabilities.

Early Payment Discount

An early payment discount is also known as a *purchase discount* or *cash discount*. This is sometimes offered by a vendor that has credit terms but wants to encourage faster remittance. For example, a vendor might offer terms of "1/10, n/30" which means that the buyer can deduct 1% of the net amount owed if the amount is paid within 10 days. If the buyer does not pay within 10 days no discount is allowed and the buyer must remit the net amount owed (invoice amount minus any returns and/or allowances). For example, a company ordered and received 1,000 units of goods at \$10 each. The vendor invoice reflects these amounts and also terms of 1/10, n/30. The vendor also authorized the company to return 100 units. Hence, the net amount the company must remit within 30 days is \$9,000. However a 1% discount of \$90 is allowed if the buyer remits \$8,910 within 10 days of the invoice date.

Trade Discount

A trade discount is a discount expressed as a percentage of a list price. The percentage is likely to vary according to the volume of a customer's annual purchases. The trade discount allows a seller to have a single catalog with a single price for each item. The seller then permits a high-volume customer to take perhaps a 40% trade discount, a middle-volume customer is permitted to take a 30% trade discount, and low-volume customers are allowed a 20% trade discount.

FOB Destination and FOB Shipping Point

The invoice term *FOB destination* indicates that the buyer will receive title to the goods when the goods arrive at the buyer's location. At that point the buyer will have an account payable. Since the seller owns the goods while they are in transit, the seller is responsible for the goods and the cost of transporting the goods until the goods reach the buyer.

The invoice term *FOB shipping point* indicates that the buyer will receive title to the goods when the goods leave the seller's location. At that point the buyer will have an account payable. Since the buyer owns the goods while they are in transit, the buyer is responsible for the goods and the cost of transporting the goods after they leave the seller's dock.

EOM

EOM is the acronym for *end of the month*.

Voucher

In accounts payable, a *voucher* refers to a document that is used as a "cover sheet" for collecting, attaching and retaining the supporting documents and approvals before a vendor's invoice can be scheduled for payment.

End-of-Month Cut-Off

The end-of-month cut-off (or end-of-year cut-off) is an established routine to assure that all expenses, liabilities, revenues, assets, etc. are reported on the financial statements. For example, under the accrual method of accounting, a series of *accrual adjusting entries* will be established so that expenses and liabilities that are not yet recorded in Accounts Payable will appear in a liability account such as Accrued Expenses Payable or Accrued Liabilities.

Duplicate Payment

The term duplicate payment refers to paying a vendor's invoice twice. This double-payment could occur if a company pays a vendor's *invoice* **and also** makes a payment from a vendor's *statement* of open invoices. It could also occur if a vendor sends a customer a second invoice for the same goods. There are two things that could eliminate or reduce the number of duplicate payments: 1) the three-way match, and 2) never pay a vendor from a vendor's statement (pay only from a vendor's invoice).

Vendor Statements

Vendor statements are often received from suppliers when a customer has not fully paid the amounts previously billed by the supplier or vendor. A general rule is: *Never pay a vendor from a vendor's statement*. A company should pay only from a vendor's invoice.

Form 1099-MISC

Form 1099-MISC is an Internal Revenue Service form that must be sent to a person who provided services of \$600 or more in a calendar year. A copy is also sent to the IRS. (If the services are provided by a *corporation*, this form is not required.)

Form W-9

Form W-9 is an Internal Revenue Service form that is used to request a taxpayer identification number from an independent contractor (that is not a corporation). The taxpayer identification number is needed when the company prepares Form 1099-MISC to an individual who provided services to the company for \$600 or more in a calendar year. Often the taxpayer identification number is the person's social security number.