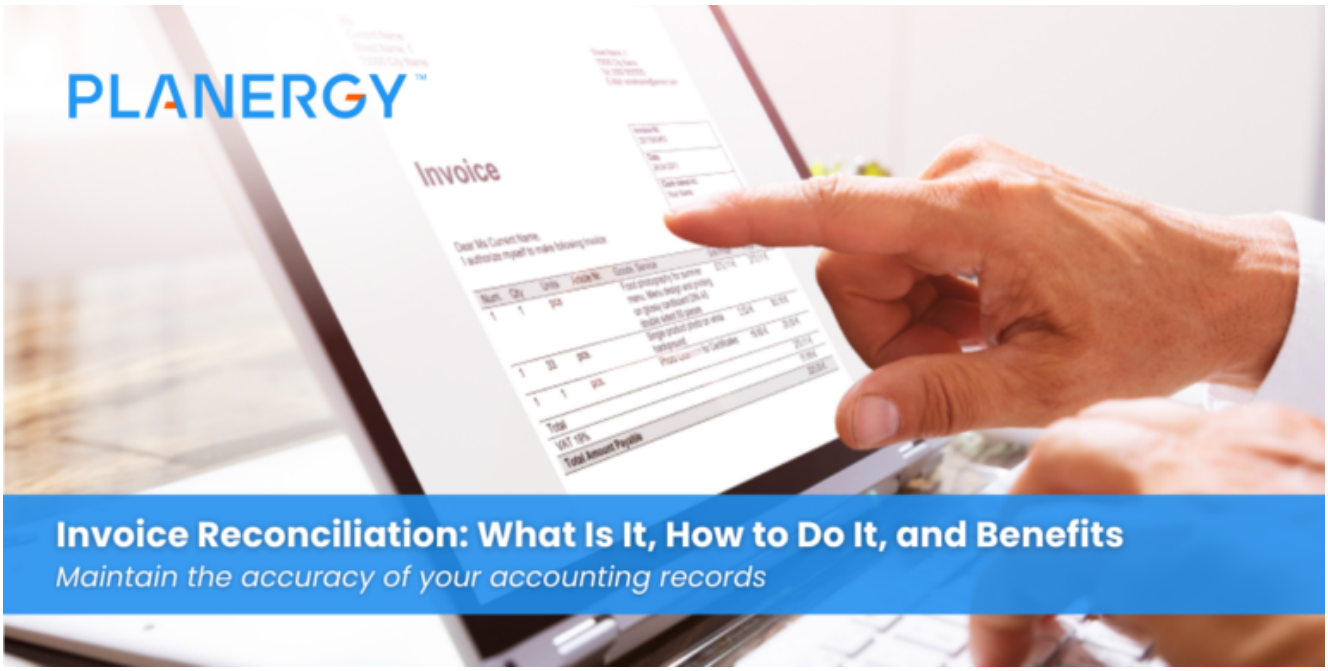
Invoice Reconciliation in Accounts Payable: What Is It, How To Do It, and Benefits



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One of the best things you can do for your business is to complete reconciliations regularly. Doing so helps maintain the accuracy of your accounting records and ensures accurate financial statements in real time.

For those specifically concerned about AP accuracy, invoice reconciliation is particularly important.

The Invoice reconciliation procedure helps weed out invoicing errors and makes sure vendor and supplier payments are accurate.

Invoice reconciliation also helps to identify potential fraud, overpayments, and duplicate payments.

What Is Invoice Reconciliation?

Invoice reconciliation is a process used to compare two sets of documents for accuracy.

For example, you can compare invoice details such as the invoice number, due date, and total amount entered into your software application against the hard copy of the vendor's invoice or statement.

For those using a procurement system, an invoice should be matched against a purchase order to verify accuracy.

Bank statements can also be used in the invoice reconciliation process by matching the bank statement credits against a vendor or supplier invoice.

How Do You Reconcile Invoices?

Reconciling invoices usually involves the three-way matching process, which is completed in three steps.

1. ## Products or Services Are Purchased for the Company

   If you use a purchase order system or procurement system, the purchase order information will be recorded in your accounting software or dedicated procurement application long before you receive an invoice or a service is performed.

   If your company does not use a purchase order system, you may want to consider documenting any and all purchases going forward.

Supplier Invoices Are Received and

2. ## Reconciled

   Vendor and supplier invoices are received via regular mail or electronically. The invoices must then be matched and reconciled against upstream accounts payable information.

   If there is a purchase order, then you will need to match the information on the invoice to the information included in the purchase order.

