

Invoice Analysis: What Is It, How To Carry It Out, and How It Can Save You Money



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Beyond Spotting Overpayments

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Processing AP invoices properly is crucial for the health of your business.

But manually processing invoices is an error-prone, time-consuming process that can take hours or even days, depending on the amount of invoices typically received.

One of the crucial steps in invoice processing is invoice analysis, a task that can help prevent overpayments and duplicate payments.

Learn what invoice analysis is, how to carry it out, and why it's so important for your business that it be completed regularly.

What Is Invoice Analysis?

Invoice analysis is the careful review of an invoice for accuracy and authenticity.

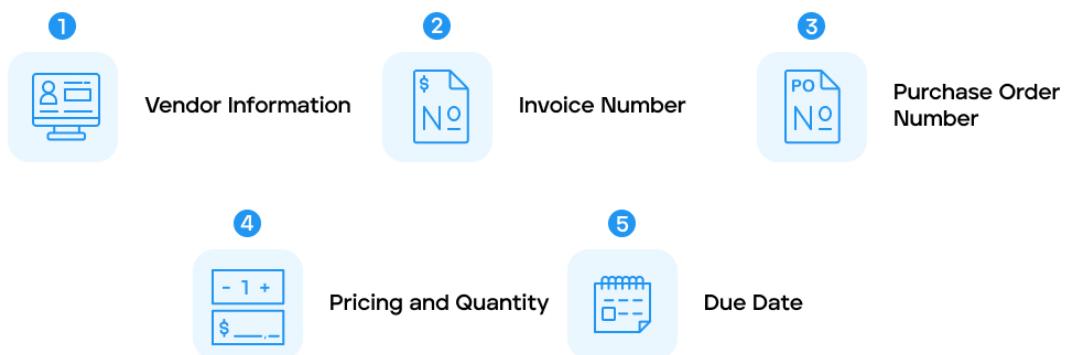
While it can be assumed that every invoice received is carefully reviewed and analyzed if you're using a manual accounting system to process accounts payable, the odds of incorrect or fraudulent invoices slipping through the cracks are increased.

What To Look For When Analyzing Invoices?

The initial review of an invoice is important for weeding out fraudulent invoices, overstated charges, or billing errors.

These are the invoice parameters that should be carefully reviewed before payment is initiated.

What To Look For When Analyzing Invoices



1. Vendor Information

Even if you're familiar with a vendor, taking a few minutes to review the vendor information included on the invoice can help prevent fraudulent payments from being made.

All vendor details included on the invoice should be double-checked for accuracy.

These include the name of the company, the billing and remittance address, email address, telephone number, and other contact details if they appear on the invoice.

While this can be a time-consuming process, it's incredibly easy to duplicate an invoice from a vendor or supplier by changing a few details such as where payment should be sent.

Catching these inaccurate details can save a business a lot of money and potential financial issues.

2. Invoice Number

Before an invoice is sent for approval, the invoice number should be similar in structure to past invoices from the same vendor.

For example, if a vendor's invoice has always started with a date, but has suddenly changed to a four-digit number, it may be that the vendor has changed accounting software applications...or the invoice is fraudulent.

Either way, it's worth following up to ensure authenticity.

3. Purchase Order Number

If you're using a purchase order or procurement system, the purchase order on the invoice should match that of the original purchase order.

If it doesn't match, or a purchase order number is not included on the invoice when a purchase order was used for the purchase, you'll need to follow up with the vendor.

If you're using a procure-to-pay application like PLANERGY, the matching process is completed for you.

4. Pricing and Quantity

Other areas of an invoice that should be analyzed include pricing and quantity, with both matching the price and quantity indicated on the purchase order.

Quantities should also be authenticated when the product is received to ensure that it's a complete shipment and not a partial shipment.

Checking invoice line items is much simpler when using an automated accounting software application since three-way matching is completed automatically.

The total amount due should be checked for accuracy as well.

5. Due Date

Another area to look at is the due date. Every vendor or supplier likely has payment terms that need to be abided by.

If the terms on the invoice don't match the agreed-upon terms, a correction will need to be made.

What Is Invoice Classification?

Regardless of how an invoice is received, it will need to be classified before it can be processed for approval and payment.

Manual classification is a painstakingly slow process, with AP staff spending hours classifying each invoice by the appropriate category, such as vendor or industry.

Even semi-automated applications can struggle to properly classify invoices since the invoice structure can vary from industry to industry.

Manual classification typically follows these processes:

- Sorting invoices by department or job
- Identifying and adding a vendor code to an invoice
- Adding an expense category to the invoice

If you're only processing a few invoices a week, classification can be easily handled by your AP staff.

