

# Invoice Processing Best Practices In Accounts Payable



## IN THIS ARTICLE

- What Is Invoice Processing?
- Why Is Invoice Processing Important?
- What Are the 3 Main Steps Involved In Invoice Processing?
- What Are the Important Things To Check On an Invoice While Processing?
- What Are the Best Practices for Invoice Processing?

As a business owner or manager, you probably spend a lot of time perfecting the accounts receivable process, making sure that customers are promptly invoiced, and spending hours collecting past due accounts.

But do you spend that much time on your accounts payable? If the answer is no, then you need to start doing so.

While paying bills may take less precedence than receiving payments, your accounts payable processes, particularly how you manage incoming invoices, is vital to your business.

The longer it takes to process accounts payable invoices, the more your business

pays to pay your suppliers. This can take the form of cost per invoice, lost discounts, late payment penalties, and even the possibility of fraud and theft.

Clearly, it's in your best interests to take a long look at your invoicing processes and make adjustments as needed.

## **What Is Invoice Processing?**

An invoice is a document received from a vendor or supplier for goods and services. Depending on the type of business you have, you may use a procurement system in your business using purchase orders, or you may simply purchase a service or item directly.

Invoices are received in a variety of ways. Some are mailed, with the paper invoice delivered to the appropriate department. Others may be sent electronically, where they will have to be printed for processing.

Once an invoice is received in your business, it should immediately be matched with a purchase order and shipping receipt, if both are available. Once the three-way match is completed, and the invoice verified for accuracy, it will be sent to a manager for approval. In some cases, an invoice may be sent to multiple approvers.

Once approved, the invoice is returned to the AP team, where they will assign a GL code and enter it into an accounting software application for payment.

When completed manually, this process takes an inordinate amount of time. If you only have a few invoices to pay monthly, this may not be an issue, but for growing and mid-size businesses that may have hundreds of invoices to process monthly, manual processing can result in errors, late payments, and even theft.

## **Why Is Invoice Processing Important?**

Processing invoices is an important part of owning a business. There's a lot of reasons why processing invoices promptly and accurately is important, which is why more businesses are making the transition to AP automation.

But even if you're still using manual systems, these are the reasons why

establishing a solid strategy for processing invoices is essential.

## ▪ **Managing Cash Flow**

Establishing and maintaining an efficient invoice processing system is an important component for managing your cash flow. Properly processing invoices in a timely fashion allows you to stick to a budget and always know exactly how much you owe your vendors and suppliers at all times.

## ▪ **Maintaining a Good Vendor/Supplier Relationship**

Processing invoices promptly helps you maintain a good relationship with your vendors and suppliers. For example, Joe's Boat Shop routinely orders paint and varnish from one supplier, who gives them a very good price on both products.

If Joe's Boat Shop started paying the supplier late or sent them a check in the wrong amount, they are jeopardizing their good relationship with the vendor, possibly resulting in the necessity to find a comparable supplier that offers similar pricing; something that may be difficult, or even impossible.

And if they do find another supplier that charges them more for paint and varnish, it's very likely that the boat shop will have to pass those increased costs onto their customers.

## ▪ **Accurate Payments**

Accuracy is important for all parts of your business, and your AP department is no exception. Establishing a solid invoice processing strategy using internal controls allows you to process invoices timely and accurately. If you're still approving invoices as they come in and hand them off to your AP team manually, consider a few advantages of automating your AP processes.

- Prevents overpayments
- Prevents underpayments

- Ability to take advantage of early payment discounts
- Prevents late payments and penalties
- Prevents unauthorized payments

## ▪ **Reduces Labor Hours**

Without a set process in place, employees will spend much of their time tracking down misplaced invoices, making copies of electronic invoices, and getting approvals from multiple parties. Streamline your invoice processes, and your employees can spend their time on more important tasks.

## ▪ **Digitally Archived Records**

When invoices are automatically backed up electronically with easy options to search there is no longer a need to pile desks high with folders to search for that missing document.

