Invoice Dispute Management in Accounts Payable



IN THIS ARTICLE

- What Does Invoice Dispute Mean?
- What Is Invoice Dispute Management?
- What Is the Invoice Dispute Process?
- What Are the Advantages of Invoice Dispute Management?
- Does an Invoice Dispute Carry Legal Standing?
- What Is the Difference Between a Dispute and a Complaint?
- What Is an Example Invoice Dispute Letter?
- How AP Automation Can Streamline the Invoice Dispute Process
- Invoice Disputes are Part of the AP Process

Processing and paying invoices are an everyday occurrence for the accounts payable department.

In most cases, after reviewing the invoice, completing the three-way match, and sending the invoice for approval, the invoice is ready to be paid.

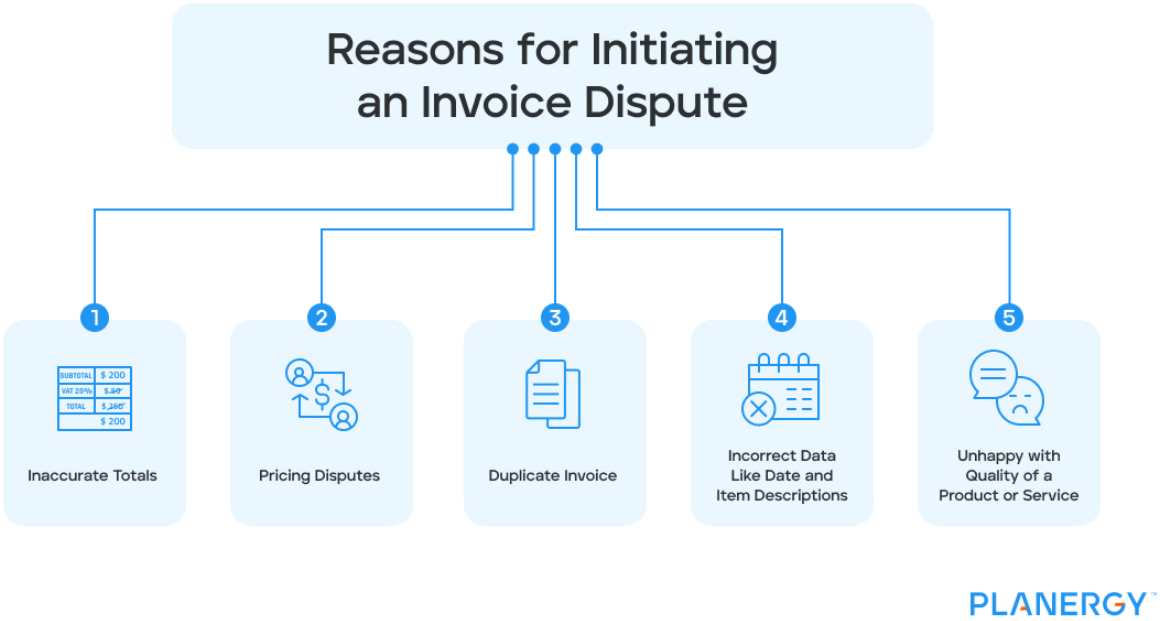
But what happens when something interferes with that process? If it’s a small discrepancy, it can usually be fixed with a phone call or an email. But for more

serious issues, you may need to dispute the invoice.

What Does Invoice Dispute Mean?

An invoice dispute indicates a potential issue with the information found on an invoice. If an invoice is deemed inaccurate, the AP department will initiate a dispute with the vendor.

Disputes can be initiated for various reasons including inaccurate totals, pricing disputes, double billing, incorrect data such as date and item descriptions, or even the quality of a product or service received.



What Is Invoice Dispute Management?

Invoice dispute management is the set of processes a company puts in place to properly handle and resolve invoice disputes.

Invoice dispute management is important for both the AP team that receives the invoice as well as the supplier’s accounts receivable team that issues the invoice.

Looking at dispute management from these unique points of view shows how important invoice dispute management is for all businesses, regardless of size.

From the supplier’s or vendor’s point of view, if products were provided and work performed, the invoice should be paid.

When a customer refuses to pay an invoice or no real effort is made to resolve disputes, the invoice amount typically is written off as bad debt.

