

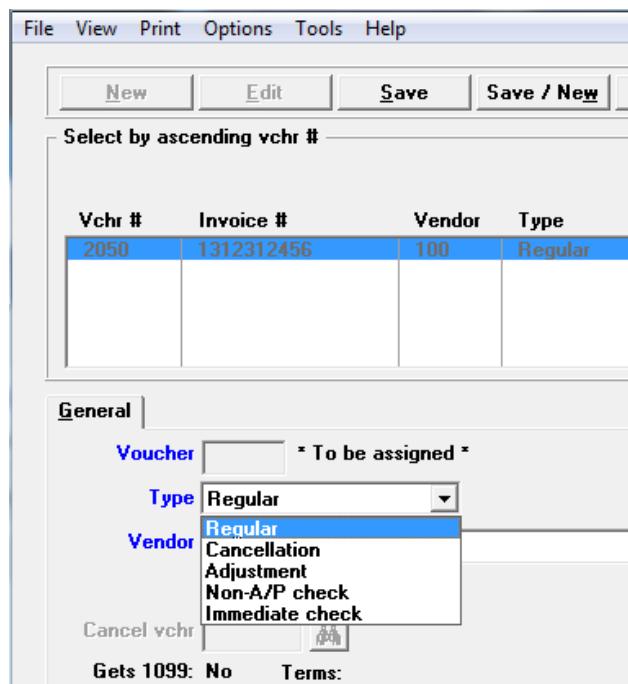
## Tips & Tricks #35 – Back to AP Basics

Passport recently received a surprising support call from a company, a long-time RealWorld user who had upgraded to PBS some years ago. The issue in the support call concerned how to record in PBS the payment for invoices paid directly through the bank. Up to this time the company had booked a voucher in the normal way and then paid it directly via entry on the bank site. This process was used for credit card charges through the bank that had been vetted by the appropriate manager in the client's operations department. They were paid in the AP department with a simple transfer from the company's operating account to the credit card account within the same bank. To record the payment, they were doing a dummy check run by selecting the vouchers and then printing checks on blank paper.

### An Easier Way

The surprising part was that this experienced user was unfamiliar with a much easier way of doing this in PBS. It appeared as if they felt that in order to record the data in PBS properly, they had to voucher everything and then issue a check. This raised the question – are other users doing similar things to accommodate modern methods of payment like online payment transactions and credit card payments? A similar situation also applies to PBS users whose overseas operations require Letters of Credit (LC's) which usually amount to prepay's. In all of these and similar cases, the payout does not necessarily involve a check as the instrument to pay the debt but usually some other operation. In addition, it may be convenient or necessary, as in the case of an LC, to prepay the vendor. How to do this in PBS in an efficient manner?

First let's look at what PBS gives us as far as the entry of documents. In the Payables/Enter function we are given the following choices for new documents:



The screenshot shows the 'General' tab of the Payables/Enter function. At the top, there are buttons for File, View, Print, Options, Tools, and Help, followed by New, Edit, Save, and Save / New. Below these is a section titled 'Select by ascending vchr #' with a table:

Vchr #	Invoice #	Vendor	Type
2050	1312312456	100	Regular

At the bottom of the 'General' tab, there is a 'Voucher' field with a dropdown menu showing 'To be assigned', a 'Type' dropdown menu with 'Regular' selected and a list of options ('Regular', 'Cancellation', 'Adjustment', 'Non-A/P check', 'Immediate check'), and a 'Vendor' dropdown menu. There are also 'Cancel vchr' and 'Gets 1099: No' buttons.

Of the above five types, only the Regular voucher is a two-step transaction cycle. This refers to the fact that you voucher a vendor invoice and then, separately pay it. All the others in the above list are, for various different reasons, one step: either the second step doesn't need to be done (Cancellations and Adjustments), or the first and second steps are effectively combined into one (Non-A/P and Immediate checks). Since the first step is the vouchering part of the cycle and the second step is the payment part of the cycle, it is only in the Regular voucher that we have an explicit second, pay step. Discussed below there are two distinct ways of doing this. For Non-A/P and Immediate check transactions, the pay step is incorporated into the first step as a combined vouchering/paying function.

Of the 5 types, only the Regular transaction type will result in an Open Item.

#### **GL Notes:**

From a General Ledger point of view the first of these two steps is represented by a Debit (DB) to an Expense account and a balancing Credit (CR) to the A/P (Liability) account. For example, if you are vouchering an invoice for office supplies, you would DB the Office Supplies GL expense account and CR the Accounts Payable GL account. 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. Note also that in practice, the A/P G/L account number is set up per each vendor and so is not selectable. That means that the only distribution selections the operator has to make are the one or more expense-side distributions.

With respect to the second pay step, the G/L transactions that will be generated are a DB to the A/P account and a CR to the Cash or other payment/asset account (e.g., Petty Cash or Investment account). The check date is automatically used as the distribution date. Therefore, the payment is recognized at the time payment is made and between these endpoints – the distribution date of the voucher and the check date, the liability is carried in the AP account and corresponds to the values held in the Open Item file while this item is open. Since the A/P account (DB AP) is defined by the vendor record (as explained above) and since the cash account (CR Cash) is selected as part of the setup for the check print run, there is no selection available for these second step distributions – they are automatic.

Since the vouchering step produces a CR to the A/P account and the pay step produces a DB to the A/P account, these two net to zero. So, the overall effect of a complete voucher/pay cycle is DB Expense and CR Cash. This is true for all three of the transaction types that involve making or booking a payment (Regular, Non-A/P check, Immediate check). In the case of the last two (Non-A/P and Immediate Check) the programs don't even bother to write the DB/CR pair for A/P since they would net to zero anyway.