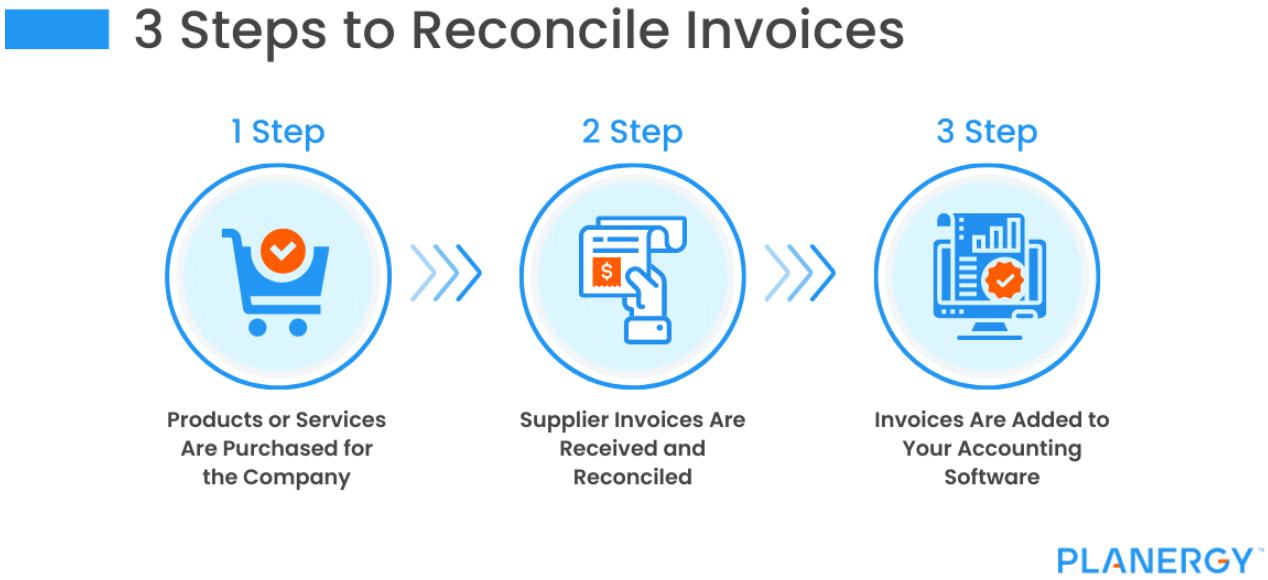
   Any time the two documents do not match, further investigation will be necessary. If there was no purchase order used for the products or services purchased, you will need to match the invoice to the delivery receipt.

   Again, if the invoice details and the delivery receipt or goods received note do not match, you will need to investigate the discrepancy.

   Ideally all 3 documents should be reconciled in a three-way match but in some cases a process of 2-way matching might be followed.

3. ## Invoices Are Added to Your Accounting Software

   Once the three-way matching is complete, the invoice can then be entered into your existing accounting software application for payment or forwarded for invoice approval.



Another way you can reconcile your invoices is to match the invoice with the information recorded in your software.

PLANERGY's AP Automation software automates invoice processing and invoice reconciliation while flagging exceptions automatically so they can be reviewed.

An open AP report can be helpful for reconciling existing invoices with information entered into your software application.

This is a particularly useful process for businesses that process AP manually since human error is often the result of using manual data entry.

Why Is Invoice Reconciliation Important?

Like most reconciliation processes, invoice reconciliation helps weed out potential issues, like duplicate invoices, erroneous invoice totals, or potential overpayments.

For example, if the prices on an invoice are higher or lower than the prices on your purchase order, you'll need to find out why.

Perhaps the vendor had a price increase and didn't notify you. Perhaps it's a typo and they transposed numbers.

Whatever the reason for the difference, completing the invoice reconciliation

process helps to identify these issues before they escalate.

While invoice reconciliation excels at locating simple billing mistakes, it can also help uncover potential accounts payable fraud.

For instance, if you have an expense recorded in your bank statement for $1,000, but there's not a corresponding invoice to back it up, that can signal fraud.

New and unrecognizable vendors in your AP report can also send up a red flag that will need investigating.



What Does It Mean To Reconcile a Purchase?

Reconciling a purchase is the first step in the three-way match.

If a purchase order was completed for the vendor or supplier purchase, the information on the purchase order should be compared to the information on the invoice received, with the manual process including a line-by-line examination of the purchase order line items compared to the invoice line items.

Any variation should be flagged and the vendor or supplier contacted for verification.

Another reason why reconciling purchases may be important is that during the

process you may find purchase orders and receipts for items that don’t have a corresponding invoice.

In some cases, the invoice may have been received but lost in-house, while in other cases the invoice may never have been sent in the first place.

Regardless of the reason, it’s important that the missing invoice is located or a copy requested from the vendor or supplier.

What Are the Main Types of Reconciliation in Accounting?