From the AP team’s point of view, it’s a bad business practice to pay an incorrect invoice, whether it’s an error in pricing, the number of items shipped, or the quality of service rendered.

However, creating and utilizing a step-by-step process for invoice dispute management simplifies the invoice dispute process, ensuring that both sides receive equitable treatment from initial discrepancy to resolution.

What Is the Invoice Dispute Process?

The invoice dispute process is a series of steps created by management that should be followed by the accounting department when identifying a possible discrepancy in an invoice.

It’s helpful to include the following steps in your invoice dispute process.

1. ## Review Every Invoice According to Company Guidelines

   When processing invoices all invoices should be reviewed for potential discrepancies.

   Though the process is much easier when using an automated procurement or AP application that performs the three-way match, this process needs to be completed regardless of the software in place.

   Identifying issues immediately can expedite the process as it’s difficult to remain credible when disputing an invoice weeks or even months after receipt.

2. ## Contact the Vendor or Supplier Within a

Specified Period

A deadline should be established for contacting a vendor or supplier with a potential issue.

For example, setting a deadline of 14 days between receipt of the invoice and contacting the vendor or supplier would ensure that issues are addressed in a timely fashion.

There's no reason to delay this important step, regardless of whether you're handling AP invoices manually or using an automated procurement application.

3. ## Ensure Sure The Dispute Is Officially Recorded

While initial contact regarding any potential dispute can be made via phone or email, it's important to provide follow-up information that justifies the dispute.

For example, if you make a phone call to your vendor today regarding an erroneous invoice, you should also be emailing or mailing backup documentation to them as well.

4. ## Make Sure Adequate Proof Is Provided to Your Vendor or Supplier

It's one thing to address a simple issue that can be easily resolved over the phone, but another when the disputed issue is major.

To that end, it's helpful to list potential documents that should be included in any dispute sent to vendors and suppliers.

These documents should include:

- A letter or email that explains the issue
- A copy of the invoice that was received
- A copy of the shipping receipt
- Any other relevant documentation

For example, if you have a purchase order with a price of $5.00 per unit and your invoice has a price of $10.00 per unit, you'll want to include both the purchase order and the email.

5. ## Create and Follow an Invoice Dispute Resolution Process

Creating a process to handle the resolution of a dispute is important.

For example, under what conditions should AP wait until a new or revised invoice has been issued by the vendor before paying? It's also important to:

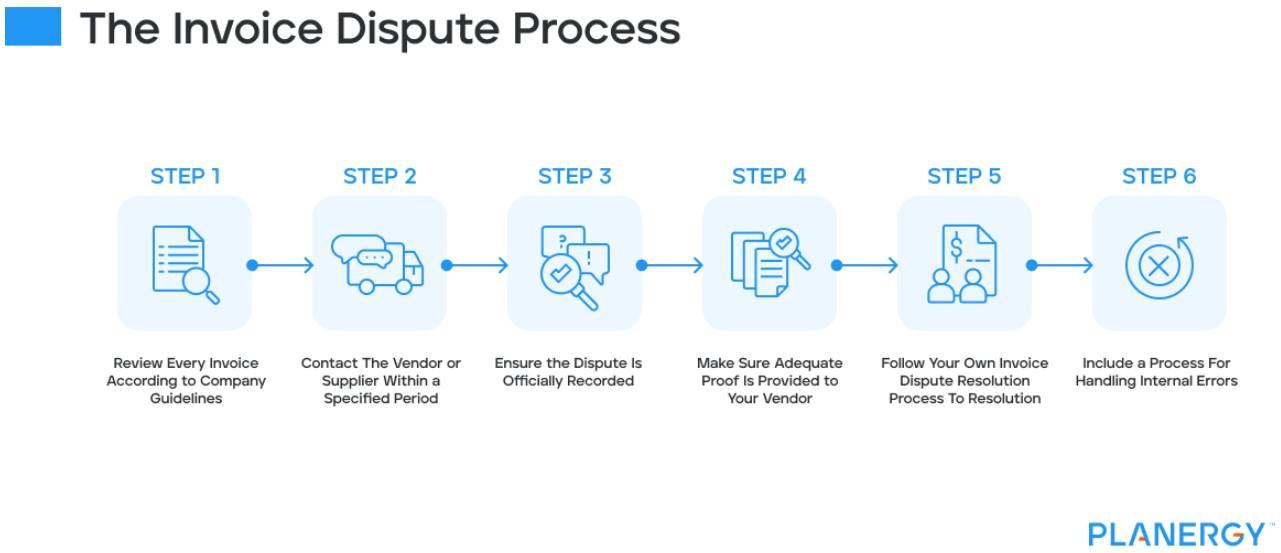
- Identify any possible exceptions as quickly as possible. This indicates that you are willing to work with the vendor or supplier to resolve the issue as soon as possible.Being prompt helps to maintain accurate cash flows while protecting valuable supplier-customer relationships.
- Keep everyone informed about the issue and any related updates. This can be done via telephone, email, or your preferred method of communication. Just make sure that all stakeholders are provided with all necessary notifications.
- Be proactive in paying vendors and suppliers what they're owed. Whether your vendor prefers to reissue a new invoice or just send a credit memo for a disputed balance, make sure that undisputed amounts are paid on time.

