By Jennifer A. Thieme

Accounts Payable Help – 10 Tips for New Businesses and Entrepreneurs

New small businesses and entrepreneurs are so excited to throw open their doors to customers, to start making sales and getting their brainchild off the ground. The sales side of business is certainly very exciting and rewarding.

However, sometimes these fledgling entrepreneurs don't spend enough time thinking about one other very important aspect of their businesses – the accounts payable, or bill management, side. If it isn't handled properly, the accounts payable (A/P) process can morph into a monster. Unpaid bills may pile up and get paid late. This can make vendors angry, and possibly damage the business' credit rating.

It's absolutely essential to establish a consistent accounts payable procedure. Once this is done, the A/P process can go smoothly and efficiently. Here are 10 tips to help set up this indispensable information tool:

1 **Purchase accounting software with an accounts payable module.** In today's business and computer world, some may laugh at this suggestion. Surprisingly, various business resources indicate that up to one-half of micro businesses (defined as under 10 employees) still do not use accounting software, instead using spreadsheets or even paper ledgers.

Once you start using accounting software with an accounts payable module, you'll find its advantages to be tremendous, far outweighing its cost and learning curve. When used correctly and consistently, the software will serve several important functions:

- It will remind you when bill payments are due. We all know it's not good to pay bills late, but it's also not good to pay them too early, which can unnecessarily impair cash flow. With A/P software, it's easy to manage timely bill payments and cash flow tracking.

- Some software has the ability to actually generate the payment in an electronic way. This makes the payment process a single step.

- Once bills are marked as "Paid," these payments are recorded into the checking register, or into whichever account you designate for bill payment. This helps to keep register balances accurate.

The time savings alone, compared to doing these functions manually, warrants the purchase of accounting software.

2 **Utilize the vendor's "auto-debit" or "auto-charge" feature, if available.** Utility companies, and other types of companies that you pay recurrently, often offer "auto-debit" or "auto-charge" services. When you sign up for this service, the amount due is automatically deducted from the business checking account, or charged to the business credit card, on the date shown on the invoice. Often, the paper invoice is still mailed ahead of time, but sometimes the vendor insists on sending them by e-mail instead. Either way, the invoice is available for viewing before the amount is deducted or charged. When used in conjunction with accounting software, the amount can be post-dated into the checking register or credit card register when the invoice is received.

For those companies having good and consistent cash flow, this method is highly recommended. By avoiding the bill payment process altogether, you save time and money. Another benefit of using the credit card for these types of purchases is that credit card rewards accrue faster than if paper checks are used to pay these same bills.

3 **Utilize the software's internal "bill pay" feature, if available.** QuickBooks, the most popular accounting package for small businesses, offers a "bill pay" feature that is very inexpensive and easy to use. Once established, bills are paid electronically according to your authorization from within QuickBooks. The bill payment service takes the authorized amount from the designated bank account, then either issues a paper check to the vendor, or electronically transfers the money to the vendor's account. The low monthly fee is not much more than the cost of postage and paper check printing. Other accounting software packages may offer the same feature. Shop around and compare.

4 **Enter unpaid bills in a timely manner.** It is very important to enter unpaid bills soon after receiving them. Waiting too long to enter them can result in late payments. This, in turn, can lead to finance charges and possible damage to the businesses credit score.

5 **Enter unpaid bills correctly.** One mistake I often see is that important information from the vendor bill is not entered correctly into the accounting software. Examine the vendor bill carefully and enter all of the following information correctly, in the correct field in the software:

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1. **Reconcile Accounts.** All Balance Sheet accounts in the Chart of Accounts (COA) that can be reconciled should be. Here is a list of some of them:

• Checking Accounts

• Savings Accounts

• Credit Card Accounts

• Lines of Credit

• Other Loan Accounts, such as Auto Loan Accounts

In order to reconcile them, you will need all statements going back to the last time they were reconciled, or the inception of the account.

Reconciling accounts is very important. It ensures that all entries in each account have been verified and entered correctly.

2. **Tax-Line Mapping.** Make sure all accounts in the COA have been mapped to the correct tax line if you plan to use an Intuit tax product:

• From the Company menu, select Company Information. Select the appropriate Fiscal Year, Tax Year, and Income Tax Form Used.

• Go through the COA, highlight each account, right click, and select Edit Account. Locate the drop-down box labeled Tax-Line Mapping. Choose the correct tax line for this account.

3. **Suspense Account Clean Up.** If you use an account called "Suspense," get these transactions classified before preparing taxes. If you are unsure how, seek professional help.

4. **1099 Preparation.** In order to print 1099s from QuickBooks, set it up correctly:

• From the Edit menu, select Preferences.

• Select the Tax: 1099 preference.

• Click the Company Preferences tab.

