

GRNI Reconciliation Process: What Is It and How To Manage It



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Any company using a perpetual inventory system knows that goods received are automatically recorded in the inventory system.

For example, when a product is sold, the perpetual inventory system will automatically update both your inventory account and your sales account.

While this process helps keep your inventory totals up-to-date, there are times when you'll need to use a secondary account to properly record liabilities associated with your order.

This happens when goods are received before an invoice has been sent, since the liability, or what you owe the supplier, will not be recorded in accounts payable until the invoice has been received.

When this occurs, businesses should use the Goods Received Not Invoiced (GRNI) account, an adjustment or contra account that's similar to an accrual account.

What Is the Purpose of GRNI?

Like accounts payable, the GRNI account is a current liability found on your balance sheet that is used to ensure that liabilities are properly recorded at the time inventory is delivered, until an invoice has been received.

If you're not using a perpetual inventory system you don't have to worry about using a GRNI account since inventory is not updated until an invoice has been received and entered into your accounting system.

As an example, Company A uses a perpetual inventory system. Last week, Company A purchased \$5,000 worth of goods from Company B. The goods ordered arrived within a week of the purchase, but the invoice has not been received.

To account for the increase in inventory, you'll need to do the following entries:

Account	Debit	Credit
Inventory	\$5,000	
GRNI		\$5,000

The debit part of the entry accounts for the value of the inventory received, while the credit part of the entry posts the liability into the GRNI account, where it will remain until the invoice is received and approved.

Once the invoice has been received, you'll need to do the following entry:

Account	Debit	Credit
GRNI	\$5,000	
Inventory		\$5,000

Because you now have the invoice, you can zero out the original liability entry by

debiting the GRNI account and crediting the accounts payable account.

Using a GRNI account will help you track your liabilities accurately, but if an invoice doesn't match the purchase order or shipping receipt, or the invoice is never received, your original entry is likely to remain in the account.

While it's fairly simple to remember to reverse a single GRNI transaction, keeping track of hundreds of entries can be overwhelming, resulting in an overstated GRNI balance.

Unfortunately, the more complex the supply chain is, the more likely it is that your GRNI account balance is inaccurate.

There can be many reasons for the inaccuracies such as error-prone manual processing, lost or delayed invoices, or an inefficient procure-to-pay process.

Though many of the invoice delay issues may be resolved within a short period of time, when invoices are received and processed, many businesses find their GRNI account balance continuing to increase month after month.

What Causes the GRNI Account to Grow?

Larger businesses may struggle to keep their GRNI balance in check. While many issues may be short-term and resolved within a few weeks, others can remain on the books long after the original entry.

One of the main reasons GRNI transactions are not reversed is that the invoice doesn't match the purchase order. For instance, your business orders \$2,000 worth of goods from your supplier. You record the \$2,000 product receipt into your GRNI account in your general ledger.

However, when the invoice is received and processed, it is for \$2,500. The invoice is entered directly into accounts payable, but because it doesn't match the original GRNI entry, that entry is never zeroed out.

This issue can happen multiple times when using a manual AP system, with the GRNI account continuing to grow.

Three-way matching the invoice against a PO and receiving documents can help

identify these issues and in the cases where the invoice should not be paid at the higher value you can query the supplier about the overcharge.

What Problems Does a Growing GRNI Balance Cause?

A growing GRNI balance that remains unreconciled can create multiple issues for businesses, including the following:

• Overstatement of Inventory

Overstating inventory can happen when goods are received for the wrong amount, and the correction is never recorded in the GRNI account. For example, you receive \$5,000 worth of inventory from your supplier which is recorded in the GRNI account.

A week later you receive an invoice for the same goods and record it in your inventory account again.

This is common when you're using a manual AP system but would be flagged as a duplicate invoice by AP automation software, incorporated in the PLANERGY spend management platform.

• Overstatement of Liabilities

When the GRNI account balance begins to grow, it increases your total liabilities, which directly impacts important metrics like profit margin and net revenue.

• Red Flag for Auditors

A large GRNI account balance will immediately catch the eye of an auditor, for good reason, since it's unlikely that the entire balance is simply waiting for a corresponding invoice.

• Unpaid Suppliers

If an invoice is never received, or is received and misplaced, your GRNI balance will remain high. But it also means that you have multiple invoices that remain unpaid, which can damage or even destroy the relationship you have with your suppliers.

Problems Caused By a Growing GRNI Balance



Overstatement of Inventory



Overstatement of Liabilities



Red Flag for Auditors



Unpaid Suppliers

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Regularly reconciling your GRNI account balance every accounting period is the best way to reduce or even eliminate a growing GRNI balance in your ERP system.