### Benefits of Automating Invoice Processing



Better Cash Flow  
Management



Maintaining  
Good Vendor  
Relationships



Ensure Payments  
Are Accurate



Reduced Labor  
Hours



Digitally Archived  
Records

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## What Are the 3 Main Steps Involved In

# Invoice Processing?

There are multiple steps involved in accurate invoice processing, with three main steps involved in the process, with each step involving multiple tasks.

## 1. Invoice Receipt

A vendor or supplier will send an invoice after goods or services have been delivered. Once the invoice is received, the AP department should verify the invoice for authenticity by ensuring that the product on the invoice was received in the quantity noted.

If a purchase order was used when ordering the product, it should be matched with the invoice as well as the delivery receipt to ensure that all three documents match. If there is any discrepancy, it must be investigated prior to routing the invoice for approval.

## 2. Invoice Approval

Once three-matching has been completed, the AP team will route the invoice to the appropriate department for approval. The invoice may need to be routed to multiple departments depending on whether multiple approvers are required.

It's important to establish a deadline for approvals to be completed, or payments can be delayed or even delinquent, resulting in late fees and penalties.

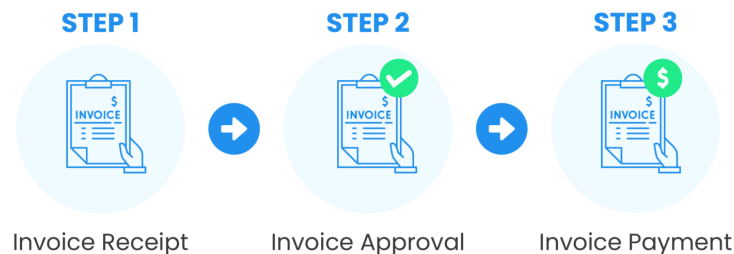
## 3. Invoice Payment

Once the invoice has been approved, it will need to be entered into accounting software with payment terms included. If approved in time, a discount can be taken, if one is offered. If a discount is not available, or the discount day has already passed, the invoice due date will need to be entered in the application.

An outstanding payables report should be run weekly so payments will be

processed on time. In keeping with the separation of duties principle, payment authorization and payment processing should be completed by two different staff members.

## Invoice Processing Steps



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## What Are the Important Things To Check On an Invoice While Processing?

Verifying an invoice is one of the most important things you or your AP staff will need to do. There are several things that will need to be checked when verifying.

### • Vendor Information

The first thing you should check is the vendor information, which should include a complete mailing address as well as an email address.

This information should be verified with the vendor information on file, as well as the information included on both the purchase order and the shipping receipt. If the information doesn't match, it will need to be further investigated.

### • Invoice Number

Each invoice from a supplier should have a unique invoice number. If the number matches an invoice you have already paid you should query the invoice as it is likely a duplicate.

## • **Purchase Order Number**

If you use a procurement system in your business, that same number should be displayed on your invoice. Of course, not every invoice received will need to include a purchase order number, but when they are used, the two documents must match.

## • **Product Description**

When reviewing an invoice, it's important to check that the product or service received matches what was purchased. This is where using a purchase order comes in handy. But even without a P.O., it's important that AP determine that what was purchased is what was received.

## • **Payment Terms**

When creating a relationship with a supplier or vendor, credit terms are negotiated between the buyer and seller at that time. For example, if the two parties agree on Net 45 terms, those terms will need to be included on the invoice. Any other terms would require further investigation.

### ■ **Important Things To Check On An Invoice When Processing**



#### **Vendor Information**

Confirm information matches your existing records.



#### **Invoice Number**

Make sure it is not a duplicate you have already paid.



#### **Purchase Order Number**

Match against the approved purchases where relevant.



#### **Product Description**

Confirm you are being charged for what you purchased and received.



#### **Payment Terms**

Ensure the agreed terms with the vendor are present.

# What Are the Best Practices for Invoice Processing?

Whether you're a new business trying to use invoice processing best practices, or your company needs to reassess their current processes, it's always a good time to start using best practices when processing invoices.