But when a business starts to process a high number of invoices weekly, manually classifying invoices takes an inordinate amount of staff time that can be better spent elsewhere.

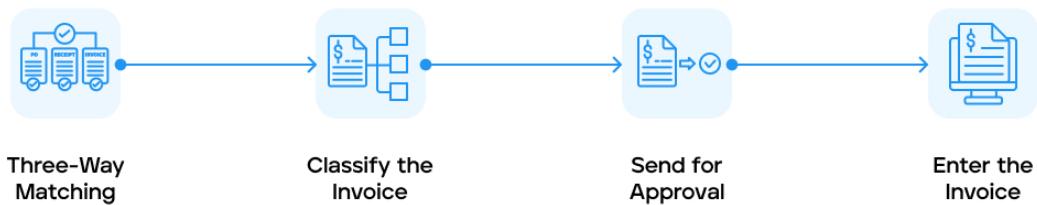
The best way to handle invoice classification is by using an automated data extraction system that uses artificial intelligence and machine learning to extract and classify invoices regardless of the format, with some systems able to even extract data from hand-written invoices.

What Is the Difference Between Invoice Processing and Invoice Analysis?

Invoice analysis is the first step in invoice processing. Invoice analysis reviews every invoice received for accuracy and authenticity and is a necessary tool for weeding out inaccurate, fraudulent, or erroneous invoices before they are processed.

Invoice processing begins with invoice analysis, but continues with the following steps:

Invoice Processing Begins With Invoice Analysis, but Continues With the Following Steps



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1. Three-way Matching

Once an invoice has been reviewed for authenticity and accuracy, AP staff can begin the three-way matching process.

Three-way matching matches invoice data to that of a corresponding purchase order and a shipping receipt.

This simple process can eliminate potential fraud and significantly reduce the occurrence of duplicate payments.

When a discrepancy is discovered during the three-way matching process, further review should be completed before the invoice is processed for payment.

If a purchase order was not used during the ordering process, it's the responsibility of AP to follow up with the department or individual who ordered the product or service.

For example, the AP supervisor ordered office supplies for the department but did not use a purchase order before placing the order.

When the invoice is received, the AP clerk will need to do two things;

1. Determine that the order was received as billed; and
2. check with the AP supervisor to authenticate the order.

When the invoice is sent for approval, it will go to the AP manager for

approval, not the person who ordered it, adding even more work to your AP staff.

2. Classify the Invoice

Once three-way matching or other verification is completed, you can classify the invoice.

If you're using a manual accounting system, you'll need to add the vendor code, department code, expense code, and possibly even a job code to the invoice before it's sent for approval.

3. Send for Approval

Manual approvals are the number one reason for delays in invoice processing.

Paper invoices can be easily routed to the wrong party, or lost under a stack of papers on someone's desk for days or even weeks before being approved.

Of course, once the invoice is approved, it could be another few days before it's received back in AP, where staff still has to enter the invoice into the system for payment.

While some businesses may enter invoice data into their accounting software application before approval, this can cause issues if there's an error in the invoice or the coding needs to be changed, creating even more work if you have to delete an invoice or edit the total amount due or change the due date.

4. Enter the Invoice

Once an invoice has been approved, the data can now be entered into the application for payment, with the AP manager able to approve payments strategically, depending on payment terms and due dates.

Again, the person processing payments should not be the same person

who entered or approved the invoice.

How Can AI Improve Invoice Analysis and Invoice Processing?

Both invoice analysis and invoice processing are improved dramatically with the addition of artificial intelligence.

1. Improves Invoice Analysis

Artificial intelligence automates the entire AP process by automatically classifying and routing invoices to the correct department for review and approval.

Because AI, machine learning, and optical character recognition (OCR) recognize patterns on invoices and extract the necessary information needed to process an invoice, once rules and algorithms are established, human intervention is reduced to a quick review of data.

Further, using data sets and data analysis, AI can verify extracted data against predefined criteria and policies, while identifying typos, duplicate data, and irregularities contained in an invoice.

