

FF-AP-001

Payables Timing Governance

A control framework for payables timing discipline.

Use Notice

This framework is provided for informational and reference purposes only. It does not constitute accounting, legal, tax, or professional advice. No client relationship is created through access to or use of this framework. Users should adapt thresholds, controls, and implementation steps to their own operating environment and professional judgment.

Executive Takeaway — Read This First

Failure mode: invoices are paid according to check-run timing rather than due date, causing avoidable float loss.

Control: release only invoices due within the next 3 business days unless a documented exception justifies early payment.

Mechanism: separate payment approval from cash release. Use future-dated debit, approve-now-release-later, or shorter run frequency — whichever your platform supports.

Key metric: average days early paid.

Common trap: the scheduled date in the banking platform is not always the date cash leaves the account. Test actual debit behavior before building the process.

What Paying Bills Early Actually Means

Paying invoices 7 days early on \$1,000,000 of annual payables transfers about **\$19,000 of working capital** from your operating account to your vendors. Every year.

That cash earns nothing for you while it sits in their account.

At a modest 4.2% yield, that timing habit costs roughly **\$805/year**.

At typical small-company borrowing rates near 8–9%, the same behavior costs roughly **\$1,630/year**.

Nothing improved. No discount received. No risk reduced. Just early payment.

This cost repeats every year and increases automatically as the company grows. At \$5M in payables the same habit costs \$8,000–\$16,000/year. At \$15M it costs \$24,000–\$49,000/year.

1. Scope

This framework applies when Accounts Payable payments are released according to check-run timing rather than invoice due dates, and the organization does not actively track how early invoices are paid. It governs payment-release timing for outgoing invoices, with the objective of preserving working capital until actual payment maturity.

Operating Conditions

Before applying this framework, confirm:

- the payment executor has release access or release coordination authority

- due dates and invoice status are visible in the accounting system
- banking-platform debit timing has been tested
- one person owns payables timing execution

2. Failure Mode

Accounts Payable operates as a task completion process rather than a cash timing discipline. Bills are approved and paid at the next check run regardless of actual due date. Invoices enter the payment queue days or weeks before maturity. Cash leaves the operating account earlier than required. The company either absorbs the reduced liquidity or draws on a credit line to cover a gap that the early payments created.

Cash leaves the company because the payment run arrived — not because the invoice was due.

3. Control Rule

Rule

At each payment run, the company pays only invoices due within the next 3 business days. Early payment is treated as an exception, not normal AP behavior.

Owner

The person who executes payment runs.

Allowed exceptions

- Early pay discount where annualized yield exceeds cost of capital. Quick test: $(\text{Discount \%} / (1 - \text{Discount \%})) \times (365 / \text{Days early})$. A 2/10 net 30 annualizes to approximately 36% — almost always worth taking.
- Credible vendor hold or supply disruption risk, documented by email or payment note.
- Owner or management override for vendor relationship reasons — must be logged with reason.

Documentation threshold

Any invoice above \$10,000 paid outside the 3-business-day window must be logged with the reason. One line is sufficient. Owner email approval counts.

Payment-cycle constraint

If Accounts Payable runs occur every two weeks, the company cannot release all approved invoices at that run unless they are due within the next 3 business days. Any invoice due later must be handled through one of four mechanisms: (1) future-dated debit, if the bank debits on execution date not approval date; (2) approve-now, release-later workflow separating invoice approval from payment release; (3) shorter payment-run frequency — typically moving from bi-weekly to weekly; or (4) alternate payment method for vendors where timing cannot otherwise be controlled. If none of these mechanisms exist, the current AP structure will systematically cause early-payment float loss.

4. Minimum Viable Implementation

1. Pull the last 90 days of paid invoices.
2. Calculate average days early paid.
3. Test whether your bank debits ACH payments on approval or on execution date.
4. Set one or two fixed payment runs per week on a fixed day. Friday is recommended so the team starts Monday with a clean AP view.
5. At each run, pay only invoices due within the next 3 business days.

6. Log every early-payment exception.
7. Review average days early paid monthly.

Platform test is mandatory. Some bank platforms, including certain Bank of America CashPro ACH setups, remove cash from the account immediately when the payment is approved, even if a future execution date is selected. In that environment, future-dated ACH does not preserve float. Test with a small payment before building the process.

The implementation path depends on which timing-control mechanism your platform supports. Test your platform first (Step 3 above), then follow the applicable path below.

If platform supports true future-dated debit

- Run AP once weekly on a fixed day.
- Review actual due date for each invoice.
- Pay immediately only if due within 3 business days.
- Schedule all other payments for due date minus 1 business day.
- Confirm displayed debit date before release.

If platform debits on approval

- Use approve-not-release gate if available in your AP workflow.
- Otherwise move to twice-weekly check runs with strict due-date-only discipline.
- Pay only invoices due within the next 3 business days at each run.
- For invoices above \$5,000 where vendor accepts checks, issue check on due date. Natural mail float of 3–7 days is recovered. See FF-AP-002.

5. Decision Thresholds

Situation	Action
Invoice due in 0–3 business days	Pay at current check run.
Invoice due in 4–14 business days	Schedule future payment. Debit date = due date minus 1 business day.
Invoice due in 15+ business days	Do not release. Flag for next run review.
Early pay discount offered (annualized > 18%)	Accept. Pay early. Document.
Early pay discount offered (annualized < 18%)	Decline or escalate.
Vendor requests early payment (no discount)	Decline unless Controller approves exception in writing.
Payment above \$10,000 outside check run	Controller approval required.

Thresholds are starting points. Adjust based on average invoice size, cash position, and cost of capital. Document in AP policy and review annually.

6. Impact Logic / Cost of Inaction

Formula

Annual AP spend ÷ 365 × average days early paid = average float released early.

Worked example

\$8M AP spend. 5 days average early payment. 4.25% yield on retained cash.

Average float released early: $\$8,000,000 \div 365 \times 5 = \$109,589$.

At 4.25% retained-cash yield: approximately \$4,658/year.

At 8.5% revolving LOC cost: approximately \$9,315/year.

This is usually the same cash loss viewed through different liquidity structures: foregone yield, reduced liquidity, or avoidable borrowing.

Cost of this control

Behavioral discipline and one written rule. No software. No vendor. No fee.

7. When It Stops Working

- Your bank debits on approval, not on scheduled date. In some platforms, including certain CashPro ACH configurations, selecting a future date does not preserve float because cash leaves immediately when the payment is approved. Test before building.
- Due dates in the ERP are wrong. If vendor terms are not maintained correctly in your accounting system, the entire timing discipline runs on false data. Audit vendor terms quarterly.
- Annual AP spend under \$500K. At this scale with 7 days early payment and 4.25% yield, the annual float benefit is approximately \$400. The behavioral overhead exceeds the return.
- ACH timing cannot be controlled and no alternative mechanism is used. If the bank platform defeats scheduled timing and no substitute method is adopted, the framework cannot deliver the expected float benefit. For check-eligible vendors, see FF-AP-002.

8. Adaptation Notes

- QuickBooks environments: use run-frequency discipline, not ACH scheduling assumptions.
- Bank-integrated ERP environments: verify debit timing with the bank, not with system settings alone.
- Very low AP volume: control may be low priority. Build the culture for when volume grows.
- High cash or LOC-dependent environments: control is economically material. Quantify for ownership.

Change Log

Version	Change
v1.0 — April 2026	Initial publication based on operating-finance implementation experience in lean company environments.