BIZCOMMUNITY

Accounts Payable vs Accounts Received - The Basics

These two terms seem confusing at first, especially if one is new to accounting and finances, and since they seem to be similar.

However, they are really two sides of the same coin, as you will learn, as accounting is filled with symmetry: one transaction by one party results in one transaction by another party.

What are accounts payable?

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Accounts payable is the money a company owes to a supplier or vendor from whom it engaged services or goods on short-term credit and must be paid to avoid defaulting with that supplier.

Such amounts are considered liabilities as they still need to be paid and will decrease your budget. They are the amounts a company expects to pay in the future to its creditors and are often referred to as 'payables' or 'AP'. They should be listed under the 'Current Liabilities' section of ledgers.

Regular households also have such payables: consider service providers who provide a service first and then bill after the fact.

What are accounts receivable?

This term refers to the amount of money a company may collect because it has already rendered services or goods, albeit on credit. Another way of saying it is that it is the money customers owe the company.

Accounts receivable are considered assets because they represent a legal obligation on behalf of the customer to pay the debt and when paid they will increase your budget. It is sometimes referred to as 'AR'. They are the amounts a company expects to receive from its debtors.

Regular individuals also have such assets: their salary at the end of the month represents a legal obligation on the part of an employer to pay them for their services, which they have already provided

Thus, when looking at the two terms together, when accounts payable are noted in the books they are the result of a purchase made with credit, perhaps with an invoice calling for payment in 30 days, while when accounts receivable are noted, they are the result of a sale on credit that is owed to the company.