Accounts Payable/Receivable Cheat Sheet

A comprehensive cheat sheet covering the essentials of Accounts Payable (AP) and Accounts Receivable (AR) in accounting and bookkeeping. This guide provides a quick reference to key concepts, processes, calculations, and best practices for managing payables and receivables effectively.

Accounts Payable (AP) Overview

AP Fundamentals

Definition: 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.

Purpose: Managing AP efficiently ensures timely payments, maintains good supplier relationships, and optimizes cash flow.

Key Documents: Purchase orders (POs), invoices, receiving reports, and payment vouchers.

Core Process:

1. Receive Invoice
2. Verify Invoice Details
3. Record Invoice in Accounting System
4. Approve Payment
5. Make Payment
6. Reconcile AP accounts

Invoice Processing

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

Important AP Metrics

Days Payable Outstanding (DPO): 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

Invoice Processing Time: Time taken from invoice receipt to payment.
Shorter times can indicate efficiency.

Payment Error Rate: Percentage of payments with errors or discrepancies.
Lower rates indicate accuracy in processing.

Accounts Receivable (AR) Overview

AR Fundamentals

Definition: 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.

Purpose: Managing AR effectively ensures timely collections, reduces bad debts, and improves cash flow.

Key Documents: Sales orders, invoices, customer statements, and credit memos.

Core Process:

1. Credit Evaluation
2. Invoice Generation
3. Invoice Delivery
4. Payment Collection
5. Reconciliation of AR accounts
6. Follow-up on Overdue Invoices

Invoice and Collection Process

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

Important AR Metrics

Days Sales Outstanding (DSO): 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

Bad Debt Ratio: Percentage of AR that is deemed uncollectible.
(Bad Debt Expense / Total Credit Sales) * 100

Collection Effectiveness Index (CEI): Measures the efficiency of collection efforts.
(Total Credit Sales - End AR + Beginning AR) / (Total Credit Sales) * 100

AP/AR Reconciliation & Reporting

Reconciliation

Purpose: Ensure the accuracy of AP and AR balances by comparing them to supporting documents and bank statements.

AP Reconciliation: Match AP ledger balances with vendor statements. Investigate and resolve any discrepancies.

AR Reconciliation: Compare AR ledger balances with customer account details and bank deposits. Investigate and resolve any discrepancies.

Frequency: Reconcile AP and AR accounts regularly (e.g., monthly) to identify and correct errors promptly.

Reporting

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

Best Practices & Internal Controls

Best Practices

AP Best Practices:
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.
AR Best Practices:
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

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