



Core Business Process:

Accounts Payable and Receivable

Objective: To manage the timely and accurate processing of payments and collections, ensuring cash flow efficiency and maintaining strong financial relationships with vendors and customers.

Step 1: Accounts Payable (AP) Management

1. Invoice Processing

- **Receive Invoices:**
 - Collect vendor invoices through mail, email, or electronic data interchange (EDI).
- **Validate Invoices:**
 - Cross-check invoice details against purchase orders and delivery receipts.
- **Code Invoices:**
 - Assign the correct general ledger codes and cost centers.
- **Enter into AP System:**
 - Record invoices in the accounts payable software.

2. Approval Workflow

- **Route for Approvals:**
 - Send invoices to designated approvers based on the approval hierarchy.
- **Monitor Status:**
 - Track pending approvals to ensure timely processing.

3. Payment Processing

- **Prepare Payment Runs:**
 - Schedule payments based on due dates and cash flow considerations.
- **Select Payment Methods:**
 - Use checks, ACH transfers, wire transfers, or credit cards as appropriate.
- **Reconcile Payments:**
 - Match payments against cleared invoices and update records.

4. Vendor Communication

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- **Address Discrepancies:**
 - Resolve invoice disputes or discrepancies promptly.
 - **Maintain Relationships:**
 - Keep open lines of communication with vendors to ensure smooth operations.
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Step 2: Accounts Receivable (AR) Management

1. Billing

- **Generate Invoices:**
 - Create invoices based on sales agreements, contracts, or completed orders.
- **Send to Customers:**
 - Distribute invoices through email, postal mail, or electronic systems.

2. Monitoring Receivables

- **Track Outstanding Payments:**
 - Monitor aging reports to identify overdue accounts.
- **Send Reminders:**
 - Automate or manually send payment reminders before and after due dates.

3. Collections

- **Follow Up on Overdue Accounts:**
 - Contact customers via email or phone to resolve payment delays.
- **Negotiate Payment Terms:**
 - Offer payment plans or extended terms when necessary.
- **Escalate to Collections:**
 - Involve a collections agency if accounts remain unpaid beyond an acceptable period.

4. Reconciliation and Reporting

- **Match Payments:**
 - Reconcile incoming payments against invoices.
 - **Generate AR Reports:**
 - Provide management with reports on receivables, aging, and cash flow impact.
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Step 3: Cash Flow Management

- **Monitor Cash Position:**
 - Regularly assess cash inflows and outflows to ensure liquidity.
 - **Coordinate AP and AR Schedules:**
 - Align payment and collection schedules to optimize cash flow.
 - **Forecast Cash Needs:**
 - Use historical data to predict upcoming financial requirements.
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Step 4: Compliance and Audit

1. **Maintain Records:**
 - Keep detailed records of invoices, receipts, and payment confirmations for auditing purposes.
 2. **Ensure Regulatory Compliance:**
 - Adhere to tax laws, payment regulations, and financial reporting standards.
 3. **Support Audits:**
 - Provide auditors with necessary documentation and explanations during reviews.
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Step 5: Continuous Improvement

1. **Evaluate Processes:**
 - Regularly review AP and AR workflows to identify inefficiencies.
 2. **Leverage Technology:**
 - Implement or upgrade AP and AR automation tools to streamline operations.
 3. **Train Staff:**
 - Provide ongoing training to employees handling payables and receivables.
 4. **Monitor Metrics:**
 - Track KPIs such as Days Payable Outstanding (DPO), Days Sales Outstanding (DSO), and cash conversion cycle.
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Conclusion: A structured approach to accounts payable and receivable ensures financial accuracy, improves cash flow management, and strengthens relationships with vendors and

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customers. Continuous monitoring and process refinement drive long-term financial stability and efficiency.