T&T #38 Appendix - Accounts Payable Practical Hints and Worked Examples

Details of the Process

In the body of the article, the setup steps and the process of paying with a credit card might appear to be complex – possibly even too complex to be practical. (This is under review to make it easier and clearer.) However, we think that this is more apparent than real with much of the complexity residing in having the initial setup correct for the C/C Liability accounts and this is what this appendix covers.

Important note- if you do not plan to pay your vendors with a credit card, these steps are not needed. If the use of any of your credit cards is restricted to being used for meals, travel, etc. then the credit card provider should be set up as a regular vendor using your standard AP account. Paying the credit card statement for these cases is discussed in the first section of the main article.

The steps below are only needed if you want to use the credit card for paying off other vendor's expenses. As explained in the body of the article this is really a transfer of liability to the vendor from the vendor to the credit card company. Note also, that you may have numerous credit cards as part of doing business and some/most may be of the above "regular use" type and one or two may be of the "pay-vendor" type. A "pay-vendor" may also be used in a "regular" manner as well. Delineating these is determined by the GL Liability account defined for the Vendor Master entry for each card. "Regular" cards will use the standard AP account, cards used as "pay-vendor" cards will have a (unique) liability designated to that card.

Here are the steps to accomplish what we need:

1. Create a C/C Liability account for each credit card you want to pay vendors with. If the 2000 series of accounts in your GL is what you use for your liabilities in general, presumably you will place this new C/C Liability account in the same area of the Chart. For discussion purposes we will assign this as account 2100. (Let's say the Regular AP account is 2000).

2. In the Master Information section of AP use the AP Account maintenance function to define this account as an AP account i.e., as an AP Liability account.

3. Create C/C Vendor Master entry for the credit card vendor that you will be using to "pay" vendors. In our example we are only using one C/C vendor and they will have 2100 as their Liability account (3rd tab of Vendor Maintenance). The default distribution account will likely be quite variable and so a default may only be of marginal use.

Default vendor accounts

A/P account no.	2100-000	MC-CC Accrue/AP/Cash acct
Discount account no	5010-100	Purchases - misc. items
Default dist acct no	7060-000	CC Purchases

For the "pay-vendor" use, this vendor entry will only be used when we are creating the Immediate Check to pay the credit card. In this case again, the debit to reverse the liability must also go against the 2001 C/C Liability account because the pay-vendor part of the cycle credited this account as the cash account for the payment.

4. The crucial step in the whole process however is to "pay" regular vendor vouchers *"against"* the C/C account as cash. This means the 2100 account must also be setup as a cash account. (Note if you are using direct deposit and/or positive pay, there will be additional setup in the Bank file that, whether or not you are going to use it, will be needed. Here is our C/C Liability Cash account record:

For these purposes we have set the check number range to 800000 since in this scheme we are using the 900000 range for manual type checks.

Now that we are set up, we need to do the two-step process that will first "pay" the vendors against the credit card using a more or less standard select and pay cycle, then second and subsequently, pay the C/C itself:

1. When we pay Regular vouchered vendor invoices by C/C we will:

    a. In the" Prepare payments" section of the AP menu, do a standard selection of vouchers including a pre-check writing report.

    b. Start the "print checks and post" run":

Payments and posting

Entry period: 01/01/2022 thru 03/31/2022

Print `checks only` ▼

Cash account # `2100-000` 🔍

Include ACH vendors ? ☐

Important note: the use of the 2100 account as our Cash Account. This is the "trick" step in the process. Calling the 2100 account as both a "cash" account (this step) and an AP account (next step) allows us to use this as the cash account in this step to receive the Cr Cash done as the distributions produced by the check process – (Cr Cash, Db AP). And then later in the next step during the actual payment to the card provider, we can use this same account as the Liability account that is debited as the offset to the real cash paid to the C/C provider.

This setup is followed several selection screens later by:

Entry period: 01/01/2022 thr

Payment date `03/31/2022` 📅

Check date `03/31/2022` 📅

Last check number used `800008`

Starting check number `800009`

Starting vendor number `"First"` 🔍

Ending vendor number `"Last"` 🔍

☐ Sort checks by vendor name

Note the check number series is taken from the Cash Account for the C/C Liability/Cash account (in our example 2100)

      c. The checks we are printing should be printed to plain paper or PDF (since they will never be used as a check, a single PDF with all the check data could also work fine). Posting will clear the selected Open Items, Db the Regular AP account (2000 in our example) and Cr the "Cash" account – the CC Liability account -2100.

      d. The vouchers we wanted paid by C/C are effectively taken care of and this includes marking the vouchers as paid in the AP Open Item file.

