

7 Ways to Reduce Errors in Accounts Payable (AP)



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Accounts payable remains one of the biggest challenges that businesses face. Manual payables systems are ripe for errors that often lead to other, larger problems, such as duplicate payments, invoices paid in error, and invoices not paid at all.

Is your accounts payable department experiencing many of these common accounts payable errors?

What Are the Most Common Accounts

Payable Errors?

There are plenty of payable problems to go around, but these are some of the more common issues that businesses experience when using a manual payable system.

• Duplicate Payments

One of the biggest problems businesses face is paying an invoice twice. But why is this such a common error? In most cases, it's due to inconsistent data entry.

Many times, a vendor or supplier will send an initial invoice with a shipment and send a follow-up invoice a few weeks later. If a duplicate invoice is entered a second time, it can accidentally be paid. This can be an issue if you have multiple invoices coming in from the same vendor.

• Paying an Invoice Too Early

Sometimes in their haste to get an invoice out in a timely manner, a vendor or supplier will send out an invoice once an order is processed. That's fine on their end but can lead to a business paying an invoice before the product has been received.

This can happen if an early payment discount is offered by the supplier, or it can result from an AP department that wants to pay invoices quickly. Either way, an invoice should never be paid until the product or service ordered has been satisfactorily delivered.

• Data Entry Errors

The more you rely on staff to enter accounts payable information, the more likely it is that errors will occur.

Small errors such as not capitalizing a letter or adding zeros to an invoice number can lead to duplicate payments while transposing numbers or eliminating a decimal point can lead to payments issued for the wrong

amount. When entering invoice data manually, human error is inevitable.

• **Unauthorized Purchases**

Have you ever received an invoice for goods or services and you have no idea who ordered it or why? If you use internal controls, this may not happen, but when rules are loosely enforced, unauthorized purchases will continue to plague your business.

• **Lost or Misplaced Invoices**

From the moment it's mailed, a paper invoice has many opportunities to become lost or misplaced. The receptionist or mailroom may deliver the invoice to the wrong employee's desk. Or maybe it's the right employee, but the invoice is inadvertently covered up by other papers.

Maybe it gets lost on the way to the approver, or maybe it was lost in the mail and never delivered at all.

A lost invoice means a late payment and possibly late fees, along with an unhappy vendor or supplier. It can also cause accounting headaches, as your accounts payable balance will be understated, which means that your financial statements will be wrong as well.

Common Accounts Payable Errors



Duplicate Payments



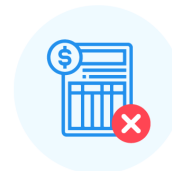
Paying an Invoice Too Early



Data Entry Errors



Unauthorized Purchases



Lost or Misplaced Invoices

7 Best Practices to Follow to Avoid AP Errors

There are ways to avoid common AP errors, starting with a review of your internal controls. And if you don't currently use controls, you may want to consider implementing some.

1. Use Internal Controls

Using internal controls can go a long way toward reducing and even eliminating AP errors. Common internal controls include:

- Obligation controls - which verify that your business is responsible for paying any invoice it receives.
- Data entry controls - these controls include a process for when an invoice should be entered in the system; prior to approval or after approval. Data entry controls should also establish a set process for entering invoices, such as including or omitting zeros in an invoice number.
- Payment controls - payment controls should use separation of duties. In other words, the person approving the invoice should not be the person processing the payment, or the person signing the check.

2. Always Use Three-way Matching

This simple process matches a purchase order, an invoice, and a shipping or receiving document, with all three documents matching. If there is a discrepancy, it should be investigated.

For example, if you order 1,000 wood panels, your shipping document should show that 1,000 wood panels were received, while your invoice should bill you for 1,000 wood panels. Further investigation is needed if one of the three documents doesn't match.

Using three-way matching can help eliminate multiple AP errors. Using three-way matching, you won't pay an invoice before the product or service has been delivered because you need to include the shipping or

service receipt during the matching process.

Duplicate payments will also be avoided since you may have a second invoice from a vendor or supplier, but you won't have the other documentation required to complete three-way matching.

3. **Maintain an Audit Trail**

The AP process should remain transparent at all stages including vendor review, purchase order approval, delivery receipt, invoice approval, and payment, so management and auditors can easily view the entire payable process from beginning to end.

4. **Create Multiple Permission Levels**

All things are not created equal in your business, including system access. Depending on your business and accounting software, permissions can be as simple as access/no access, or you can institute advanced permissions for different employee roles. It's important that employees are given the appropriate system access to do their jobs, but nothing more.

5. **Stop Relying on Spreadsheet Applications to Manage AP**

Spreadsheet programs like Microsoft Excel can be vital for any business, but they should never take the place of a true procurement program like PLANERGY. Similar to using a manual AP process, Excel requires data entry, making it ripe for many of the same problems you may be experiencing by entering AP data manually.

