

Accounts Payable Process Costs



IN THIS ARTICLE

- What Are Accounts Payable Processes?
- How Much Does It Cost To Process an Invoice?
- How To Calculate the Cost of Processing an Invoice?
- Why True AP Automation is the Answer?

Processing accounts payable is often seen as the cost of doing business, and in many cases it is. But there is a way to reduce those costs by making the move to a more automated AP process.

AP automation helps move your business towards a more holistic approach to the entire AP process, eliminating manual data entry, automating the three-way matching process, expediting the approval process, and paying invoices promptly to take advantage of vendor discounts.

While many software applications provide invoice automation, for true accounts payable automation, it's essential that automation starts with the procurement process, not with invoicing.

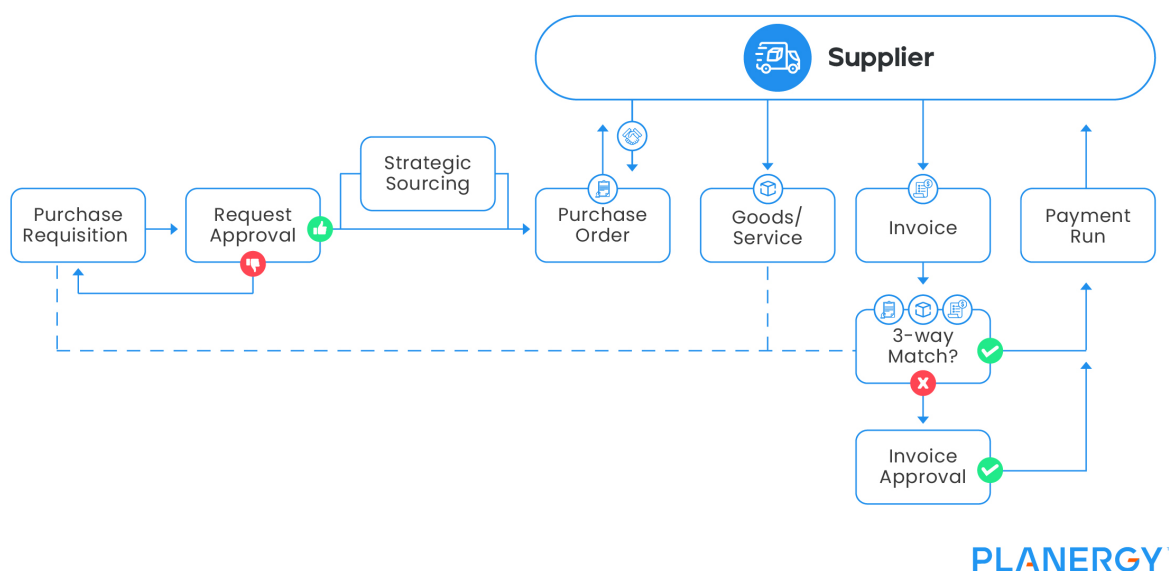
What Are Accounts Payable Processes?

Many business owners believe that the AP process begins when an invoice is received from a vendor.

But the actual AP processing cycle begins much earlier, starting with the procurement process since tasks such as researching and vetting vendors, and ordering and receiving products ultimately become the responsibility of the accounts payable department.

This broader understanding of accounts payable processes is often described as full cycle accounts payable, or the procure-to-pay process.

Full Cycle Accounts Payable Process



Starting with procurement, the following are the steps most commonly used in the AP process.

1. Send Purchase Order

The AP process should always begin with the procurement process. Procurement is responsible for the following:

- Sourcing and vetting vendors for a particular product or service
- Negotiating pricing

- Purchasing items
- Receiving and inspecting products
- Routing all appropriate documents to the AP department

Smaller businesses without a purchasing or procurement department will be responsible for all AP processes, from initial procurement to processing and paying invoices.

The key point in the procurement process directly related to accounts payable will be placing the purchase order with the supplier as this document will be used as part of the 3-way match.

2. **Receive Goods or Services**

When the goods or services are received this will be tracked as the 2nd step of the 3-way match. Relevant documents, goods received notes (GRNs) or order receipts, should be tracked and recorded for reference.

At this stage the goods or services should be reviewed to ensure the quality is acceptable before signing off that they should be paid when an invoice is received.

3. **Process Supplier Invoice**

Shortly after delivery (or sometimes with delivery), the vendor's invoice is received. If you are using AP Automation software this process is automated and in PLANERGY's case the full 3-way match is automated leaving just exceptions to be managed.

It is the job of the AP department to verify the information included in the invoice with the P.O. and the receiving document received from purchasing. This is called the three-way match and helps to verify that all information on the invoice is correct.

4. **Approve Supplier Invoice**

Once all necessary documentation has been matched to the invoice, the invoice will need to be approved by the appropriate parties.

If you're using manual processes, this will entail forwarding an invoice to the appropriate party for approval. If you have a dedicated procure-to-pay software this process will be automated.

Once approved, the invoice will need to be returned to the AP department, where the AP clerk can begin to enter invoice details. These details should include an early payment date if one is offered, the invoice due date, and the amount due.

