PBS Tips & Tricks #38 - Accounts Payable and Credit Card Payments

In the past three issues we have covered different ways of using the AP system to enter vendor invoice information and pay bills, ranging from straight forward to somewhat complex.

Here is what we have covered in prior installments:

- T&T#35
  - ✓ Regular vouchers
  - ✓ Cancellation vouchers
  - ✓ Adjustment vouchers

- T&T#36
  - ✓ Computer check
  - ✓ Manual check

- T&T#37
  - ✓ Credit Vouchers (negative Regular vouchers)
  - ✓ Immediate Checks
  - ✓ Non-AP checks
  - ✓ Negative non-AP checks (a manual way of voiding/reversing both a check and original voucher)

In this final installment we will wrap-up and summarize these uses by looking at a final example – credit card payments which answers the question posed in the original installment (T&T#35):

> *"This [the clients inefficient use of the AP system] raised the question – are other users doing similar [inefficient] things to accommodate modern methods of payment like online payment transactions and credit card payments?"*

We are also providing a "Practical/Technical set of explanations and worked examples in the Tips & Tricks #38 - Appendix.

> ### Credit Card payments
Paying for and using credit cards can involve most of these methods so we will illustrate a number of these using C/C payments as an example and add one additional more complex example.

First, what does it means to say to "pay credit card vendors? This is either simple or complex depending on which of the two meanings you have in mind:

> a) You are **paying** the credit card company for expenses incurred by use of the credit card.

> b) You are **using** the credit card as a means of "paying" other ("purchase-from") vendors.

➢ **Paying a credit card vendor**

The first is fairly straight forward - you might enter a voucher for the full value of the C/C statement taking care in the process to distribute all of the different line items on the C/C statement to the

appropriate various expense accounts that the credit card can be used for. Selecting that voucher and paying it has all of the options we have discussed in previous installments for paying regular vouchers.

Alternately, you may have someone reviewing all of the credit card statement entries and preparing a summarized and reconciled version of the statement, which is then used as the source document for selecting and cutting a check. This intermediate step will be particularly useful if your credit card arrangement is with your bank and they cover multiple individual credit cards and roll up the expenses from each individual card to a summary account, which is the one to be paid. In this case, you are likely completing a review of the individual uses of the card according to corporate standards and business needs, and that step and the resulting summary document precedes the vouchering step.

Finally, if the credit card processor is the bank you use for your other checks, it will likely be most convenient for you to not write a check but go online, and do an account transfer from your regular disbursement account to the "rolled-up" credit card account. This will count as the payment as far as the bank is concerned. But to document this on the PBS side you would use a Manual Pay (discussed in T&T#36) to clear the liability created by the vouchered credit card statement(s). Further, if your company has a manager paying the credit cards by doing the intra-bank account transfer themselves, before the documents reach accounting, then a non-AP check will create the appropriate PBS-side documentation. There are multiple options with respect to the details of the vouchering and payment, but all of these have been described previously, and are more or less standard.

One final note- PBS has the ability to track "memo expenses" integrating these into the vouchering pay cycle. This may be useful for tracking your use of credit cards. This function is documented in the PBS AP manual in the "Payables" chapter under "Entering Memos" of the manual and we most likely will highlight this feature in a future installment.

➢ **Using a credit card to pay other vendors**

This section discusses the use of the AP system to pay vendor invoices using a credit card. We will not discuss the actual process or any negotiation with the credit card company to put the company credit card to this use. We assume you have a process for this and our challenge here is only to find the best way to walk the process through the PBS accounting system.

Using a C/C to "pay" for purchase is not really a payment in the sense that no cash is transacted. What is really happening is that your liability is being transferred from owing the purchase-from vendor directly to owing the credit card company. As such, this is an accounting operation that can be considered to be a reclass from the standard AP account (your liability to multiple vendors) to a liability account representing your liability to the credit card company.

Whether you "pay" a vendor invoice with a C/C because it gives you, say 30 more days to pay (it's like a short-term loan) or because you like travelling on the mileage points, obviously at some point you have to pay the C/C company. So, our normal process of paying vendors directly, changes to become a two-step process. First, we "pay" the vendor(s) with the liability

transfer to the C/C company. Then subsequently we pay the C/C company with a "real" check or intra-bank account transfer (see above – paying the credit card). These two steps will usually follow one after the other and in fact, since the vendor pay cycle and the C/C statement process and payment cycle are frequently different, the pay cycles for each could be several weeks apart which means that accounting and accountability over accounting period boundaries may be involved.

Fundamentally, the complication with this process comes because we have to convert what would otherwise be a simple voucher/select/pay cycle into a two-step pay cycle i.e., pay vendors using the credit card handing off the liability to the credit card processor and then later paying the credit card.

Also ensuring any open items for the purchase-from vendors are cleared, and the correct set of GL transactions for both steps in the process are generated.