Keep Excel for other things, and focus on implementing an application that will make your job easier, not more difficult.

6. **Integrate Your Systems**

Are you finding yourself having to enter information into two or more applications because they don't integrate? While buying multiple

applications can be a cost-saving measure, in most cases, running various applications ends up costing you a lot of time and efficiency. Before you download the latest app, make sure it works with your current system.

7. Make the Switch to AP Automation

Better than integrating multiple systems, using AP automation allows you to eliminate many of the programs you may be using. Transitioning to automated AP also eliminates paper, putting the issue of lost invoices to rest. An automated AP system like PLANERGY automates three-way matching, eliminates time-consuming data entry, produces real-time reporting, keeps accruals accurate, and gives you an easy view of spending.

7 Ways To Reduce Accounts Payable Errors



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PLANERGY™

How Do You Fix Accounts Payable Errors?

The best way to fix an accounts payable error is to not make one in the first place. Changing the way you process AP can mean the difference between constantly correcting errors and running an error-free department.

For those occasions when an AP error does occur, there are ways to correct them,

but first, you have to find them.

An error in accounts payable isn't always obvious unless you're regularly reviewing AP processes. When you do find an error, you need to take corrective action, whether it's contacting your vendor or supplier for a refund or making a journal entry to correct understated or overstated accounts payable.

Error	Corrective Action
Paying an invoice twice	Contacting the vendor for a credit memo, if a regular vendor, or requesting a refund if it's a one-time payment.
Entering an invoice for the wrong amount	Completing a journal entry debiting your AP account and crediting your expense account, then re-entering the invoice with the correct amount.
Entering an invoice and then paying it manually	If you paid an invoice manually, you will need to do a journal entry to reduce your payable amount and expense the correct account.
Paying an invoice in the wrong amount	If it's an overpayment, you'll need to request a credit memo from your vendor or supplier. If it's an underpayment, you should issue a second check for the difference.

Corrective Actions For Accounts Payable Errors

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What Should I Audit In Accounts Payable?

One of the best ways to make sure that your accounts payable controls are being followed are to audit the department regularly. There are several things you'll want to look at during the audit, including the following:

- Whether AP liabilities are recorded in the proper period
- Whether established internal controls are being followed
- If payments issued match the general ledger
- If invoices are properly approved
- If three-way matching is being used
- If transactions are valid

Depending on your business, there are other areas you may want to include in your audit.

What Causes AP To be Understated?

Maintaining an accurate AP balance is essential. Understated AP can cause problems with cash flow, month-end accruals, and even financial statements.

The main reason why AP may be understated at month end is that invoices have been lost or misplaced, and never entered into the system.

If an invoice is received and sent for approval, that invoice may be sitting on someone's desk for days or weeks, if you're still processing AP manually, causing your expenses to be understated.

Why AP Automation Is the Key To Reducing Errors

No matter what internal controls you institute, if you continue to process AP manually, you'll continue to experience errors.

The key to reducing errors is to transition your AP department to automation. AP automation offers a number of advantages over manual processing, including these top three benefits:

1. **Cost Savings**

Processing a single invoice manually can cost upwards of \$10 per invoice, with the cost rising with each manual system you employ. Switching to AP automation will bring that expense down immediately.

Automation also means your AP department becomes paperless, eliminating the need for filing or for onsite or offsite document storage.

2. **Increased Efficiency**

Data entry, manual routing of invoices, and three-way matching all take a significant amount of time. An automated AP system can streamline the workflow process by eliminating manual data entry while automating the three-way matching process and invoice routing.

As a result, AP will be expensed in the correct accounting period, invoices will be approved faster, and vendors will be paid on time.

3. **Improved Accuracy**

Since AP automation eliminates the majority of AP data entry, it also significantly reduces the number of human errors, including payments made in the wrong amount or double payments. From transposed numbers to invoice data keyed wrong, that all goes away with accounts payable software automation.

Using AP automation also improves reporting accuracy, since invoices will be recorded in AP immediately upon receipt. And with real-time reporting capability, you'll always know just how much you've spent and how much you still owe your vendors and suppliers.

Benefits of AP Automation Over Manual Invoice Processing



Cost Savings



Increased Efficiency



Improved Accuracy

PLANERGY™

AP errors are common for businesses using a manual processing system. And while there are ways to minimize those errors, the bottom line is that the best way to eliminate the hassle of a manual AP process is to make the switch to AP automation software.

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our Accounts Payable Automation Software page to see how PLANERGY can automate your AP process reducing you the hours of manual processing, stopping erroneous payments, and driving value across your organization.
- Learn about us, and our long history of helping companies just like yours.

[Book a Live Demo](#)

2. Download our guide "Preparing Your AP Department For

The Future”

Download a free copy of our guide to future proofing your accounts payable department. You'll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

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3. Learn best practices for purchasing, finance, and more

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

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