Definition: **account payable** from *Collins English Dictionary*

1 accounting US a current liability account showing amounts payable by a firm to suppliers for purchases of materials, stocks, or services on credit

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**Summary Article: Accounts Payable Turnover Ratio**
From *QFinance: The Ultimate Resource*

**WHAT IT MEASURES**
The rate at which a company pays off its suppliers. The accounts payable turnover ratio is a short-term liquidity measure that quantifies how well a company pays its average payable amount over a single accounting period.

**WHY IT IS IMPORTANT**
Investors want to know how quickly your company pays its bills, which is why the accounts payable turnover ratio is important. This ratio measures your company’s short-term liquidity. Investors consider a falling ratio a sign that the company is taking longer to pay suppliers than before, which might suggest cash flow problems. However, a rising ratio would suggest a relatively short time between purchase of goods and services and payment.

**HOW IT WORKS IN PRACTICE**
The accounts payable turnover ratio is based on the total purchases made from suppliers, divided by the average accounts payable amount over the same period, as below:

\[
APTR = \frac{\text{Total supplier purchases}}{\text{Average accounts payable}}
\]

For example, if a company makes $10 million in purchases from suppliers during a year, and at any given point is owed an average $2 million in accounts payable, then the accounts payable turnover ratio for the period would be 5.

**TRICKS OF THE TRADE**
- Most companies are required to settle accounts within 30 days to avoid damaging credit relationships, meaning there are 12 risk-free cycles in any year. A ratio of 6 suggests a company is paying its bills less often than is possible, while a ratio above 12 suggests the opposite.
- On its own, the ratio does not tell investors a great deal. The accounts payable turnover ratio must be compared against the industry average to see if the business is competitive. In addition, the ratio should be tracked over successive accounting periods to provide insight into cash flow.
- A falling accounts payable turnover ratio may suggest one of two scenarios. First, the business might be experiencing cash flow problems or disputed invoices with suppliers, which leads to slower payment. However, a successful business may extend payments to make the best possible use of cash and might have negotiated more favorable payment terms with suppliers. Additional analysis is therefore advised when faced with a changing accounts payable turnover

[https://search.credoreference.com/content/topic/accounts_payable](https://search.credoreference.com/content/topic/accounts_payable)
An alternative approach that some experts believe is more intuitive than accounts payable turnover ratio is “days payable outstanding.” This expresses turnover as the average length of time in days between purchase of goods and services, and payment. To calculate days payable outstanding, simply divide the accounts payable turnover ratio by 365.

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