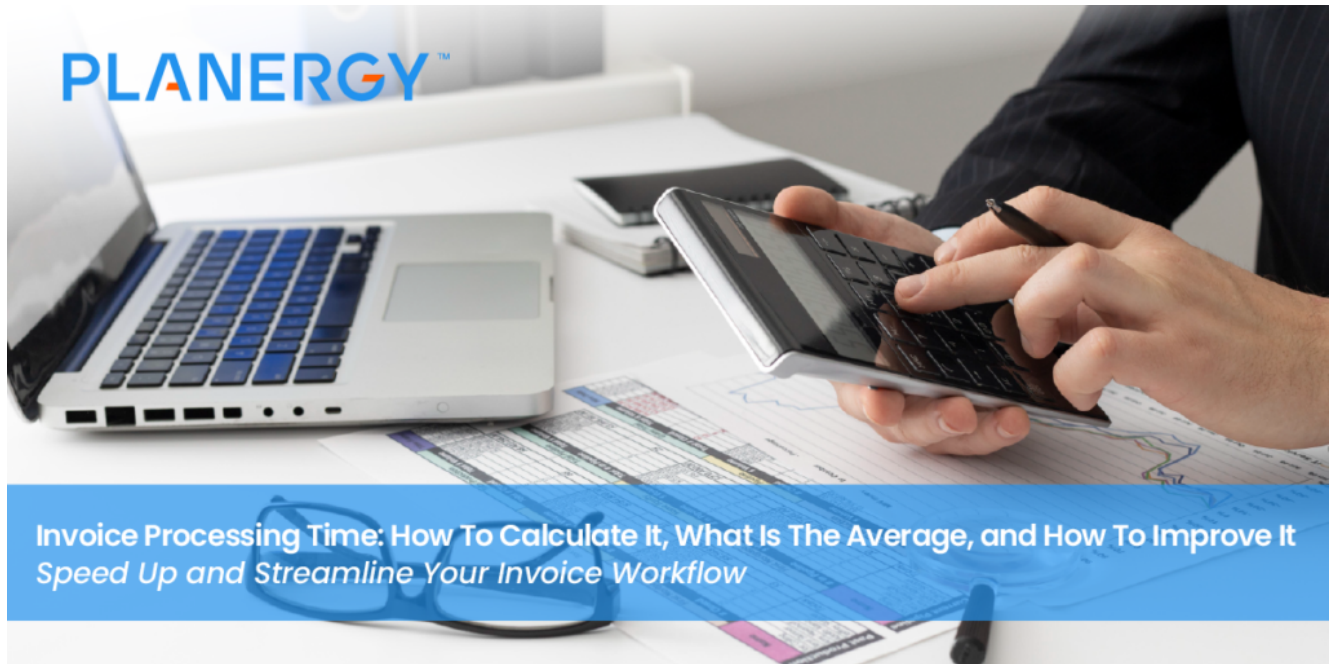


# Invoice Processing Time: How to Calculate It, What Is the Average, and How to Improve It



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Using metrics, KPIs, and benchmarks in accounts payable are important. One metric that is especially useful is knowing your invoice processing time.

While every business has bills to pay, one of the key strategies for cost savings is how quickly and efficiently those bills are processed and paid. A slow invoice process can cost a business plenty in terms of revenue and vendor/supplier relationships.

# Why Does Invoice Processing Time Matter?

Invoice processing time can directly impact both productivity and profitability, with staff spending time and resources on processing AP when that time could be used more productively.

When accounts payable is processed manually, more labor hours are used, increasing payroll and related payroll expenses.

You may also be paying overtime to AP department employees to finish their other tasks if they spend a lot of time processing AP.

Accounts payable is very labor intensive when using a manual system. For companies processing hundreds of invoices monthly, the time spent matching invoices, purchase orders, and shipping receipts can eat up an inordinate amount of time.

Using a manual invoice approval process can also delay the approval process.

When using paper invoices, first you have to receive the invoice from your vendor or supplier. Then, once the invoice is delivered to you, you'll have to complete the three-way match, which matches the invoice to the purchase order and the shipping receipt.

Once that is completed, you'll need to forward the invoice for approval, which involves at least one additional person, if not several. Once the paper invoice has been delivered, it's highly likely to sit in the approver's in-basket for days.

By the time the invoice is delivered back to you, it may be several weeks after you initially received it. In the meantime, any discounts available from the vendor have likely expired and payment may be received past the due date, which incurs a late fee.

How Much Time Does Your AP Department Spend Processing a Single Invoice?

# What Is the Process of Processing an Invoice?

Receiving an invoice from a vendor or supplier is the first step in processing an invoice. Once that invoice is received, it needs to be funneled through several different people for approval, to finally being approved for payment.

