

Setting Up Your Accounts Payable Process

The accounts payable process for a small business is simply the process of accounting for and paying invoices that your business legitimately owes. The process involves logging in an invoice in some type of accounting software, spreadsheets, or paper; then removing it when you pay it. Accounts Payable is a current liability account in your chart of accounts.

Previously, you discovered that liabilities are debts owed by your business. You also learned that liability accounts appear on your balance sheet. Current liabilities are debts due within a year of your balance statement's date.

Accounts Payable accounts are used in accrual basis accounting because you are recording expenses when they are incurred which may be before or after they are paid. It is possible to use an accounts payable process even if you are using a cash basis accounting. It is called the hybrid method.

Some bills you may consider setting up in your Accounts Payable are:

- Utilities
- Telecommunications
- Internet
- Rent
- Insurance payments
- Newspaper subscriptions
- Advertising
- Office supplies bought on credit
- Copier lease payments
- Repair bills
- Subcontractor payments (*if not paid immediately upon receipt*)
- Bookkeeper, accountant, or attorney monthly or quarterly payments
- Anything purchased on credit or paid regularly

Setting Up the Accounts Payable Process:

As stated in the beginning of this article, the accounts payable process begins with entering an invoice (as soon as you receive it) into some kind of accounting software, accounting spreadsheet, or manually in an accounts payable ledger. Of course, the easiest and best method for setting up accounts payable is with a computerized accounts payable system because most of the work is done in the background automatically by your accounting software.

However, many small business do not have a computerized accounting system and use either Accounts Payable spreadsheets or paper ledgers. That is fine as long as you are not getting very many invoices per day. A general rule is if you are receiving more than two invoices a day or have several employees, it is a good idea to set up a computerized accounts payable system to accurately track and pay what your company owes.

Most computerized accounts payable system will:

- Inform you when bills are due.
- Collect all your vendor information and then enable you to automatically pull up their information when entering and paying invoices.
- Enable you to pay those invoices that are due and print out checks.
- Posts your payment check automatically to the right expense account.
- Warn you if you are try to enter a bill that has already been posted.
- Track all payments to each vendor.

Setting Up Your Computerized Accounts Payable Process:

The exact instructions for using your particular accounting software to set up an accounts payable system may differ slightly but I will give you a general guideline on setting up your accounts payables:

Turn on the accounts payable module in your accounting software if applicable.

Most of the time, this is done in the set up process of your accounting software, but most can be turned on and/or set up at any time.

Gather up the bills you want to enter into your accounts payable.

Go to the Vendor section of your software. Vendors are the people and businesses from which you purchase goods and services. There should be a place to enter your vendor's information such as name, remit to address, phone numbers, email, contact person, and your account number.

Now go to the "*Enter a Bill*" section. Using the drop down list, select the name of the vendor whom you are paying or type in.

Select the payment terms (*most are Net 30*). Enter the reference number (*usually your invoice number*). Most accounting software also let you have the option of entering a note in the memo section and that note appears in the Accounts Payable register.

Choose which expense account you want the bill posted to. For example, if it was office supplies you bought on credit, you would choose your Office Supplies expense account. Behind the scenes, your software will debit that expense account and credit your Accounts Payable account.

When it is time to pay bills, go to the "*Pay a Bill*" in the Vendors section. There you will have the option of choosing one or all bills that are due and print all the checks at once. Again, as stated above, your accounting software will do the hard work behind the scenes and debit your Accounts Payable account and credit your Cash account.

Setting Up an Accounts Payable System In Spreadsheets:

The accounts payable process for spreadsheet users involves setting up your file to gather the following information:

- Vendor's name
- Date invoice was received
- Amount owed
- Account number
- Expense account to be debited

Those of you that use the free accounting spreadsheets from a website will need to set up or download a accounts payable template to track and maintain their accounts payable as accounting spreadsheets are a single entry bookkeeping system and therefore cannot track assets or liabilities.

You can download a free accounts payable template from Office.Microsoft.com: Accounts Payable Ledger or you can build your own with other online instructions.

Setting Up A Manual Accounts Payable Process:

Below is an example of a bookkeeping entry you would make to record a bill you received for office supplies bought on credit:

Office Supplies \$157

Accounts Payable \$157

Here is an example of the bookkeeping entry you would post when you paid the bill:

Accounts Payable \$157

Cash \$157

After you have entered the bill, you need to file the hard copy. I keep a "*Bills Due*" folder on my desktop and then when I pay it, I move it to my "*Paid Bills*" folder. Some people take it a step farther and scan their bills in and keep them in similar files on their computer desktop. Whatever accounts payable process works best for you.