

SOP FOR ACCOUNTS PAYABLE PROCESS IN INDIA (Sample)

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|-----------------------|-----------------------|
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| Prepared by | [AP Team Lead] |
| Reviewed by | [Finance Manager] |
| Approved By | [Finance Manager/CFO] |
| Document Owner | Accounts Payable Team |

1. PURPOSE AND SCOPE

Purpose

This SOP establishes standardized procedures for managing AP processes in compliance with Indian accounting standards, tax regulations, and internal controls to ensure accurate, timely, and compliant vendor payments.

Scope

This procedure applies to all purchase-to-pay activities, including vendor registration, invoice processing, payment authorization, and vendor reconciliation for all Indian operations.

2. REGULATORY FRAMEWORK & COMPLIANCE

Applicable Regulations

- ☐ Companies Act 2013 – Financial reporting & disclosure requirements
- ☐ Goods and Services Tax (GST) Act 2017 – Tax compliance and input tax credit
- ☐ Income Tax Act 1961 – TDS provisions and compliance
- ☐ Foreign Exchange Management Act (FEMA) – For foreign vendor payments
- ☐ MSME payment terms under the Micro, Small, and Medium Enterprises Development (MSMED) Act of 2006

Key Compliance Requirements

- ☐ GST registration verification for all vendors
- ☐ TDS calculation and deduction as per applicable rates
- ☐ MSME payment within 45 days of acceptance
- ☐ Proper documentation for audit trails
- ☐ Input tax credit reconciliation

3. ROLES AND RESPONSIBILITIES

| | |
|------------------------------------|---|
| Accounts Payable Clerk | <ul style="list-style-type: none"> • Vendor master data maintenance • Invoice data entry and verification • GST and TDS calculations • Payment processing assistance • Vendor reconciliation |
| Accounts Payable Supervisor | <ul style="list-style-type: none"> • Invoice approval (up to ₹1,00,000) • Exception handling • Vendor query resolution • Month-end closure activities • Team supervision |
| Finance Manager | <ul style="list-style-type: none"> • Invoice approval (₹1,00,000 – ₹10,00,000) • Policy compliance oversight • Vendor relationship management • Process improvement initiatives |
| CFO/Authorized Signatory | <ul style="list-style-type: none"> • High-value invoice approval (above ₹10,00,000) • Payment authorization • Compliance oversight • Risk management |

4. VENDOR REGISTRATION PROCESS

Documentation Requirements

For Indian Vendors:

- ☐ PAN Card copy
- ☐ GST Registration Certificate
- ☐ Bank account details with a cancelled cheque
- ☐ MSME registration certificate (if applicable)
- ☐ Address proof
- ☐ Vendor agreement/contract

For Foreign Vendors:

- ☐ Tax Identification Number
- ☐ Bank account details with SWIFT code
- ☐ Certificate of incorporation
- ☐ Tax residency certificate
- ☐ FEMA compliance documentation

Verification Process

- ☐ Verify GST registration on the GST portal
- ☐ Validate PAN details
- ☐ Check MSME registration status
- ☐ Confirm bank account details
- ☐ Obtain necessary approvals
- ☐ Create vendor master data

Approval Matrix

- ☐ Local vendors (up to ₹50,000 monthly): AP Supervisor
- ☐ Local vendors (above ₹50,000 monthly): Finance Manager
- ☐ Foreign vendors: CFO approval mandatory

5. INVOICE PROCESSING WORKFLOW

Invoice Receipt and Initial Verification

1. Receipt Methods:

- ☐ Physical invoices via mail
- ☐ Email invoices (PDF format)
- ☐ Vendor portal submissions
- ☐ EDI transactions

2. Initial Checks:

- ☐ Invoice format compliance
- ☐ Mandatory fields verification
- ☐ GST invoice requirements
- ☐ Duplicate invoice screening

Three-Way Matching Process

1. Purchase Order Matching:

- ☐ Verify the PO number and details
- ☐ Check quantity and rate agreements
- ☐ Validate delivery terms