All accounting reconciliations compare two sets of records to determine accuracy and account for discrepancies. For example, during a bank reconciliation, there are often outstanding checks at the end of the month that have to be considered when determining whether your bank statement matches your general ledger totals.

There are three main types of reconciliation typically used in accounting, with each serving a different, but related purpose.

1. ## Bank Reconciliation

   The bank reconciliation process compares the beginning and ending totals in your bank account to the balance in your general ledger.

   Reconciling your bank statements regularly can help identify expenses that haven’t been recorded in the general ledger as well as bank errors such as inaccurate service charges.

   As mentioned earlier, if you write paper checks, the bank reconciliation process is particularly important because it helps to identify checks that have been written but not yet cashed.

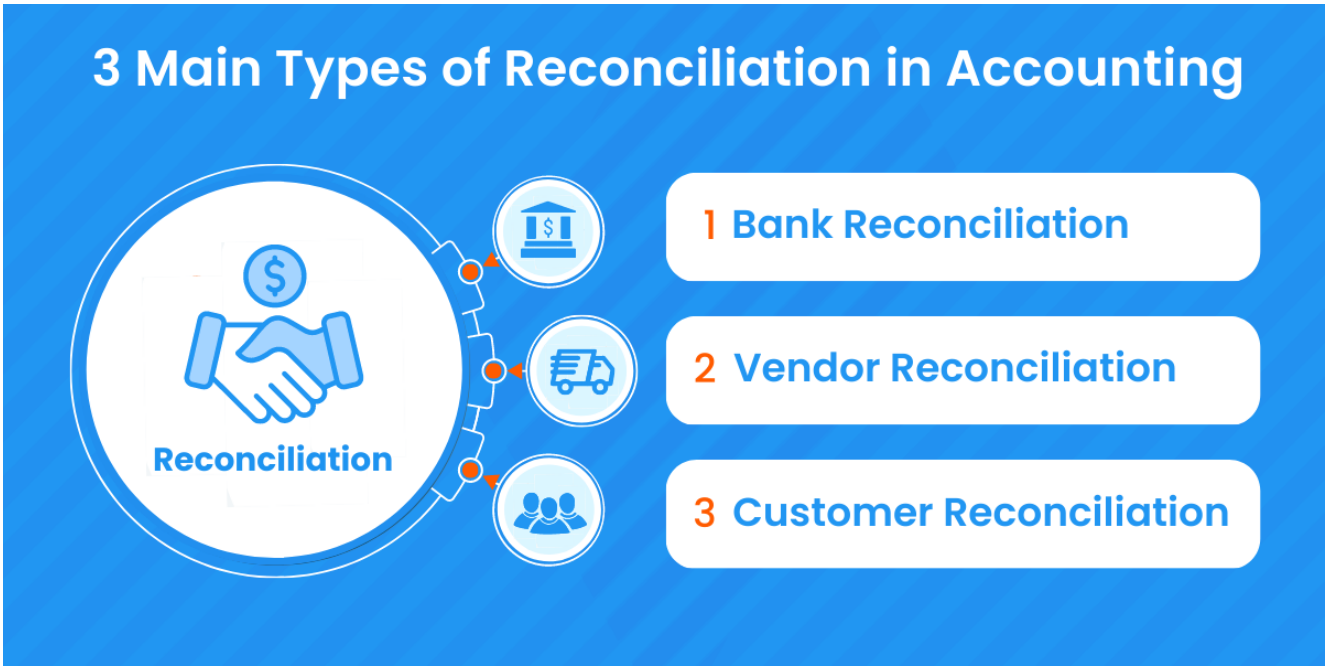
2. ## Vendor Reconciliation

   Used in accounts payable, the vendor reconciliation reconciles vendor statements and payables amounts to amounts that your company has paid.

The vendor statement and the amount paid to a vendor should always match unless there is still an invoice waiting to be paid.

3. Customer Reconciliation

The customer reconciliation process is used in accounts receivable and like the vendor reconciliation, the amount billed to a customer should always match the amount paid, less an outstanding invoice that has not yet been paid.



Other Types of Reconciliation: A business may need to perform other types of reconciliation. These include a GL reconciliation, which reviews transactions going into and out of the account for accuracy.

For businesses with two separate entities, an inter-company reconciliation process is often used to ensure that any transfers, expenses, or transactions have been properly attributed to the correct accounts.

Manual Reconciliation Versus Automated Reconciliation

Performing manual reconciliations can be a nightmare for businesses that process a high number of invoices regularly.

Without an automated system in place, AP staff can spend days manually reconciling invoices and accounts, comparing line items to look for account discrepancies, or comparing totals line-by-line against multiple spreadsheets.

Because of the time it can take to process large numbers of reconciliations, it may be months before errors or fraudulent transactions are spotted, which will only exacerbate the original problem.

