



PBS Tips and Tricks #36 - AP Basics Plus, Part 2

In the last installment, we started with issues concerning the various ways to record expenses and touched on how to pay them. We did a fairly deep dive into the recording of expenses, the creation of the liabilities (open items) and how to cancel or adjust these. In touching on the payment cycle, we will be answering the implied question about what the client discussed in the opening should be doing with vouchers that were paid direct through the bank.

Clarifications

- There were two statements in Part 1, while not actually wrong, could definitely be misconstrued.
The first was the statement in the paragraph labelled *GL Notes*: “Note that this means that the expense for the invoice is recognized (posted) at the time the voucher is posted and not at the time it is paid.” The clearer statement is that the time when the GL transactions for the debit Expense and credit AP Liability are created is when the voucher is posted i.e., in this first part of the cycle. But the date (the GL period) that will be used is completely determined not by the posting date but by the value in the distribution date field. This is actually made explicit later on in the section discussing Regular Vouchers.
- In an effort to keep these installments reasonably brief (1500-1700 words), I will not be discussing ACH/EFT and Positive Pay even though these may be two of the more exciting things that have been added to AP recently. These will be discussed later.

The *ACH/EFT (Automated Clearing House/Electronic Funds Transfer)* is a method to pay a vendor, similar to issuing a check but with no paper check produced. Instead, an arrangement with the bank and the setting up of the ACH feature in PBS means the program will produce a file during the check run instead of physical checks. This file is uploaded to the bank and is the basis for the bank transferring the funds from your designated account directly to the vendor’s bank and account. The ACH process can be mixed with and occur at the same time as producing checks. In other words, in one pay cycle you can produce checks for vendors needing checks and do EFT for those prepared to have funds transferred electronically.

Positive Pay is an add-on feature to the production of payments/checks. When activated, the check cycle will produce an output file in addition to producing the payments. The file, which contains a summary of the payees, and amounts of the checks is uploaded to the bank similar to the ACH/EFT but in this case the bank will use the information in the file (vendor name, check number, check date, amount

etc.) to verify that any checks presented to the bank are only for the amounts listed on the report, a strong anti-fraud security feature.

From the last installment, we described in more detail that creating Regular vouchers is the first part of a two-part cycle. Based on the receipt of a vendor's invoice, the vouchering step will produce an Open Item (a liability) and will generate GL transactions that a) debit an expense account (typically an "actual" expense but may be an accrual account) and b) credit a liability account (typically the GL AP account). The Check portion of the cycle produces paper checks or ACH/EFT transactions and will debit the liability account and credit (reduce) cash (or other payment/asset account e.g., Petty Cash or Investment account). If the voucher is fully paid, this step will also mark the item as cleared in the Open Item file. Both parts of the transaction cycle will update the vendor history with an entry. One showing the voucher details; the other the cash details. We should always be thinking about these three targets of any AP action – the Open Item file, the Vendor History and the GL Distributions.

There are two transaction types, in addition to the Regular transaction type, that combine the voucher and pay steps into one- the Immediate Check and the Non-AP check which will be discussed again later.

When you go to pay a voucher using a check you still have two options – produce a computer check or manually pay a check. To set up a check run you select those checks that you want to pay, and then having confirmed the starting check number, the date of the run and the checking account you want to use, you let the computer do its thing to print the checks. When the check print run is posted, the computer will update the open item file and vendor history and create GL transactions that represent the debits and credits.

A *Computer Check* will have the following characteristics:

- ✓ requires that the voucher to be paid exists and is not fully paid
- ✓ will update the Open Item file to reflect the payment i.e., if fully paid will clear the Open Item
- ✓ will create a payment record in the vendor history
- ✓ will create a separate set of pay-side transactions for the GL – i.e., normally debit the AP account and credit Cash
- ✓ if paper checks are selected it will create a client-facing document – a check with check stub. If EFT/ACH is selected it will create a file to be uploaded to the bank which will disburse the funds directly to the payee bank account.

