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# Accounts Payable Seminar

Thursday April 19, 2007

NIU Naperville

## Accounts Payable 101

### ***I. Introduction***

- a. Brief description of biography
- b. Overview of what will be discussed during the segment

### ***II. Definition of Accounts Payable***

- a. What do we mean by accounts payable?
  - i. Balance Sheet Item
  - ii. As of a certain date, this is the amount owed to others
- b. A liability; an obligation of the entity to pay for goods, supplies, or services rendered
  - i. Acquisition of goods or services on credit terms
  - ii. Three characteristics:
    1. present obligation
    2. must be unavoidable
    3. transaction or event creating the liability must have already occurred

### ***III. Types of Payables***

- a. Current and Long-term
  - i. Discuss difference between; generally, due within one year
- b. Current
  - i. Trade accounts payable
    1. balances owed to other for goods, supplies, or services purchased on open account
    2. Examples of trade accounts payable
      - a. Most all items paid for daily operations: payment of utility bills; payment for supplies; contractual items, such as lawyer fees, audit fees
- c. Long-term
  - i. Construction payables
    1. amounts owed for construction of items using a contractor
  - ii. Retainage payable
    1. amount withheld from payment to contractor for construction services until project is complete
  - iii. Notes payable
    1. agreement to pay back borrowed funds
    2. may be over a short or long-term period



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3. portion classified as current; and a portion classified as long-term
- iv. Other

#### ***IV. Accounting for Accounts Payable***

- a. Gathering of documentation (requisition, purchase order, receiving report, invoice)
- b. Enter item into accounts payable system
  - i. Becomes a liability of the entity
  - ii. Debit of expense, credit of accounts payable
- c. Submit item for payment approval
- d. Write check for item
  - i. Not a liability of the entity anymore
  - ii. Debit of accounts payable, Credit of cash
- e. File approved documentation by vendor

#### ***V. Accounts Payable & Internal Control***

- a. Segregation of duties
  - i. Purchasing, requisition, shipping, and receiving functions all separate
  - ii. Above functions separate from accounting processes
- b. Processing, recording, and monitoring of a/p
  - i. Approved vendors list
  - ii. Authorized and approved requisitions and purchase orders
  - iii. Pre-numbered purchase orders, receiving reports, etc.
  - iv. Paperwork is promptly provided to accounting dept
  - v. Proper cut-off at month-end and/or year-end
  - vi. Review of payables listing by manager or other appropriate level person

#### ***VI. Overview of Audit Objectives related to Accounts Payable***

- a. Complete – Most important -- Look at balance in accounts payable to determine if complete
- b. Exist -- Receipt of items or service has occurred
- c. Value -- Determine if value given to payable balance is reasonable
- d. Audit of Payables
  - i. Look at disbursements made after year-end
  - ii. Examine original invoices from vendors
  - iii. Inspect other documentation that should be included in voucher packet

#### ***VII. Conclusion***

- a. Importance of accounts payable function in entities
- b. Questions from audience regarding material



## **Construction Payables**

### ***I. Before Getting to Accounts Payable***

- a Bid Construction Project/Purchase Order/Change Orders

### ***II. Payment to Vendor***

- a Retainage
  - i. Purpose and policy on how much
  - ii. Ideal way to record vs. how Lombard handles
- b Waiver of Lien
  - i. Purpose and Importance of Obtaining
  - ii. Contractor and Sub-Contractors
  - iii. Progress Payments vs. Final Payment

### ***III. Other Issues***

- a Importance of Paying out of Correct Fund
- b Fiscal Year-End Cutoff
- c Dealing with Construction Contractors
- d Use of Municipal Sales Tax Exemption by Contractors

## **Navigating the IGFOA Website**