• Where it says, "Do you file 1099-MISC forms," select Yes.

• In the Account column, select the account where the payments were posted for each type of 1099 category.

Since most QuickBooks users will only use Box 7: Nonemployee Compensation, this is probably the only 1099 Category you need to make an entry for. Consult your tax advisor or other accounting professional to be certain.

5. **Close the Books.** If you don't close the books on a regular basis, close them once the tax return has been prepared. You will need Administrator access to do this:

• From the Edit menu, select Preferences.

• Select the Accounting preference.

• Click the Company Preferences tab.

• The bottom area says Set Closing Date. Click the Set Date/Password button.

• In the Date area, select the last day of the tax year for the return you just completed. For most people this will be 12/31 of the prior year.

• Set a closing date password.

Setting a closing date and password prevents prior data from being altered, and this is important since the tax return was based on that data.

• *Correct vendor name.* Sometimes people are not careful about spelling mistakes here. The software will enter a new vendor name if it doesn't recognize the one you used, which clutters the Vendor List and makes it hard to diagnose bill payment problems later.

• *Bill due date.* This is the single most common problem I see – people don't enter the correct due date as shown on the vendor bill. Your accounting software may default to a certain date, but don't assume it's correct. Examine the vendor bill and make sure the right date is entered into your software. Entering an incorrect due date will result in a payment occurring sooner or later than necessary.

• *Invoice number.* Another common error is to omit the vendor invoice number. This is an important piece of information for at least two reasons:

  a) When you print bill payment checks, the software will enter this number onto the check stub. This makes it easy for your vendor to know how to apply your payment.

  b) Entering the invoice number helps to eliminate any confusion as to which bill payment was for which invoice in your records.

After entering the bills, stamp them as "Entered" or "Posted" using a rubber stamp with red ink. Be sure to write on the bill the date they were entered.

6 **Organize unpaid bills.** If there are many bills, organize them alphabetically by vendor to make them easy to locate. A small amount of bills may be placed in a single file. For a large amount of bills, you may want to label some manila folders alphabetically, and organize the unpaid bills there.

7 **If cash is tight, make a cash projection before paying bills.** Simple cash projection reports are easy to generate in Excel. Start with the actual amount of cash available to pay bills. Include amounts you are readily able to draw upon. Consider using any of the following:

• Checking accounts

• Savings accounts

• Lines of credit

Compute the total amount of cash you wish to use for paying the bills. It's important that the 'book balance' is used, and not the 'bank balance.' (The book balance is the bank balance minus outstanding checks, plus outstanding deposits.) Once the book balance is determined and the cash starting point is computed, subtract bills that need to be paid from this amount. Don't forget to include upcoming payroll, including wages, salaries, and payroll tax payments.

If there is not a comfortable cushion of cash left over, reduce the amount of bills to be paid, or somehow increase the cash starting point. You can factor in any receivables you know are coming, but be careful about this, as the anticipated receivables may not arrive when you want them to.

8 **If cash is tight, communicate with any vendors who must be paid late.** Let's face it: vendors don't like being paid late, because they have bills to pay, too. But

they do appreciate open communication. If you must pay a vendor late, let them know before the bill falls due, if possible. If that's not possible, let them know as soon as you can. Also let them know a specific date you plan to pay them. Then, make every effort to pay them by that date. Once the payment is in the mail, call or e-mail your vendor to let them know. They will appreciate your communicating with them.

Some may object to such open communication with the vendor, citing what's called "vendor conditioning" in the real estate field, but in the A/P process it means that once vendors receive such open treatment, they come to expect it. This can be undesirable for future transactions when some leverage may be wanted on payment terms, discount dates, or for other reasons.

I am not of this opinion. My philosophy is, "What goes around, comes around." To our customers, we are vendors. I'm sure we all appreciate them when they treat us well, pay us on time, and communicate with us when they must pay late. If this is the case, then we would be wise do the same to our vendors.

9 **Pay bills on a consistent timetable.** Establish a regular timetable to pay bills – weekly is a good and common choice, but your business may need to pay them more or less regularly.

10 **After they are paid, stamp them correctly, then file them.** Buy a rubber "Paid" stamp, and use it on each bill that has been paid. Write the check number (or payment method), date paid, and amount paid on the bill. You have a couple choices on how to file them:

- File them according to how they appear on the tax return. In other words, file Utilities together, Office Supplies together, Travel and Entertainment together, etc. This makes them easy to locate in the event of an audit, as they will be organized this way on the tax return.

- File them alphabetically by vendor. Most businesses prefer this method, as it makes the bills easier to locate for day-to-day needs.

Make all this mechanical and make it second nature. There's no telling which bill will come into question, so treat each and every one as potential proof of your A/P acumen. A sound process will pay off in a crisis, and will clarify your fiscal system daily. **N**

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