6. ## Include a Process for Handling Internal Errors

Not all invoice disputes are the result of an error made by a vendor. So, how should you handle an internal error?

- When sourcing the origin of the error, be sure to consider the possibility of an internal error.
- If an internal error is made, it's important to factor in the consequences of that error including penalties and interest due to late payment or non-payment of an invoice.

- Consider making the move to AP automation, which will help reduce or eliminate internal errors in the future.



What Are the Advantages of Invoice Dispute Management?

Having an invoice dispute management process in place can benefit both the buyer and the seller. Invoice dispute management also helps your accounts payable department by ensuring that disputes are handled promptly.

This helps preserve business relationships and may also prevent a minor dispute from escalating into one with legal ramifications.

Does an Invoice Dispute Carry Legal Standing?

According to UpCounsel, a legal services platform designed for businesses, all disputed invoices have the potential to escalate to the point where a legal resolution is required. One way to avoid this is to include an invoice clause in any contract or in your purchase order terms and conditions.

For further protection you could enforce a No PO, No Pay policy to ensure all purchases are safeguarded by the terms and conditions in place for purchase

order purchases.

While common for sellers to include this clause in a potential contract or agreement, it's less likely that a buyer has the clause included when purchasing goods or services from a vendor or supplier.

Depending on any clause included in a current contract, when you come across a pricing dispute you may be required to pay the undisputed amount within the agreed-upon timeframe.

For example, if you ordered 5,000 plastic containers at $1 each for a total of $5,000, and you are later billed for 5,000 plastic containers at $1.50 each for a total of $7,500, it's best to pay the $5,000 when it's due and dispute the balance, rather than not pay anything at all.

While this may not be possible in all invoice disputes, doing so can help prevent an unresolved dispute from requiring legal action.

What Is the Difference Between a Dispute and a Complaint?

A disputed invoice usually centers around cost or quantity, while a complaint is used when quality and service are an issue.

For instance, your company orders 1,000 pairs of work gloves, with each pair being $5.00 per your purchase order. However, when you receive the invoice, the vendor charges you $5.75 for each pair of gloves.

Quantity received is another common area for invoice disputes.

Again, you order 1,000 pairs of gloves, but you only receive 750 pairs, and when you receive the invoice, it's for 1,000 pairs of gloves instead of the number that you received.

A complaint usually involves quality of the goods or services received. Using the gloves as an example, you order and receive 1,000 pairs of gloves, with the invoice reflecting the correct price.

However, during the inspection of the merchandise, you notice that many of the

gloves have frayed seams or are discolored. And even though you're disputing paying the invoice, it's because of the quality of the product, not a billing or shipping error.

