The free accounts payable system

In this second article in a series on the accounts payable function, **David Parmenter** explains why your organisation needs a 'purchase card'

The average cost of a whole purchasing cycle is estimated at £30 to £40 per transaction. This cost is horrific when you realise that a high portion of your transactions are for minor amounts. The diagram to the right shows a typical profile of accounts payable (AP) invoices.

The bulk of invoices can be for low-value amounts, especially if consolidated invoices have not yet been organised. Remember, it costs the same to process a £20 transaction as it does a £200,000 one.

In addition, is it appropriate to request that budget holders raise an order in your purchase order system for a £20 transaction? Surely the AP system should be designed around 100% compliance on major invoices – say, over £2,000, £3,000 or £5,000, depending on your size?

Here's where the purchase card – or 'p-card' – comes in. P-cards have been undersold to management. Never call them another credit card; I call them 'a free accounts payable system' – that usually catches their attention.

There are many controls over p-card expenditure (I have never come across a p-card fraud): p-card holders have a limit on any one transaction as well as daily/weekly/monthly expenditure, cannot purchase items that do not relate to their function, and so on. The controls are all recorded on the card's magnetic strip, with different card holders having different limits.

Most organisations are happy with this level of control and will accept sole liability for all p-card expenditure. However, the overly cautious can have the liability rest with a member of staff and then reimburse them before payment is due. This involves the organisation in more processing, so it is not the preferred option.

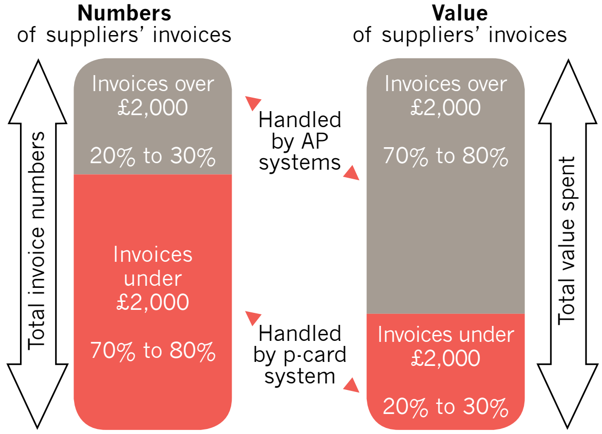
P-cards work particularly well with designated suppliers, who insert the purchasing organisation's general ledger (G/L) code information for the transaction, having been briefed what the relevant G/L codes are.

The p-card would not be used on a transaction that is trapped through a major supplier's electronic consolidated invoice.

All the p-card holder has to do is access the bank's p-card system via the internet and enter their security details to view their statement. If they have purchased from a designated supplier, all will be coded, thus underpinning the use of designated suppliers. It will only be the one-off purchases that need coding. The p-card system can be preset with the most frequently used p-card G/L codes to aid efficiency.

AP staff look at p-card coding status, send warning emails off – 'You only have 24 hours to finish your card coding' – and place all uncoded expenditure into a default account in the budget holder's area that is called 'uncoded p-card expenditure'.

AP AND P-CARD TARGETS



NEXT STEPS

1. For more information search the internet for 'purchase card' and 'name of your bank'.
2. Visit p-card sites and download free p-card procedure manuals.
3. Contact the provider of your accounts payable application and ask for three organisations that are using a p-card with your general ledger.
4. Email me at parmenter@waymark.co.nz for a list of p-card better practices.
5. Practise your sales pitch 10 times live before you deliver it to senior management (see my earlier article on selling change).

It is important that the CEO supports the system by making phone calls to the main offenders: 'What do you not understand about the importance of the p-card system?', making it clear that non-compliance is a career-limiting activity.

AP can simply upload all the expenditure straight into the G/L, and all the p-cards are paid by one – yes, one! – direct debit payment.

Now you can see why most organisations in the US use this system. ■

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FOR MORE INFORMATION:

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