

# 2 Way Match Vs 3 Way Match Vs 4 Way Match In AP



2-way, 3-way, and 4-way matching is a vital part of accounting when it comes to procurement and receiving.

As one of the best internal controls to keep your business from paying for things you didn't receive or overpaying for things you did, it is well worth the effort it takes.

## The Differences Between 2 Way Matching and 3 Way Matching In AP

If you work in accounting, you're probably already aware of the 2-way match vs 3-way match, but for those that aren't, let's take a closer look at each.

### 2-Way Matching

In 2-way matching, the purchase order and invoice information are verified to match within your tolerances as shown:

- The quantity billed must be less than or equal to the quantity ordered

- The invoice price must be less than or equal to the purchase order price

## **3-Way Matching**

3-way matching, adds an additional criterion to verify that the receipt and invoice information match with the quantity tolerances you define.

The quantity billed must be less than or equal to the quantity received.

## **4-Way Matching**

And 4-way matching adds yet another criterion to verify that acceptance documents and invoice match within your quantity tolerances.

The quantity billed must be less than or equal to the quantity accepted as of acceptable quality.

## **Tolerances**

Setting your tolerance is also critical to determining your matching criteria. Sometimes companies consider quantities inside the tolerance limits as matched.

For instance:

If you order 100 items and have a 5% tolerance, and there is an invoice quantity of 103, this is within the tolerance and the matching system accepts it.

However, if you order 100 items with a 5% tolerance, and there is an invoice quantity of 115, this is outside the tolerance and the matching system will flag it for manual review.

## **Why PO-Matching Matters to Your Organization**

If you're not an accounting professional, this may seem overly complex. In reality, all you're doing is ensuring you're only being billed for the number of items you ordered at the price you were quoted and confirming that you did receive the quantity you ordered.

The allowance for less than or equal to means that a vendor shipping more than the quantity you agreed upon or charging less than you agreed to is acceptable. This setup only flags in situations where a vendor sends less or charges more than the agreed-upon amounts.

This setup places the responsibility of error in favor of the consumer onto the vendor and is found in delivery-based manufacturing more often than many many realize.

*Without matching controls, the company could be purging money and not even realize it. Blindly paying invoices means you could be paying more than the agreed-upon price, paying for more than what you received, or paying for the same product multiple times. The matching process prevents paying fraudulent invoices.*

## **How 2-Way, 3-Way, and 4-Way Matching is Done**

In the past, this type of matching was done manually, which was time-consuming and left a lot of room for error.

Traditional, the purchase order was filled out on paper and handed over to accounting. The vendor then invoiced the company and shipped out the product.

When the product was received, the receiving clerk would verify the quantity of product received, giving the packing slip to the accounting department.

The accounting department would then compare the packing slip to the purchase order, then the purchase order to the invoice, and the invoice to the packing slip to make sure all the numbers lined up.

It was a lot of work for the accounts payable department and the receiving department. It all relied on the fact that a receiving clerk was indeed correctly verifying goods receipt and that the corresponding purchase order was readily available.

Now, thanks to AP automation, the accounts payable processes are streamlined. Two-way matching, three-way matching, and even four-way matching occur

automatically once purchase orders, receiving reports, and invoices are all in the system.

If during the invoice matching process something doesn't line up, it is flagged for review, someone can take a look at it and solve the issue before making payment.

If the matching process goes smoothly, the company can take advantage of early payment options during invoice processing. This keeps vendors happy and may even position the company in such a way that they can leverage discounts to save even more money on future orders.

When it comes to 2-way match vs. 3-way match, three-way is the better option because it compares the purchase order to the receipt of the goods to the invoice to make sure you're only paying for goods you ordered and received.

Though accounting automation takes a bit of setup work to get started, it is well worth it in the end. Once in the system, everything will run through you're pre-established routing and rules for approvals, matching, and verification to improve the accuracy and efficiency of the entire procure to pay process.

With PLANERGY, there are notifications to keep the involved parties informed when there is something that must be done or any document requires their attention.

This eliminates misplaced documents and waiting periods, and the back-and-forth conversation that has to occur between departments.

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