2. Goods Receipt Matching:

- ☐ Confirm material receipt
- ☐ Verify quality acceptance
- ☐ Check delivery challans

2. Invoice Verification:

- ☐ Mathematical accuracy
- ☐ Tax calculations (GST/TDS)
- ☐ Terms and conditions compliance

Tax Compliance Verification

1. GST Compliance:

- ☐ Verify the supplier's GST registration
- ☐ Validate the GST invoice format
- ☐ Check applicable GST rates
- ☐ Ensure proper HSN/SAC codes
- ☐ Verify the place of supply

2. TDS Compliance:

- ☐ Determine TDS applicability
- ☐ Calculate TDS as per the rates
- ☐ Verify TDS exemption certificates
- ☐ Generate TDS certificates

Invoice Approval Process

1. Coding and Routing:

- ☐ Assign appropriate GL codes
- ☐ Route to department heads for approval
- ☐ Obtain budget approval if required

2. Approval Hierarchy:

- ☐ Department approval: Respective HODs
- ☐ Financial approval: As per the authorization matrix
- ☐ Final authorization: CFO/Authorized signatory

Exception Handling

1. Common Exceptions:

- ☐ Price variances beyond tolerance ($\pm 5\%$)
- ☐ Quantity discrepancies
- ☐ Missing documentation
- ☐ GST/TDS calculation errors
- ☐ Budget overruns

2. Resolution Process:

- ☐ Hold the invoice for investigation
- ☐ Communicate with relevant stakeholders
- ☐ Obtain necessary approvals/documentation
- ☐ Process after resolution

6. PAYMENT PROCESSING

Payment Methods

- ☐ RTGS/NEFT: For high-value transactions ($> ₹2,00,000$)
- ☐ IMPS: For urgent payments ($< ₹2,00,000$)
- ☐ Cheques: For specific vendor requirements
- ☐ Wire Transfer: For foreign payments

Payment Authorization

1. Batch Preparation:

- ☐ Group payments by due date
- ☐ Prepare payment advice
- ☐ Generate payment reports

2. Authorization Process:

- ☐ First authorization: Finance Manager
- ☐ Second authorization: CFO/Authorized signatory
- ☐ System approval for payment execution

Payment Priority

1. High Priority:

- ☐ MSME vendors (within 45 days)
- ☐ Statutory payments
- ☐ Critical suppliers

2. Standard Priority:

- ☐ Regular vendors as per payment terms
- ☐ Non-critical suppliers

Foreign Payment Process

- ☐ Verify FEMA compliance
- ☐ Obtain necessary declarations
- ☐ Calculate applicable taxes
- ☐ Process through authorized dealers
- ☐ Report to the RBI if required

7. MONTH-END PROCEDURES

Accrual Process

- ☐ Identify goods received but not invoiced
- ☐ Estimate accrual amounts
- ☐ Record accrual entries
- ☐ Reverse accruals upon invoice receipt

Reconciliation Activities

1. Vendor Reconciliation:

- ☐ Match vendor statements
- ☐ Identify discrepancies
- ☐ Resolve outstanding items

2. GL Reconciliation:

- ☐ Reconcile AP sub-ledger with GL
- ☐ Investigate variances
- ☐ Prepare reconciliation reports

Compliance Reporting

1. GST Returns:

- ☐ GSTR-2A reconciliation
- ☐ Input tax credit optimization
- ☐ Monthly GST filing

2. TDS Returns:

- ☐ Quarterly TDS return filing
- ☐ TDS certificate generation
- ☐ Reconciliation with Form 26AS

8. KEY PERFORMANCE INDICATORS (KPIs)

Operational KPIs

- ☐ **Invoice Processing Time:** Target < 3 days
- ☐ **Payment Accuracy:** Target > 99%
- ☐ **Vendor Satisfaction:** Monthly surveys
- ☐ **Cost per Invoice:** Benchmarking analysis

