

# What is Accounts Payable?

## Worksheet

Accounts payable is a short-term liability representing amounts a company owes to suppliers for purchases made on credit but not yet paid.

## Questions

- Accounts payable is classified as a
  - current asset
  - current liability
  - long-term asset
  - equity account
- Which entry records a \$5,000 credit purchase of supplies?
  - Debit AP 5,000 / Credit Supplies 5,000
  - Debit Supplies 5,000 / Credit AP 5,000
  - Debit Cash 5,000 / Credit AP 5,000
  - Debit AP 5,000 / Credit Cash 5,000
- Paying off an accounts payable balance
  - increases assets and liabilities
  - decreases assets and liabilities
  - increases liabilities only
  - has no effect on the balance sheet
- Which best describes accounts payable?
  - Money owed to the business by customers
  - Money the business owes to suppliers
  - Cash held in the bank
  - Long-term debt from a bank loan
- A bakery buys \$12,000 of flour on credit, terms net 30. How does this affect Accounts Payable?
- The bakery pays \$8,000 of that invoice early under terms 2/10, net 30 (2% discount if paid within 10 days). How much cash is paid and what happens to AP?
- At month-end the bakery has three unpaid supplier invoices: \$5,000, \$3,200 and \$1,750. What is the total Accounts Payable balance?
- Define: What is accounts payable?
- Define: Accounts payable vs accounts receivable?
- Define: Where does AP appear on the financial statements?

## Answer Key

1. B) current liability - AP is money owed to suppliers, due within a year - a current liability.
2. B) Debit Supplies 5,000 / Credit AP 5,000 - Buying on credit increases the asset (Supplies) and the liability (AP).
3. B) decreases assets and liabilities - Cash (asset) decreases and AP (liability) decreases by the same amount.
4. B) Money the business owes to suppliers - AP specifically refers to short-term amounts owed to suppliers/vendors.
5. Debit Inventory \$12,000 Credit Accounts Payable \$12,000 Accounts Payable balance increases by \$12,000 until paid.
6. Discount =  $8,000 \times 0.02 = \$160$  Cash paid =  $8,000 - 160 = \$7,840$  Debit Accounts Payable \$8,000 Credit Cash \$7,840 Credit Purchase Discounts \$160
7.  $5,000 + 3,200 + 1,750 = \$9,950$  Total Accounts Payable = \$9,950
8. A current liability representing amounts a company owes suppliers for goods/services bought on credit.
9. AP is what you owe others; accounts receivable is what others owe you.
10. As a current liability on the balance sheet.

### **Bounlu**

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