Inventory and Payable Management

A business should keep a close watch on both accounts payable and inventory. Inventory can tie up money. If a business is investing too much money in inventory that is not turning over, the lack of sales revenue can put the business in the position of not being able to pay its accounts payable to its supplier according to the agreed terms which could result in the loss of a supplier or a poor credit rating.

Meaning of Inventory

Inventory is the term for the goods available for sale and raw materials used to produce goods available for sale. Inventory represents one of the most important assets of a business because the turnover of inventory represents one of the primary sources of revenue generation and subsequent earnings for the company's shareholders.

Inventory is the array of finished goods or goods used in production held by a company. Inventory is classified as a current asset on a company's balance sheet, and it serves as a buffer between manufacturing and order fulfillment. When an inventory item is sold, its carrying cost transfers to the cost of goods sold (COGS) category on the income statement.

Meaning of Inventory Management

Inventory management refers to the process of ordering, storing, and using a company's inventory. These include the management of raw materials, components, and finished products, as well as warehousing and processing such items.

For companies with complex supply chains and manufacturing processes, balancing the risks of inventory gluts and shortages is especially difficult. To achieve these balances, firms have developed two major methods for inventory management: just-in-time and materials requirement planning: just-in-time (JIT) and materials requirement planning (MRP).

Why you need Inventory Management?

1. Tracking Inventory

A good system will help you keep track of your inventory and offer a centralized view of stock across sales channels – how much is in stock, and where. It will also allow allocating inventory to specific sales channels, which is important if you have warehouses and distribution centers at multiple locations, thus, enabling warehouse management.

2. Control your costs

Keeping reports about your inventory helps you understand what stocks are doing well, versus which are just taking up shelf space. Lack of the right inventory at the right time can mean back orders, excess inventory, etc. These drive up costs.

3. Improve your delivery

Late delivery due to stock-outs is bound to give you a bad reputation. For tracking, it is important for you to know when the vendor is shipping inventory and when it will arrive. This helps you manage customer expectations by delivery as, when and where they want.

4. Manage planning and forecasting

The software can help you improve demand forecasting by analyzing data trends from well-performing stocks. This minimizes your holding and handling costs, improves revenues and frees up cash flows. Also, by planning and forecasting – you deliver on customer expectations better.

5. Reduce the time for managing inventory

With a good inventory management solution, you can reduce the time taken to keep track of all the products you have on hand and on order. Additionally, you save the time taken up in inventory recounts if your records are in place.

Payables Management

When you're managing a growing company, you have to watch expenses carefully. Don't be lulled into complacency by seeing sales increase. Any time and any place you see expenses growing faster than sales, examine your costs carefully to find places to cut or control them. Here are some more tips for using cash wisely:

- Take full advantage of creditor payment terms. If a payment is due in 30 days, don't pay it in 15 days.

- Use electronic funds transfer to make payments on the last day they are due. You will remain current with suppliers while retaining use of your funds as long as possible.

- Communicate with your suppliers so they know your financial situation. If you ever need to delay a payment, you will need their trust and understanding.

- Carefully consider vendors' offers of discounts for earlier payments. These can amount to expensive loans to your suppliers, or they may provide you with a chance to reduce overall costs. The devil is in the details.

- Do not always focus on the lowest price when choosing suppliers. Sometimes more flexible payment terms can improve your cash flow more than a bargain-basement price.

Objective of Accounts Payable Management

Irrespective of the size of the company, the objective of accounts payable management is to make payment only to all those company's bills as well as invoices that are accurate and legitimate. This means that before making the entry of the vendor's invoice into the accounting records and proceed for the payment, the invoice must show these details:

- Details of the order made by the company.

- Details of the company receivable.

- And many more such as calculations, totals, the proper unit costs, terms, etc.

To protect the cash and other assets of a company, internal controls are taken care of by the accounts payable process due to the following few reasons:

- To prevent making a payment to the fraudulent invoice

- Prevent making a payment to the inaccurate invoice

- And, to prevent making a payment to the vendor invoice twice.

Important of Accounts Payable management

Accounts payable management is an essential tool for the proper functioning of the business entity. Let us take note of some common supporting reasons

- It undertakes the responsibility of paying the entity's bills on time. As this will help in maintaining the so-called strong credit and long-term relationship with the vendors.
- If the payment is made to the vendor on time, the vendor will provide the continuous flow of goods and services for the proper functioning of the entity and also probable trade discounts.
- Accounts Payable management has the responsibility that the payment must be done on time to avoid overdue charges, penalty or late fees.
- It has to make sure that all the invoices can be easily tracked and paid before the due date. The same helps in avoiding the non-payment or payment for the same bill multiple times.
- The porcess helps in maintaining the proper cash flows such as making payments only when due, by making effective and appropriate use of vendor's credit facility etc.
- It also helps in refraining from any kind of fraud and theft in the business entity.

It is important for an entity to make sure that all its financial statements must be completed with high accuracy and the unpaid balances must be recorded with high accuracy and efficiency. In case if expense entry is done twice or unpaid transactions are not recorded, it will lead to the incorrect financial statements recorded in the book. Because as a result of these incorrect amounts huge losses might be caused when the big figures are involved. Hence, it is very important to record the various expenses in the proper manner and also track their payment details.