More detail on the Manual Pay side of the cycle:

- ✓ *Manual Checks used for Regular Vouchers*
The Manual Pay cycle is actually just a means of recording that you *have already paid* the voucher using a (physical) checkbook and pen. Many companies keep such a checkbook and it should have a range of check numbers that are easily distinguished from the computer produced kind. Often, this function is used to cover emergency checks – the AP clerk is out sick or on vacation and several checks have to be paid today.

The manual pay function is slightly hidden under “Open items” menu in AP. There, in the “Modify” submenu and combined with other administrative kinds of adjustments like changing a due or discount date you can record the manual payment. This process is a standard PBS Enter/EditList and Post function. The voucher must already have been previously posted; the voucher can’t be fully paid, and the voucher information entered must, of course, match the voucher information on file.

This function simply takes in the check details (check#, check date, vendor amount etc.) and allows you to record a full or short-pay and potentially take an allowance (e.g., an early payment allowance). This is most of the data that would have been generated by the computer check cycle, except this is all data entry. The effect is also basically the same as a computer check – open item cleared, vendor history updated, and GL transactions produced. One difference though is the manual check is recorded in vendor history with an “AJ” journal number – i.e., AP aJAdjustment, not the “AK” – AP computer check that a computer check would get:

Vend-#	Vchr-#	Chk-#	Jrnl-#	Cash account #	Chk-date	Document type	Inv#
600	1964		AP0100282			Invoice	555
600	1964	111216	AK0100283	1000-000	06/20/2015	Computer check	555
600	1956		AP0100153			Invoice	STE
600	1956	3200	AJ0100154	1000-000	01/29/2015	Manual check	STE
750	2042		AP0101639			Invoice	040120
750	2042	1095	AP0101639	1000-000	04/01/2020	Prepaid check	040120

General	Vendor info	Invoice addresses			
Vendor #	600	Vendor name	Wells Fargo Bank		
Invoice #	555	Voucher #	1964	Contact	
P. O. #		Original amount	200.00	Phone	
Invoice date	06/20/2015	Discount amount		Reference	
Dist date	06/20/2015	Retainage		Pay-to #	

In this Vendor History screen shot, the computer check is outlined in orange and the manual check in red.

✓ *Manual Checks - other uses and complications*

The usefulness of this Manual Pay function doesn’t end there. This function is useful whenever there is a voucher that needs to be marked paid. That means that if you *pay your checks* through the bank or if you do *wire transfers* to vendors, you can record these payments through this function.

Be aware that when you pay through the bank or other facility, it is likely that you don’t have control of the control number/check number assigned to the check or transfer document. Even though you would consider entering the control number assigned by the bank to this transaction, the limitation (at the moment) in PBS is that the check number is forced to be a 6-digit numeric value. While it is frequently true that these institutions do use numeric values for their control numbers, the numbers are usually larger than six digits.

The best and easiest thing to do to take care of this is to use the bottom 5 (least significant) digits of the assigned number and prefix this with a 9. The bottom 5 digits makes the check numbers essentially random and therefore, hopefully, unique and the nine at the top means you can keep this sequence of control numbers distinct from your regular check numbers. An alternate is to keep track of your own sequential control numbers and use them, but this has the disadvantage of not registering the same information in the accounting system as in the bank or bank statement.

By selecting the Manual Check function, the program:

- ✓ requires that the voucher to be paid exists and is not fully paid
- ✓ will update the Open Item file to reflect the payment i.e., if fully paid will clear the Open Item
- ✓ will create a payment record in the vendor history essentially the same as for a computer check
- ✓ will create a separate set of pay-side transactions for the GL – these are essentially the same as pay-side transactions produced with the Computer Check function i.e., debit the AP account and credit Cash
- will not create any client-facing documents like a check. This function is used only to book checks that have already been issued.

In the next installment, we will cover several of the most complex but useful capabilities found within the voucher and pay cycles. These include dealing with credit cards, non-AP checks, negative non-AP checks and negative vouchers. Stay tuned!