

## Section 1: Bookkeeping Basics

### 1.1 Accounts Payable

Track amounts owed to vendors for purchases of goods and services needed to run the business. The items are received on credit - prior to paying for them and the amount due to the vendor is recorded in a liability account – Accounts Payable. This is the bill-paying function of the business – a concept similar to paying household bills. You receive an electric, gas, water, mortgage and other bills for your necessities and pay those expenses before the due date to avoid additional fees and/or loss of service.

This is where bills are sent – office supplies, rent, professional services. Invoices are received in the accounts payable department and processed – meaning the invoice has been reviewed, approved to pay and recorded in the accounts payable system. An invoice represents an expense and because the invoice has not yet been paid, it represents an amount due in the short-term to a vendor. Because Accounts Payable represents amounts owed to others, it is a liability and therefore listed in the liabilities section of the balance sheet.

Most ERPs are set up so that as invoices are entered, they are automatically coded to the proper general ledger accounts. The person requesting the office supplies would review the invoice for accuracy, include the general ledger code and department and sign. For example, a journal entry to record \$500 in office supplies purchased from Office Supplies, Inc. on account would be:

<b>DR Supplies Expense</b>	<b>500</b>	
<b>CR Accounts Payable</b>		<b>500</b>

*Because liabilities have credit balances, crediting the accounts payable account increases the balance.*

After checks are printed (or paid via online billpay), another journal entry must occur. One week after we received the \$500 office supplies invoice, it has been paid in full. Another journal entry is required to record the payment of the invoice and relieve the liability in A/P:

<b>DR Accounts Payable</b>	<b>500</b>	
<b>CR Cash</b>		<b>500</b>

*Because liabilities have credit balances, debiting accounts payable decreases the balance. Aside from paying invoices, returning goods to vendors also reduces the A/P balance.*

After payment, vouchers are matched with invoices, marked as paid and filed.

These functions are typically separated so that authorizing, recording and custody are not all handled by a single person.