We are suggesting the use of an actual check run with checks printed to blank paper because we see this as being easier than the alternative which is to manually mark these as paid (see Manual Checks T&T#36). This is because the selection process for the check pay cycle is the easier point and click function than the manual pay cycle where each check is individually selected and paid. In addition, in the check print cycle, multiple checks are produced in one run; compare this again with the single check-by-check requirement of the manual process. Finally, it may or a may not be an advantage to have the checks physically printed with stub information as documentation/backup for the process (this is over and above the posting report that will be printed.

How do we pay the C/C Liability now that we have created it? We have no Open items to select so how do we cut a check?

2. To do the second step we fall back on the Immediate Check function described in a previous article. In this step we are collecting all the voucher information which will act as the basis data for cutting a check. In this case, the values of the recently paid-by-C/C vendor invoices will be the values we enter and pay. Besides having this data from the pay-vendor posting in Step 1, this data will also be shown on the credit card statement and the Immediate Check could be entered off that data. This is also a warning that these items being on the statement must not be vouchered as we have already recorded these as liabilities against the C/C Liability account and doing so would double-dip the values. For our Immediate Check, the Cash Account will be a real cash account (in our case 1000) and the "expense account" will be the C/C liability account. This is the Immediate check entry screen:

This is the screen showing prior to printing the check(s):

Note the check number is a "real" check number from Cash account 1000.

At posting time for these checks, the check posting program will automatically distribute the debit side of the Db/Cr pair to the AP/Liability account defined in the Vendor's record:

Recall that the 2100 account was populated with the credit from the "cash-side" posting when we paid the vendors. (See the T-bars above.)

When we have completed the pay-vendor cycle can we use the C/C Vendor for direct entry of charges off the C/C statement?

Yes: if we had entered C/C transactions directly i.e., against the MC2401 vendor, these will be credit card purchases from the C/C statement (miscellaneous office supplies, restaurant meals etc.). When posted, they will be treated as normal vendor vouchers with the two exceptions that they will be recorded against the C/C Liability account not in the "regular" AP account and they will be Open Items under that C/C account as well. (That means they can be aged separately from the "regular vouchers"). They will be paid by the standard processes of selecting them for payment and cutting checks or creating ACH – whatever is needed for the credit card company.

In the main article and in this appendix, we have referred to a T-bar diagram of these transactions. We repeat this from the main article for reference:

Here is a T-bar spread sheet showing the transactions just described and thereby showing the ultimate fate for each account used and where the dollars go. In this sample we pay two vendors on one credit card (separate transactions for each).

Step 1 – (Standard vouchering operation) - Each voucher transaction generates a Db (debit) to a normal expense account and the offsetting credits (Cr) both go to the standard/normal AP account (2000):

		Db	Cr	Db	Cr	Db	Cr	Db	Cr	Db	Cr	
Credit Card Pmnt		Exp-1 various)		Exp-2 (various)		AP (e.g acct 2000)		AP-CC (e.g. acct 2100)		Cash		
Step 1												
Voucher Step	Vnd1/Vch1 (Entered from Vnd Invc)	1					1					Reg voucher
	Vnd2/Vch2 (Entered from Vnd Invc)			2			2					Reg voucher
	Vnd-CC (Entered from C/C stmnt)	200							200			Reg vchr vouchered from C/C stmt. This will use as AP 2100 since Vnd AP default acct=2100
Net of Transactions			201		2		-3		-200		0	
Step 2												
"Pay" Vendors						3			3			credit CC liabitly instead of cash
Net of Transactions			201		2		0		-203		0	
Step 3												
Pay CC												this includes paying vendors entered as regular voucher from vendor invoices
								203			203	as well a vouchers entered from the C/C statement
Net of Transactions			**201**		**2**		**0**		**0**		**-203**	

 (Ignore the third voucher transaction for the moment.)

Step 2 – Pay the purchase-from vendors with the credit card. This is a normal selection/pay cycle except the cash account must be the C/C Liability account (in this example – 2100). As with a normal check run the distribution transactions are debit AP and credit cash.

Step 3 – Pay the credit card provider. This is a standard Immediate Check. In addition, in Step 3, we are also paying off an item in the credit card statement for the actual use of the credit card (e.g., meal, plane tickets). This was vouchered in the standard way against the C/C Provider whose AP account entry is setup as 2100 – the C/C Liability account.

The result of these steps will be the vendor invoices will have been vouchered in the standard way (Step 1). These vouchers will be "paid" by credit card in Step 2 and the Open Items for these vouchers will be marked as paid. Step 3 - the liability to the credit card company from Step 2 will be paid off with an Immediate Check.