During the data entry process, clerks should also verify that the total matches the total on the P.O. If a vendor is new, it will need to be approved before adding to the system.

5. **Approve Payment**

A detailed AP report should be reviewed weekly to ensure that all payments due are processed in a timely fashion. Someone other than the accounting clerk should sign off on any payments that must be processed for the week.

6. **Process Payment**

Once payment is approved, the AP clerk will process payments in an approved method whether this is writing a check, using a credit card, or paying vendors via ACH or direct deposit.

Accounts Payable Process



PLANERGY™

Other tasks involved in the AP process include managing the entire workflow process and reviewing all approved payments to search for potential duplicate or fraudulent payments.

AP is also responsible for managing vendor contact information and maintaining vendor relationships.

How Much Does It Cost To Process an Invoice?

The jury is still out on how much it costs to process a paper invoice manually, but even smaller businesses pay the price of using an inefficient processing system.

According to Level Research, a whopping 86% of small to mid-size businesses or SME's still process AP invoices manually.

Manually processing invoices is not cheap, with the cost to process a single invoice estimated to be between \$12 and \$40 per invoice.

Recently, Goldman Sachs estimated that the average cost of processing an invoice for a small business using manual processes is more than \$22, which drops to

\$6.89 when automation is added.

If you're wondering how these costs are calculated, we'll go through the calculation process step-by-step.

How To Calculate the Cost of Processing an Invoice

It may sound complex, but it's actually easy to calculate just how much you're spending on processing invoices manually. This can be done by calculating all of the costs incurred to process the invoice and divide that by the number of invoices you process.

These costs include a variety of expenses that include payroll expenses, software subscription costs, per-transaction fees, and physical goods used in the AP process such as paper checks, postage, and envelopes.

Let's take a look at the areas you should include when calculating your invoice processing costs.

Labor Costs

Labor costs are the largest expense incurred when processing AP manually and should include your purchasing clerk and purchasing manager, your accounting clerk, and your accounting manager.

To calculate labor costs correctly, take their hourly rate and multiply it by the number of hours spent performing AP-related tasks like locating and adding vendors, entering and approving invoices, entering information into your software, and paying bills, whether by ACH or by check.

If paying by check, you'll also need to account for the time spent placing checks in envelopes and adding postage, or taking them to the post office.

Position	Hourly Salary	Hours Spent on AP Monthly	Total Cost	# of Invoices per Month	Total Processing Cost per Invoice
-----------------	----------------------	----------------------------------	-------------------	--------------------------------	--

Purchasing Clerk	\$20	40	\$800	140	5.71
Purchasing Manager	\$30	15	\$450	140	3.21
AP Clerk	\$20	100	\$2,000	140	14.29
Accounting Manager	\$40	30	\$1,200	140	8.58
Total		185	\$4,450		31.79

This means that total labor costs for processing AP for the month are \$4,450.

For a fuller picture of the labor costs you should also consider the time spent approving invoices by other members of staff. This can quickly add up if senior members of staff are involved and all relevant data is not easy to find.

Infrastructure Costs

Any software application you're using to process purchase orders and invoices and pay bills should be included in your invoice cost calculation.

For example, if you pay \$100 a month for a subscription to accounting software and \$15 a month for antivirus software, you will need to include both costs in your calculation.

For this example, total software costs for the month are \$115. You can make the calculation more accurate by determining what percentage of the tool the AP department is financially responsible for.

Payment Costs

Whether you process payments electronically or write a check, there's a cost attached. Paper checks cost money, as well as postage and envelopes. But even if you process all payments electronically, you'll still have payment fees.

Using the scenario above, let's say that 115 of the invoices processed monthly are paid by check, while the rest are paid by ACH. Checks are \$0.02 each, envelopes are \$0.06 each, and postage is \$.55. ACH transaction fees are \$0.35 each. Let's calculate the totals below.

Item	Per-unit Cost	Number of Invoices	Total Cost
Paper checks	\$0.02	115	\$2.30
Envelopes	\$0.06	115	\$6.90
Stamps	\$0.55	115	\$63.25
ACH transactions	\$0.35	25	\$8.75
Totals		140	\$81.20

To get your per invoice total, you would add your total labor costs, software costs, and payment costs together and multiply by the number of invoices processed to get your total per-invoice cost.

$(\$4.450 \text{ labor costs} + \$115 \text{ infrastructure costs} + \$81.20 \text{ payment costs}) / 140 = \$33.19 \text{ per invoice cost.}$ And as your invoice volume increases, so do your costs.