What route the approval process follows depends on whether your business uses a procurement system. If you frequently purchase items without a purchase order, the invoice approval process will likely be different from that of a business that uses a procurement process to handle the initial purchase of items.

## 1. Receipt of Invoice

Invoices are received in a variety of ways. Some vendors still send paper invoices in the mail, while others may send electronic invoices. In either case, if you're using a manual AP processing system, you will need to make a copy of the invoice and distribute it to the correct department to begin the invoice process.

## 2. Review Invoice for Accuracy

If there is a purchase order for the products or services ordered, the invoice will not likely need to be approved again, since it was approved for the initial purchase. If it was ordered without a purchase order, it will need to be approved.

If a purchase order was used, before entering the invoice for payment, you'll have to complete the 3-way match, which matches an invoice to a purchase order and a delivery receipt, to ensure that all three match.

The good news is that if you're using a procure-to-pay application like PLANERGY, the 3-way match is completed automatically. These are a few of the things that should be checked on every invoice.

- **Vendor information**- before an invoice is sent for approval, vendor information should always be checked for accuracy. If it's

a new vendor, make sure they've been approved prior to processing the invoice.

- **Invoice number** – An invoice number should be unique. Many software applications will flag a duplicate invoice number, but won't notice the similarity if the original invoice number was not entered properly. When receiving an invoice from the same vendor for the same amount, always double-check to make sure it hasn't been paid.
- **Purchase order number** – If you use a procurement system, the purchase order number on the invoice should always match the actual invoice.
- **Product or purchase description** – It's important that the product description on the invoice match the product or service that was received.
- **Payment terms** – Payment terms included on an invoice should always match those previously agreed upon by both the buyer and the seller.

### 3. Approve Invoice

Depending on your company policies and what was purchased, an invoice may need to be sent to a department manager for approval.

If you're using a manual AP system, this process can cause significant processing delays, with invoices sitting in an in-box somewhere, particularly if an approver is unavailable.

Another cause of delays is when an invoice requires more than one approver.

After the invoice has been approved, the invoice is then returned to the AP team, where it will be assigned a general ledger code and entered into your accounting software application for payment.

The invoice should be reviewed to see if an early payment discount is

offered and whether the discount can still be applied.

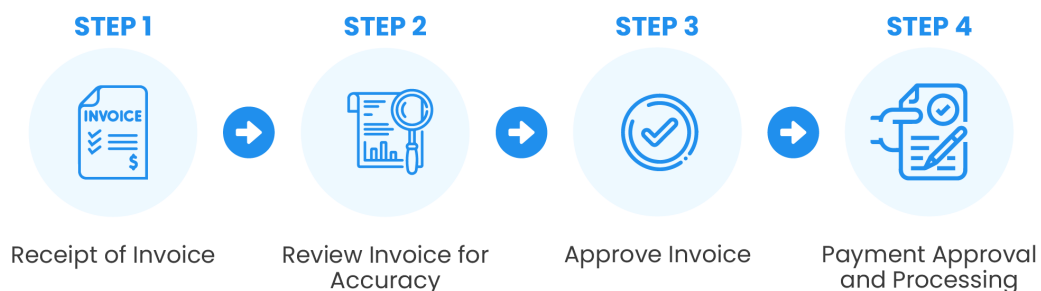
When entering the invoice, the clerk will also need to enter the appropriate due date for the invoice to ensure that it's paid on time.

#### 4. **Payment Approval and Processing**

AP clerks should run a detailed AP report weekly to see which invoices are due. When using a manual system, a manager or supervisor should choose which payments should be processed that week.

Once a payment is approved, the payment will be processed using the preferred payment method, which may be processing a check, using a credit card, or paying a vendor or supplier via ACH transfer or direct deposit.

### Invoice Processing Steps



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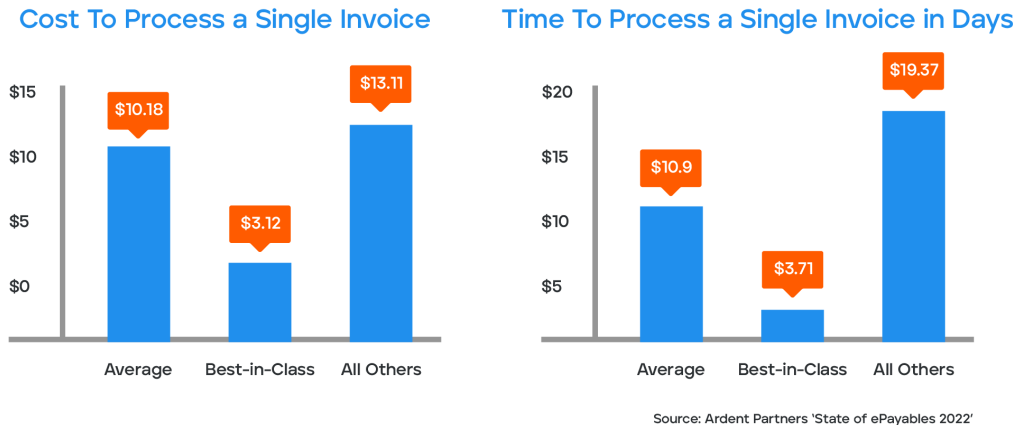
## **What Is the Average Time and Cost to Process an Invoice?**

The time and cost to process an invoice vary widely, depending on the AP system used in your business. According to Ardent Partners State of ePayables 2022, the average cost to process a single invoice was \$10.18, while the time required to process a single invoice was 10.9 days.