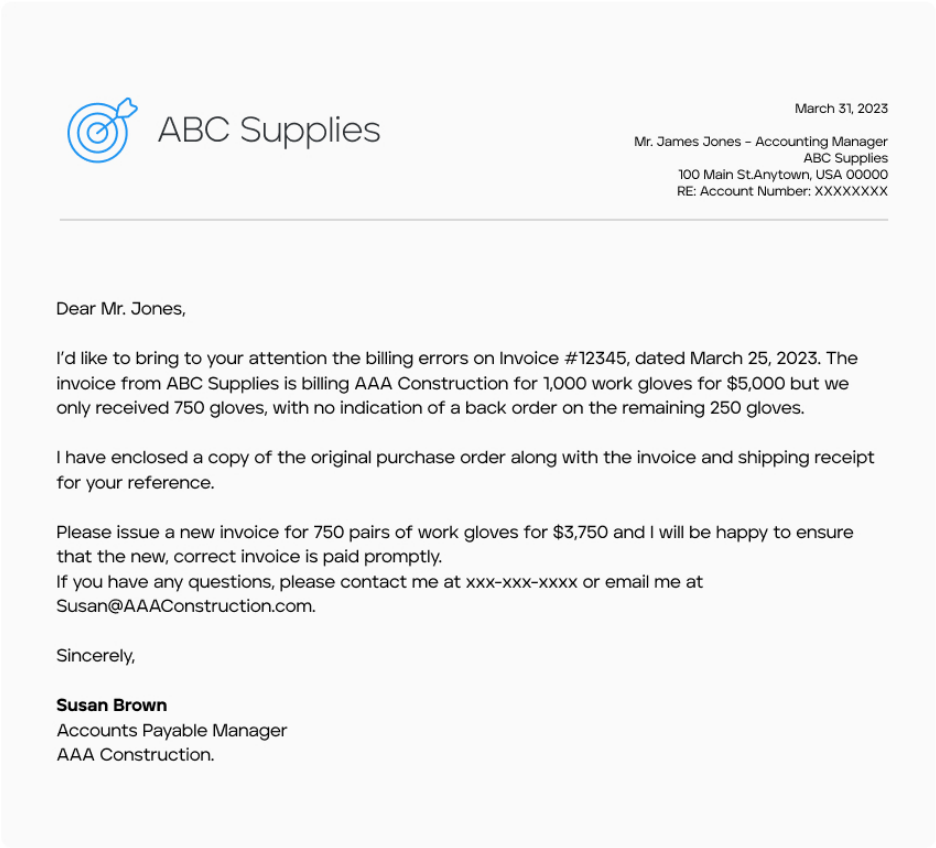
What Is an Example Invoice Dispute Letter?

Aside from an initial phone call, an invoice dispute letter is the most important document that you will use when disputing an invoice.

The following is an example of an invoice dispute letter. It's vital that details such as invoice number, invoice date, and the amount disputed are included in the letter.

It's also important that the letter be addressed to the correct individual to minimize the possibility of the letter being forwarded to the wrong person or department in error.

Example Invoice Dispute Letter



ABC Supplies

March 31, 2023

Mr. James Jones – Accounting Manager
ABC Supplies
100 Main St.Anytown, USA 00000
RE: Account Number: XXXXXXXX

Dear Mr. Jones,

I'd like to bring to your attention the billing errors on Invoice #12345, dated March 25, 2023. The invoice from ABC Supplies is billing AAA Construction for 1,000 work gloves for $5,000 but we only received 750 gloves, with no indication of a back order on the remaining 250 gloves.

I have enclosed a copy of the original purchase order along with the invoice and shipping receipt for your reference.

Please issue a new invoice for 750 pairs of work gloves for $3,750 and I will be happy to ensure that the new, correct invoice is paid promptly.
If you have any questions, please contact me at xxx-xxx-xxxx or email me at Susan@AAAConstruction.com.

Sincerely,

Susan Brown
Accounts Payable Manager
AAA Construction.

PLANERGY

March 31, 2023

Mr. James Jones – Accounting Manager

ABC Supplies

100 Main St.
Anytown, USA 00000

RE: Account Number: XXXXXXXX

Dear Mr. Jones,

I'd like to bring to your attention the billing errors on Invoice #12345, dated March 25, 2023. The invoice from ABC Supplies is billing AAA Construction for 1,000 work gloves for $5,000 but we only received 750 gloves, with no indication

of a back order on the remaining 250 gloves.

I have enclosed a copy of the original purchase order along with the invoice and shipping receipt for your reference.

Please issue a new invoice for 750 pairs of work gloves for $3,750 and I will be happy to ensure that the new, correct invoice is paid promptly.

If you have any questions, please contact me at xxx-xxx-xxxx or email me at Susan@AAAConstruction.com.

Sincerely,

Susan Brown

Accounts Payable Manager

AAA Construction.