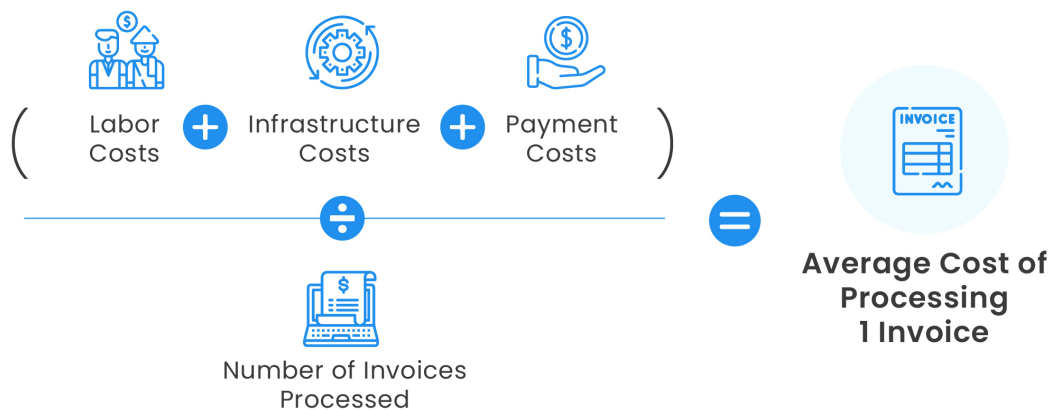
Keep in mind that the regular cost of doing business such as rent, utilities, paper, pens, computers, etc., and other hidden costs are not included in this calculation.

When you add in additional costs such as maintaining storage space, that \$25 invoice you paid last week may end up costing you upwards of \$50 just to process.

And when you factor in the cost of replacing a lost check and errors that need to be corrected, you'll be adding even more to the per invoice total.

If you are processing invoices manually you are also likely seeing late payment fees and lost discounts impacting your bottom line.

Calculating The Cost of Processing an Invoice



Why True AP Automation is the Answer

Manually processing AP has several pain points including:

- The need for time-consuming data entry
- Manual routing of invoices for approval
- Late Payments and late fees
- Lost or misplaced invoices
- Duplicate payments
- Inability to take advantage of vendor discounts
- Increased risks of fraud
- Slow and inaccurate financial close

Along with eliminating these pain points, true AP automation can offer you the following advantages:

• **Reduction in Paperwork**

Manual AP processes involve a lot of paperwork, starting with a purchase order. Once the product is received, you'll receive a shipping notification or a packing slip that provides order details.

You'll then receive an invoice from the vendor, which will need to be matched with both the purchase order and the shipping receipt.

This is called three-way matching and is an important part of the AP process. But when done manually, it also requires a lot of paperwork.

• **Quicker Invoice Approvals**

How many early payment discounts have you missed because the invoice was sitting on someone's desk waiting to be approved? By opting to streamline the AP process, invoices will be approved and ready for processing a lot faster.

Automatic approval routing will also eliminate lost or misplaced invoices.

• **Reduction in Processing Costs**

Imagine being able to shave hours off invoice processing times, and save money in the process.

While many businesses have adopted a combination of manual and automated processes, unless you adopt a complete AP strategy that includes procurement, your staff is still going to spend a lot of time tracking purchase history and managing vendors properly.

Automating AP allows you to:

- Reduce or even eliminate paper and postage costs. Automating AP means you can get rid of those stacks of paper that invariably end up in storage somewhere, with your business picking up the tab. Automating AP also greatly reduces the cost of postage, since both invoicing and payment will be handled electronically.
- Reduce the number of human errors you need to deal with. Manual processes greatly increase the possibility of errors. By automating the entire system, vendors are properly vetted from the beginning, invoice data is automatically recorded in the system, and three-way matching ensures that all relevant documents match - all without human intervention.
- Free up your employees to perform vital tasks. Do your employees spend a lot of their time manually entering data, matching documents, and filing payments? Automating AP can free them up to spend their time doing more productive work.

• **Reduce the Risk of Fraud**

Features such as automatic vetting of vendors, duplicate invoice checks, three-way matching, and electronic payment all work to reduce the risk of overpayment through fraud.

• **Faster and More Accurate Financial Close**

Automating AP also means a faster and more accurate closing process, particularly when AP is coupled with procurement. This pairing results in:

- Complete visibility of spending data from a single location
- More accurate period-ending accruals
- Reduction in labor hours
- Elimination of manual entries that can result in errors
- Access to data and reporting in real time

Benefits of True Accounts Payable Automation



Reduction in
Paperwork and
Manual Tasks



Quicker Invoice
Approvals



Reduction in
Processing Costs



Reduce the
Risk of Fraud



Faster and More
Accurate Financial Close

PLANERGY™

It's Time to Reduce Invoice Processing Costs

If you're tired of spending hard-earned revenue paying employees for hours of manual data entry, document matching, envelope stuffing, and watching potential savings go down the drain by processing payments late, it might be time to make the move to automated AP.

Making the move to an AP automation solution that incorporates the full procure-to-pay cycle can significantly reduce the cost of payment processing, allow you to use your employees in a more productive manner, and can eliminate the majority of errors made in manual data entry.

Even more important, automated AP reduces and can even eliminate fraud.

With a staff less stressed, increased cash flow, and a better bottom line, making a

move away from manual invoice processing towards true AP automation can be a significant cost saving and an investment that will pay off for years to come.

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.

[download a free copy of our guide](#)

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.

Related Posts