## • **Set up and maintain internal controls**

Whether you've been paying bills for years, or you're just starting out, the most important thing you can do is to set up and maintain internal controls. It's well known that accounts payable is a department ripe for potential fraud.

But much of that fraud can be eliminated when you set up an internal control process that assigns different accounts payable tasks to different employees.

For example, if you have a single person handling accounts payable, that person is responsible for the following:

- Approves new vendors
- Enters new vendors into the system
- Verifies invoices that are received
- Sets up payment
- Runs checks or pays vendor electronically

With the ability to do all of the above, how difficult would it be for an employee to create a fictitious vendor and pay them.

One of the most important components of your internal controls is using segregation of duties. Segregation of duties ensures that one person approves the order, one person verifies the invoice, one person authorizes payment, and one person signs the check or approves the electronic payment.

By having more than one person process invoices from beginning to end, you can reduce or even eliminate the possibility of fraud.

## • **Reconcile accounts promptly**

Keeping your accounts reconciled daily helps you identify any checks that have not been cashed.

There may be a legitimate reason why the supplier or vendor has not cashed your check, but keeping an eye out for outstanding checks and following up with the vendor or supplier can help you maintain cash flow, eliminate possible late fees (if the check was lost), and help you maintain a good relationship with your vendors and suppliers.

## • **Prioritize Invoices to Optimize Cash Flow**

Positive cash flow is important for any business, no matter the size. That's why prioritizing invoices for payment is essential. Invoices should always be slated for payment based on their due date, not on when they're received.

Let's say you receive an invoice with 2/10 Net 30 terms on a Monday, a second invoice with Net 30 terms on a Tuesday, and a third invoice with Net 15 terms on Wednesday of the same week. In what order should you pay those invoices?

To take advantage of the two percent discount, you'll want to pay the 2/10 Net 30 invoice first. Then, you'll want to pay the Net 15 invoice, even though it came in last. Finally, you'll pay the Net 30 invoice. This allows you to maintain a good level of cash flow for your business while also taking advantage of the discount offered.

## • **Check for Duplicate Payments**

Even with the proper processes in place, you may still end up with duplicate payments, particularly if you're still using manual processes. Hopefully, you'll spot a duplicate payment before it goes out to your vendor or supplier, but if it doesn't, you'll need to contact your vendor immediately to see if you can get the check returned.

In many cases, a vendor or supplier is reluctant to return the check and

may be open to issuing a credit on your account. However, if you don't regularly use the vendor, it means having your money tied up for months.

The best way to handle the issue of duplicate payments is to make the move towards AP automation, which will automatically flag duplicate payments before they're sent out.

## ▪ **Cross-train staff to cover for absences**

If you have a single employee processing AP, what happens when that employee is sick or takes vacation? Do your vendors and suppliers have to wait until they return to be paid?

While it's never a good idea to have one person handling all AP tasks, not having a backup trained is even worse. By cross-training a few of your employees to process AP when necessary you're able to maintain a consistent flow of payments while also providing another set of eyes to review the AP process, especially important when only one person is handling AP.

## ▪ **Make the move to invoice automation**

Making the move to invoice automation is one of the best things you can do for your business. Automating the invoice process can do the following:

- Eliminate manual data entry
- Expedite invoice approvals
- Eliminate duplicate payments
- Reduce the possibility of fraud
- Reduce invoice processing costs
- Allow you to store documents electronically
- Perform three-way matching

## Best Practices For Invoice Processing



Set up and maintain internal controls



Reconcile accounts promptly



Prioritize invoices to optimize cash flow



Check for duplicate payments



Cross-train staff to cover for absences



Make the move to invoice automation

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# How Can I Improve My Invoice Processing?

One of the best things you can do for your business is to move towards complete AP automation, starting with invoicing. Once you see how much time, money, and labor costs you'll save, making the switch to complete AP automation will soon follow.

## What's your goal today?

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