What Is GRNI Reconciliation?

GRNI reconciliation is the process of matching your entries against vendor accounts and is essential for any business that uses a GRNI account. The reconciliation process is best completed regularly, as the account balance can quickly get out of hand, taking much longer to reconcile.

The manual reconciliation process starts with matching open GRNI entries to vendor accounts. This process is time-consuming, especially when factoring in cases of human error.

In some cases, the reconciliation may uncover unpaid vendor invoices. At the same time, the issues may be an overstatement of inventory, with inventory value

recorded at the time of receipt and when the invoice is received.

If you do identify unpaid invoices, you'll need to debit the original GRNI entry amount for that invoice and credit the unpaid amount in your AP account. But for other entries that were never reversed, you'll need to process manual journal entries to clean up the account.

What Are the Benefits of GRNI Reconciliation?

The benefits of GRNI reconciliation are two-fold. First, reconciling the account means that your vendor/supplier relationships won't suffer because of late or missing payments. And keeping the GRNI account reconciled means that your liabilities aren't overstated, which directly impacts your financial statements and your profit margin.

What Journal Entries Do I Use for a GRNI Reconciliation?

When manually adjusting the GRNI account, you'll need to take into consideration whether entries will balance out once an invoice is posted, or whether you need to take corrective action.

If your entries are mainly waiting on an invoice that was never received or lost, you'll simply debit your GRNI account while crediting your AP account.

However, in cases where GRNI entries have been made and the invoice has already been paid, you will need to do an adjusting entry so that both the GRNI account and your inventory accounts are not overstated.

Using the example provided earlier, you order \$2,000 worth of goods from your supplier, with the \$2,000 recorded in GRNI since you have not yet received an invoice. However, when the invoice does arrive, it contains a pricing adjustment, with the invoice total now \$2,500.

The invoice is entered directly into accounts payable, but because it doesn't match the original GRNI entry, that entry is never zeroed out. This issue can

happen multiple times when using a manual AP system.

That means that your inventory is now overstated by either \$2,000 or \$2,500, depending on whether the invoice or the shipping receipt is incorrect. After determining which is the correct amount, you'll need to do a journal entry to adjust both the inventory account and the GRNI account.

According to the vendor account, the \$2,500 is correct. That means that you will have to do a journal entry to adjust the \$2,000, which you now know is the incorrect amount.

Account	Debit	Credit
GRNI	\$2,000	
Inventory		\$2,000

The entry above will effectively reduce your GRNI balance and your inventory balance. Unfortunately, the more entries made into your GRNI account, the more reconciliation and the more journal entries you will have to make to that your trial balance and other financial statements are accurate.

What Are the Challenges of GRNI Reconciliation?

One key challenge of GRNI reconciliation is the amount of time it will take to verify which GRNI entries are valid, which entries are waiting for an invoice, and which entries will need to be adjusted off because they've already been paid.

Depending on the number of vendors and suppliers you deal with, this can take days, or even weeks to complete manually.

When completing the GRNI reconciliation, you'll need to use the GRNI statement, a report that should be run at month end that details all of the transactions that have gone into or out of the account.

The Best Way to Manage a GRNI Account

The best way to manage your GRNI account is by leveraging automated procure-to-pay software like PLANERGY.

This is particularly important for larger businesses that may run hundreds, if not thousands of entries through their GRNI account, making it nearly impossible to reconcile the account manually, particularly when also dealing with other issues like vendor delays, possible accounts payable fraud, or manual inefficiencies.

An automated procure-to-pay solution eliminates much of the manual steps required to keep your GRNI account reconciled, generating a GRNI report on demand while reducing or even eliminating the time and expense required to reconcile GRNI accounts manually.

As an example, using an automation solution, all transaction data is automatically checked against matching documents, eliminating the need to manually match a purchase order against a supplier invoice and the goods receipt.

Automating the three-way match means that transactions that need additional review are pinpointed immediately.

Using an automated system can also help you monitor supplier performance to identify problem vendors that frequently change orders or are slow to invoice, allowing you to make the decision to continue with them or look for a more efficient vendor or supplier.

Finally, using automation, you can be sure that your financial reports are accurate, and contain a sufficient audit trail while having the confidence to know that you don't have any missing or unpaid invoices that have not been accounted for.

It's Time to Leverage the Power of Automation

An overstated GRNI balance not only impacts your profit margin, but it's also a big red flag for auditors.

Transitions can be difficult, but by moving away from tedious manual processes and utilizing artificial intelligence (AI) automation in accounts payable, you'll be able to use the GRNI account as intended, while keeping the supply chain in motion the way it's meant to be.

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