Compliance KPIs

- ☐ **On-time Payment Rate:** Target > 95%
- ☐ **MSME Compliance:** 100% within 45 days
- ☐ **Tax Compliance Rate:** 100% accuracy
- ☐ **Audit Findings:** Zero critical findings

Financial KPIs

- ☐ **Early Payment Discounts:** Utilization rate
- ☐ **Late Payment Penalties:** Minimization
- ☐ **Cash Flow Optimization:** Days payable outstanding
- ☐ **Cost Savings:** Year-over-year improvement

9. INTERNAL CONTROLS & RISK MANAGEMENT

Segregation of Duties

- ☐ Invoice processing and approval separation
- ☐ Payment preparation and authorization separation
- ☐ Vendor master maintenance controls
- ☐ Reconciliation independence

System Controls

- ☐ Automated three-way matching
- ☐ Duplicate invoice detection
- ☐ Approval workflow enforcement
- ☐ Access controls and user permissions

Documentation Requirements

- ☐ Maintain all supporting documents
- ☐ Digital archival for easy retrieval
- ☐ Audit trail preservation
- ☐ Compliance with retention policies

10. VENDOR MANAGEMENT

Vendor Onboarding

- ☐ Due diligence process
- ☐ Documentation collection
- ☐ System setup and testing
- ☐ Vendor communication protocols

Vendor Performance Monitoring

- ☐ Payment performance tracking
- ☐ Quality assessments
- ☐ Compliance monitoring
- ☐ Periodic vendor reviews

Vendor Communication

- ☐ Monthly statements
- ☐ Payment schedules
- ☐ Query resolution
- ☐ Feedback mechanisms

11. TECHNOLOGY AND AUTOMATION

ERP System Utilization

- ☐ Invoice workflow management
- ☐ Automated approvals
- ☐ Payment processing
- ☐ Reporting and analytics

Digital Transformation

- ☐ OCR for invoice processing
- ☐ Electronic vendor portals
- ☐ Mobile approval capabilities
- ☐ AI-powered exception handling

12. TRAINING AND DEVELOPMENT

Staff Training Requirements

- ☐ Regular process training
- ☐ Compliance updates
- ☐ System training
- ☐ Soft skills development

Continuous Improvement

- ☐ Process optimization initiatives
- ☐ Feedback incorporation
- ☐ Best practice sharing
- ☐ Innovation adoption

13. DOCUMENT CONTROL & MAINTENANCE

SOP Updates

- ☐ Annual review and updates
- ☐ Change management process
- ☐ Version control
- ☐ Stakeholder communication

Record Retention

- ☐ Invoice documents: 8 years
- ☐ Payment records: 8 years
- ☐ Tax documents: As per statutory requirements
- ☐ Audit documentation: 5 years

14. ESCALATION MATRIX

Process Issues

- ☐ **Level 1:** AP Supervisor
- ☐ **Level 2:** Finance Manager
- ☐ **Level 3:** CFO

System Issues

- ☐ **Level 1:** IT Helpdesk
- ☐ **Level 2:** System Administrator
- ☐ **Level 3:** IT Manager

Compliance Issues

- ☐ Immediate escalation to the Finance Manager
- ☐ CFO notification within 24 hours
- ☐ Corrective action plan development

15. APPENDICES

Appendix A: Forms and Templates

- ☐ Vendor registration form
- ☐ Invoice approval form
- ☐ Payment authorization form
- ☐ Exception handling log

Appendix B: Compliance Checklists

- ☐ GST compliance checklist
- ☐ TDS compliance checklist
- ☐ MSME compliance checklist
- ☐ FEMA compliance checklist

Appendix C: Contact Information

- ☐ Department contact details
- ☐ Vendor helpdesk information
- ☐ Regulatory authority contacts
- ☐ Escalation contact matrix

| Version | Date | Changes | Approved By |
|---------|--------|-----------------|-------------|
| 10 | [Date] | Initial version | [CFO Name] |