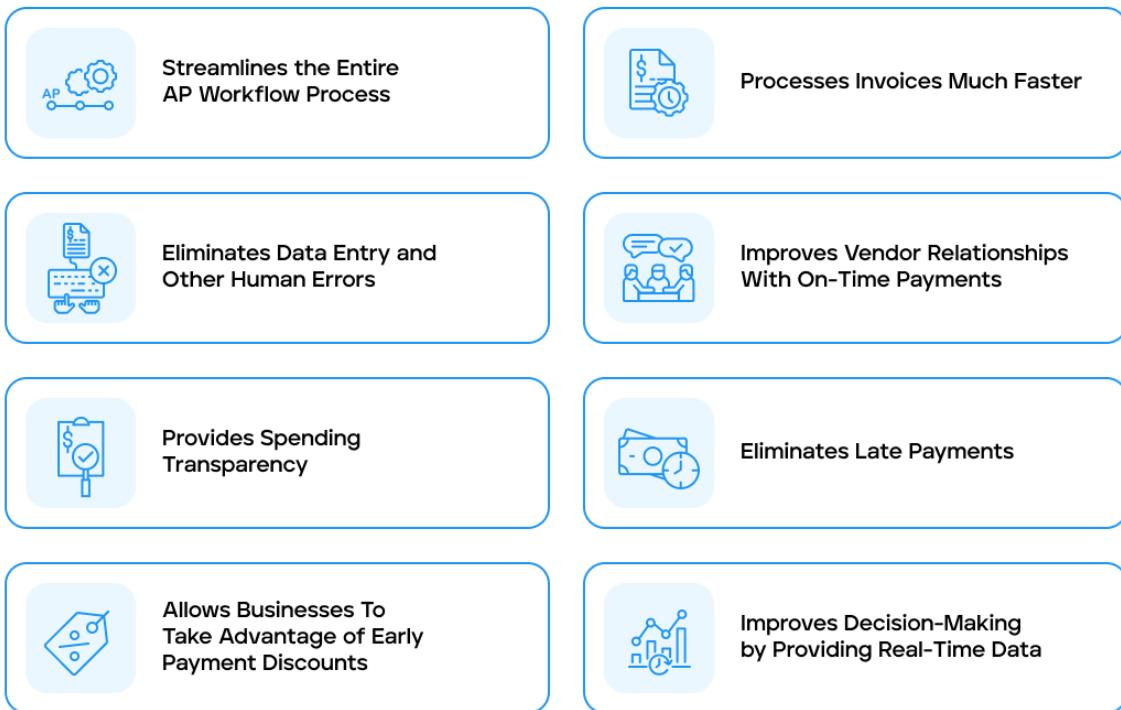
2. Improves Invoice Processing

Along with automating invoice analysis, automation also streamlines the three-way matching process by automatically matching invoices to purchase orders and shipping receipts.

AI will also identify any anomalies in the three-way matching process that may need additional follow-up.

Other benefits of using an automated invoice processing application include:

■ How Can AI Improve Invoice Analysis and Invoice Processing



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- Streamlines the entire AP workflow process from invoice analysis to payment processing
- Processes invoices much faster
- Eliminates data entry and other human errors
- Improves vendor relationships with on-time payments
- Provides spending transparency
- Eliminates late payments
- Allows businesses to take advantage of early payment discounts
- Improves decision-making by providing real-time data

How Can Analyzing Invoices Save You Money?

One of the main ways that properly analyzing invoices saves money is by identifying potential overpayments and billing errors before they become an issue.

Three distinct types of overpayments typically occur, all of which can be prevented by analyzing invoices before payment.

■ How Can Analyzing Invoices Save You Money



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1. Fraudulent Payments

Carefully analyzing invoices can pinpoint small discrepancies in invoices that may look accurate at first glance, but are not.

Today, criminals can easily replicate a company's logo and other identifying details, making it more important than ever to look closely at any invoice received, even if it's from a long-time vendor or supplier.

2. Duplicate Payments

A common occurrence when AP is still being processed manually, duplicate payments are usually the result of an invoice being entered into the system when the original invoice is received and then entered a second time when a reminder invoice is received.

This can happen if the original invoice is waiting to be approved and a follow-up invoice is received and entered before the original one is approved.

This issue is eliminated when you switch to an automated AP system

which flags duplicate invoice numbers and prevents most if not all overpayments.

3. Overpayments

Overpayments can occur when you receive a partial shipment for an item, but an invoice for the entire shipment.

If the invoice is not carefully reviewed, it's likely to be paid, even though only part of the initial order was received.

Overpayments can also happen if part of an order is returned, but the credit for the return is not received before payment is made. Again, careful analysis of the invoice should prevent this from occurring.

Invoice Analysis Using AI Is the Best Solution

Some may argue that spending hours or even days analyzing invoices is time well spent.

But if your staff is spending much of their time searching for potential overpayments and fraudulent invoices, are you saving any money?

Or are you potential savings simply being spent on labor costs?

Why not eliminate both costs by moving to an automated AP application that can do much of the work for you.

Artificial intelligence and machine learning can automate much of the invoice analysis process, matching purchase orders to invoices and shipping receipts while flagging any discrepancies for review.

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.

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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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