Three other details to consider. In general, we do not want to transfer all the open item details from the vendors we want to pay to some other open item area governed by the C/C. In other words, we do not want to create a new set of Open Item details that have to be individually selected for paying when it comes time to pay the credit card company itself. Ideally, we want to deal with the individual vendor vouchers at this first," pay-the-vendor", step and then later simply pay the credit card company for the aggregate. Therefore, in the act of "paying" these vendors by credit card, we will assume we are taking care of all of the processing details – paper work, which vendor vouchers are to be paid, correct GL account distributions for those expenses, reconciliation, etc. – all prior to using our credit card to do the payment. From there on, the C/C liability should be a "bulk transaction" represented only by the debits to AP for each of the vendors "paid" in this run and the corresponding credits to the C/C liability account. In summary, when we "pay" 10 vendors and 50 vouchers with one "pay-by-C/C" payment, we should end up with 10 liability entries going against the C/C company from the entire pay cycle (and corresponding debits to the standard AP account). This corresponds to the single Db AP and Cr Cash per vendor that would accompany a standard check run.

This leads to the second point: the first step – the "pay with C/C step" - will clear all the selected open items, marking them paid and therefore invisible in Aging reports. (They actually are still there but can now be purged.) That means that the second step will require us to issue a (real) check without reference to any existing vouchers. In other words, paying the credit card will involve a transaction that issues a check but that requires we create the voucher/invoice information for the check. This is accomplished via an Immediate Check. (See T&T#37 for details on Immediate checks.)

The third point is that the C/C Liability account is an accrual account, accruing the amounts we have allocated to the credit card but not yet paid. (And then later, discharged with a check to the C/C vendor.) Unlike the regular AP account whose value is reconcilable using an Open Payables by distribution date report, this account is only represented in the AP system itself by check register(s) and its periodic value must be monitored in the General Ledger. In other words, care should be taken on each monthly closing to reconcile the closing value of the C/C Liability account with the transactions put through it.

The complexity of this process is more apparent than real, once the accounts and the C/C vendors are set up, the cycle involves:

1) a standard vouchering of vendor invoices – which would be done anyway;

2) the "paying" of these with a standard select/pay cycle using the C/C Liability account as the cash account using plain paper for the checks;

3) and later, the paying off of the credit card company using an Immediate Check.

Note: we are providing a worked example in the Tips & Tricks #38 - Appendix - practical hints and worked examples to help with the details of the setup and use of this cycle.

The brief statement of requirements and process are:

a) We assume that we have defined a GL account for each of the C/C providers that you will be using ("C/C Liability" account). In other words, if you use two credit cards to pay vendors with you will have to setup two "C/C Liability" accounts, one for each. These are Balance sheet accounts in the Liability section of the Chart. In addition to them being in the GL (Chart and Valid GL account file), these will also have to be defined *both as an AP account and as a Cash account* and that will mean defining a starting check number in the Cash Account control file

(see the Appendix for details). The reason for this is that we will be using these C/C Liability accounts as cash accounts when we "pay" the vendors (Cr Cash). But we will also need to use these same accounts as AP/Liability accounts when we go to pay the credit card provider (Db AP). This also implies that you will have set up a Vendor Master entry for each of your C/C providers and the A/P account for each of these vendors should be the C/C Liability account for that vendor.

b) We pay the purchase-from vendor(s) with the credit card using a standard select-for-payment cycle followed by printing and posting of those checks. The only significant difference from a standard check run is that the cash account we will specify for the check run is the C/C Liability account of the credit card vendor that we are "paying with". The check number(s) will be those taken from the Cash Account entry for this C/C Liability account. We can also print these checks to plain paper, and these can be used as accounting backup/filing. Alternately we can use a Manual Pay but this will produce no documentation other than the posting report and it will require more work for processing each voucher (see the worked example in the appendix).

c) Subsequently we will use an Immediate Check for paying the credit card. The cash account selected will be your standard disbursements bank account i.e., the "real" cash account. Since this is an immediate check with the invoice/voucher data needing to be entered, during this process you will also be asked to distribute the "expense", debit, side of the transaction. In this case the Db will be to the C/C Liability account. This account must be the C/C account that we used above in Step b) to receive the "cash" side of the transactions that paid the vendor. (As a result, once posted, the net value in the C/C Liability with respect to this set of transactions will be zero – see T-bars below).

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):

		Exp-1 various)		Exp-2 (various)		AP (e.g acct 2000)		AP-CC (e.g. acct 2100)		Cash		
Credit Card Pmnt		Db	Cr	Db	Cr	Db	Cr	Db	Cr	Db	Cr	
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 stmnt. 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
								203			203	as regular voucher from vendor invoices
Net of Transactions		**201**		**2**		**0**		**0**		**-203**		as well a vouchers entered from the C/C statement

(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 (meal, plane tickets, etc.). 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 with 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.

It is the setup of the accounts that provides most of the apparent complexity. To help with this we have provided a worked example with screen shots as an appendix.