Another option is to pay for the 750 gloves that you did receive and wait for a credit memo for the balance. This will depend on the specific contract you have with each of your vendors.

A variation of this letter may also be used in a receivable dispute initiated by a supplier.

In any case, creating a dispute letter in a timely fashion and following up on the letter can help resolve most invoice disputes before they escalate.

How AP Automation Can Streamline the Invoice Dispute Process

In many cases, invoice disputes are a result of human error.

While most of these cases can be resolved by simply issuing a corrected invoice, AP best practices indicate that one of the best ways to eliminate human error and inefficiencies is to invest in a comprehensive procure-to-pay automation solution such as PLANERGY.

When AP automation is introduced, errors and time-consuming manual processes

are reduced or even eliminated. Using an automated AP system, even if your vendor is not, means that if there are inconsistencies found, they will be found quickly, and handled promptly.

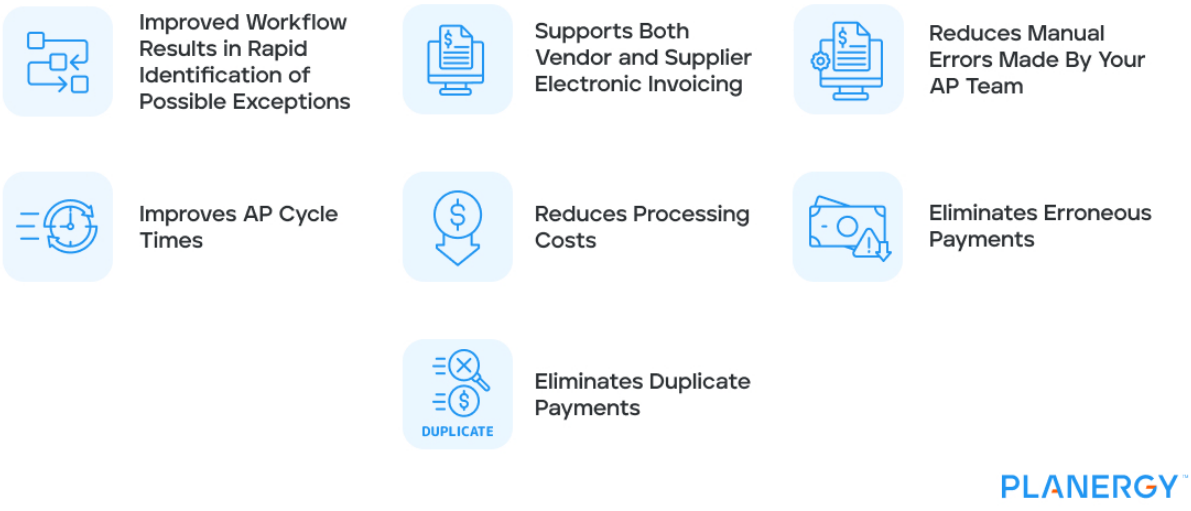
Automating AP can also reduce potential errors on your side as well. For example, what happens if your agreed-upon price is $1 per plastic container, but when processing your purchase order manually, the clerk types in $1.50 instead?

This will result in an invoice dispute, with the error made internally rather than by your vendor or supplier.

There are other ways that automation can help streamline invoice disputes.

- Improved workflow results in rapid identification of possible exceptions
- Helps support both vendor and supplier electronic invoicing
- Reduces manual errors made by your AP team
- Improves AP cycle times
- Reduces AP processing costs
- Eliminates erroneous payments and duplicate payments

How AP Automation Software Helps the Invoice Dispute Process



Invoice Disputes are Part of the AP Process

When dealing with numerous vendors and suppliers, invoice disputes are bound to occur from time to time.

The key to dealing with disputes is to identify them quickly and convey your concerns to your vendors and suppliers promptly, rather than weeks or even months after receiving an incorrect invoice.

This means having an invoice dispute management process in place and using those processes regularly.

Businesses may also want to consider making the move to automated AP functionality, which automates invoice processing and compliance with accounts payable internal controls while eliminating the most common reasons for internal errors.

By communicating openly about billing disputes and paying undisputed amounts promptly, you'll be able to fulfill your end of the purchase agreement while also making sure that your vendors and suppliers do the same.

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, stoping 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