Using an automated procure-to-pay application like PLANERGY can perform much of the reconciliation for you, automatically performing the three-way match and flagging any items immediately that may need further consideration.

As a result, human error is reduced or eliminated, overdue payments are eliminated, and lost or misplaced invoices are a thing of the past.

What Are the Benefits of Automated Invoice Reconciliation?

Aside from a reduction in errors and the ability to automatically flag inconsistencies, automated invoice reconciliation also provides the following benefits:

- ## Reduces Labor Costs

  Time-consuming accounting processes like manual reconciliation takes up a lot of hours.

  Using an automated system allows you to use your employees more effectively while eliminating the need to hire additional staff to handle the reconciliations.

  This in turn leads to an increase in cash flow.

- ## Reduces Lost or Misplaced Documents

  Paper documents get lost or misplaced. They may be routed to the wrong individual, where they can remain for days or weeks at a time.

They can be buried under piles of paperwork, or they may never have been received in the first place. Using an automated AP system eliminates lost and misplaced invoices for good.

Eliminates Bottlenecks and Other Delays

Manually reconciling invoices and AP accounts can often mean delays that can cost you money, including late invoice approvals that prevent you from taking advantage of good payment terms such as early payment discounts.

These same bottlenecks can also result in past-due invoices that can often result in late payment fees, penalties, and interest charges that can quickly add up.

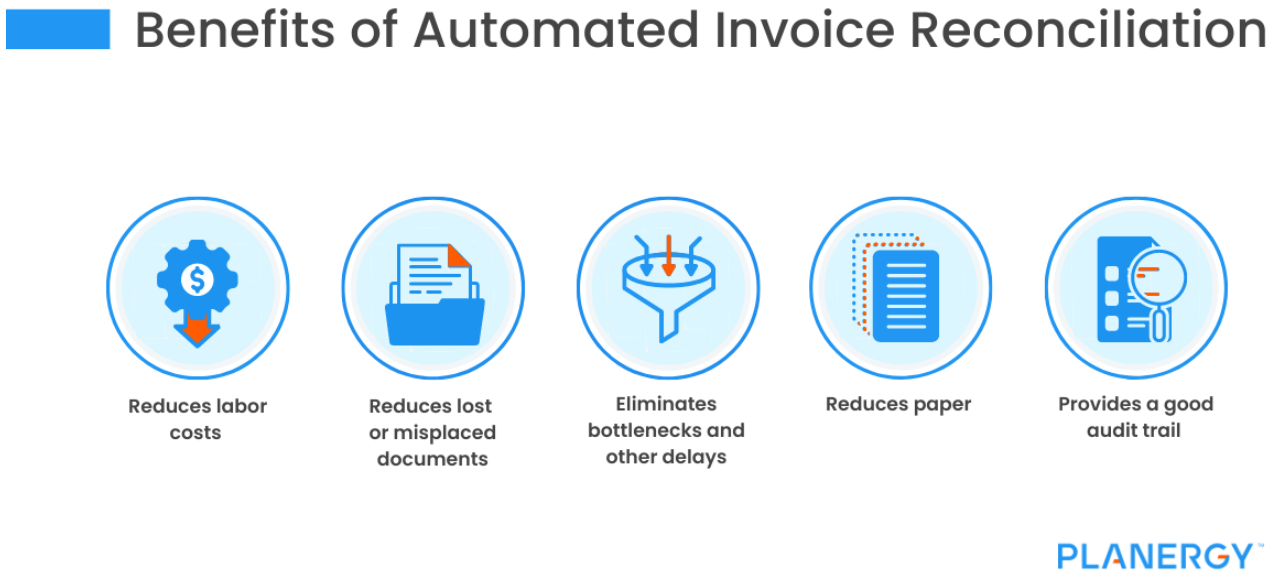
Reduces Paper

Making the switch to an automated AP system can reduce the amount of paper you need to deal with daily.

By automating your system, you can manage your documents electronically, eliminating the need to file large stacks of paperwork, buy additional filing cabinets or pay for off-site storage.

Provides a Good Audit Trail

An automated AP system provides a complete audit trail for all documents, so you'll always know where a document is, if any changes have been made to the document, and if so, who made the changes, and when.



Why Automated Reconciliation Is the Best Solution for Your Business

Whether you're using a manual process or an automated system, you'll need to reconcile your invoices on a regular basis.

If you choose an automated system, the application does much of the work for you, accurately flagging discrepancies that need follow-up while matching purchase orders, open invoices, and shipping receipts quickly.

While automation doesn't mean that everything will always match, it does mean that you'll know immediately when something doesn't and will be able to take the proper steps to correct the issue.

The reconciliation process, including invoice reconciliation, will always be a necessity for business owners, regardless of whether you own a small business or run a Fortune 500 company.

Automating the process makes it easier for everyone.

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