#### **Voucher Types**

##### **Taking these various transaction types in turn**

*Regular voucher.* Selecting this implies creating a voucher and then sometime later selecting that voucher and paying it (i.e., a two-step cycle). During the time between these two phases the posted voucher is an Open Item and can be printed in an Aging report.

This is the entry screen for a new Regular voucher:

Vchr #	Invoice #	Vendor	Type	PO number	Invoice date	Invoice amount
2050	1312312456	100	Regular	780132	10/25/2021	135.00
2051	11223344	750	Non-A/P check		04/01/2020	400.00

**General**

Voucher  \* To be assigned \*      Entry period: 01/01/2020 thru 12/31/2020

Type  Regular

Vendor  600  Wells Fargo Bank

Cancel vchr   Proximo terms  Correcting entry

Gets 1099: Yes Terms: Bank Charges      Due days  30      Assign memo

1099 type  None      Due date  04/01/2022

P.O. #  Discount days  10

Revr #'s  Discount date  03/12/2022

Distrib. date  02/22/2022  Discount pct  2.00

Invoice #  5536044      Discount amt  20.00

Invoice date  03/02/2022  Discount acct  4050-000  Discounts allowed

Invoice amt  1,000.00      Check #

Non disc amt  Check date

Reference  Reg.Vchr Inv&Dist Dt Dif      Cash account

Note that the Distribution Date and the Vendor Invoice Date can be different; although much of the time they will be the same. The Vendor Invoice date determines how this invoice is *dated* and aged in the Open Items. The Distribution date determines which period in the G/L, (i.e. which financial period), this transaction is booked against.

Here is the History Entry for this voucher after it was posted then paid:

Vend-#	Vchr-#	Chk-#	Jnl-#	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	3200	AJ0100154	1000-000	01/29/2015	Invoice	STE
750	2042		AP0101639			Manual check	040120
750	2042	1095	AP0101639	1000-000	04/01/2020	Invoice	040120
						Prepaid check	040120

**General** | **Vendor info** | **Invoice addresses**

Vendor #  600      Vendor name  Wells Fargo Bank

Invoice #  555      Voucher #  1964

P. O. #  Original amount  200.00

Invoice date  06/20/2015      Discount amount

Dist date  06/20/2015      Retainage

Date Type Check # Cash Account Jnl # Amount Paid Disc Taken

06/20/2015 \* Invoice 111216 1000-000 Cash account #13557-000 AP0100282 -200.00

06/20/2015 Computer chk 111216 1000-000 Cash account #13557-000 AK0100283 200.00

Distribution step	Cash account	Amount	Reference	Inv #	Dist date	Distribution type
5010-000		200.00		AP0100282	06/20/2015	Expense distribution
2000-000		-200.00		AP0100282	06/20/2015	Transaction added
2000-000	1000-000	200.00	Wells Fargo Bank	AK0100283	06/20/2015	Paid
1000-000		-200.00	Wells Fargo Bank	AK0100283	06/20/2015	Check amount paid

The first two highlighted areas show the lookup information for the transactions and then the details below (both boxes in orange). The information is similar in both: voucher information (first line) and the payment information (second line). Notice that the voucher number entry is the same since, in the process of matching the payment against the voucher, the program gives the payment the paid voucher's number. Also, the voucher's journal number is tagged with an "AP" for "voucher", the payment is tagged as "AK" for "computer check" - as the descriptions to the right show. The next voucher below this one shows the "AP" for the voucher but the payment is tagged "AJ" for a "manual pay" – discussed later. Finally the distributions for this transaction (highlighted in red) show the DB and CR for the Expense and AP distributions from the vouchering step and the DB/CR AP/Cash distributions from the payment step. The voucher shown immediately below the highlighted is similar except the journal number will begin with "AJ" for the payment step (adjustment = manual pay)

- ✓ *Cancellation voucher.* On the occasion that a voucher is entered incorrectly, a wrong vendor is used, the wrong amounts are entered, etc., you will want to cancel the voucher. This means you will want to remove it from the accounting system. This can't be done simply as a delete of the open item because not only do we have to record the cancellation in the vendor history to maintain an audit trail, we also have to issue GL distributions to reverse the GL transactions generated by the original voucher. The cancellation transaction will take care of all of this by reversing the effect of the original voucher in the Open Item file and in the GL. Afterward, you can purge the original and the cancellation transactions as a pair.

Note: the data for the (single step) cancellation transaction must match the original voucher-voucher number, date and amount.

- ✓ *Adjustment Voucher.* This function nominally allows the user to correct the distribution transactions sent to the GL *after the voucher has been posted*. As a result of posting an Adjustment Voucher, a new set of (zero balance) distributions are sent to the GL but no changes are made to either the Open Item file or the Vendor History. This transaction type might be used in the case where all the voucher information is correct except for the distributions and using this transaction type saves cancelling and re-entering the voucher. In other words, use this if only the account numbers are wrong, or a single expense account was used where multiple accounts should have been hit. A case in point – the vendor invoice covers imported goods: merchandise costs, brokerage fees for customs as well as freight. If only the merchandise cost account was used, you could change this with the Adjustment transaction to (re)code all 3 GL accounts as distributions. The Adjustment Voucher is a single cycle transaction - once this transaction is posted, there is no second step.

Be careful in using this function because, while the distributions you enter here do still have to be in balance, the program imposes no restrictions on what the distributions are to get to that zero balance and these distributions don't need to have any actual relation to the original voucher.



This Part 1 segment has covered the background and issues concerning the first three of the five transaction types, including the payment side of the cycle and its relationship to the vouchering side. Next time we will discuss the last two transaction types with more details on the payment side of the process giving some useful options for how to use these cycles to enter and pay expenses in circumstances that don't simply involve issuing a check. In doing this we will come full circle back to the client's problem that we described at the beginning of this article.