Of course, there's a significant improvement in both time and cost when using an automated AP system, with best-in-class departments reporting an average cost of

only \$3.12 to process an invoice, with the processing time reduced from 10.9 days to 3.71 days.

## Average Time and Cost To Process an Invoice



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## Why Is Invoice Processing so Important?

Whether you're using AP automation or a manual system in your business, it's important that you establish a streamlined workflow for processing invoices. Doing so can be particularly beneficial in the following areas.

- **Establishing and Maintaining Good Supplier Relationships**

The supplier relationship is one of the most relationships that your business will have, and it's important that you do what's necessary to maintain that relationship. Lost invoices, late payments, and faulty communication can destroy even the strongest relationship.

- **Accurate Financial Statements**

Delayed invoice approvals and lost or misplaced documents don't just result in late payments. They also impact your cash flow and your financial statements.

Entering invoices into your system keeps you informed at all times on

exactly how much you owe your vendors, with no last-minute surprises that can impact cash flow and reporting accuracy in real-time.

## ▪ On Time and Correct Payments

Following internal processes properly will help ensure that vendor and supplier payments are not only made on time but helps to prevent both underpayments and overpayments.

Streamlining the invoice process also means that you can take advantage of early payment discounts if offered while helping to weed out fraudulent payments.

## ▪ Reduces Payroll Costs

Without the proper invoice process in place, staff will likely spend much of their time making copies of invoices for processing, hunting down lost or misplaced documents, correcting data entry errors, and asking co-workers to approve invoices so they can be paid.

Streamlining the invoice process allows your staff to concentrate on more important tasks while reducing overtime costs.

## Why Improving Invoice Processing Is Important



Good Supplier Relationships



Accurate Financial Statements



On Time and Correct Payments



Reduced Payroll Costs

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## How Do You Calculate Invoice Processing

# Time?

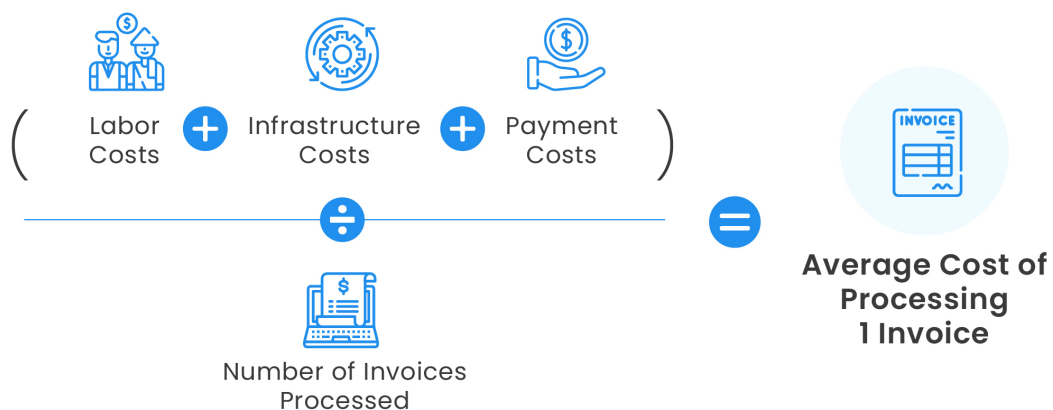
In theory, it should take only minutes to review an invoice for accuracy, match it with a corresponding purchase order and shipping receipt, and send it on for approval or for payment processing.

But what should take minutes can quickly turn into hours, days, or even weeks when you're dealing with mismatched documents, human error, delays, and lost or misplaced invoices.

Multiply these challenges by the number of invoices you typically receive and suddenly you may find yourself spending a lot more time ensuring that invoices are entered properly and paid promptly.

And just remember that in this situation time really is money. The longer you take to process an invoice, the more labor hours you're paying your staff and the less time they have to complete their other tasks.

## Calculating The Cost of Processing an Invoice



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# How Can You Improve Invoice Processing Time?

If your invoice processing time is lagging, there are things you can do to streamline the process.

But before you make any changes, first perform a thorough analysis of your existing systems in your accounting department, being careful to note specific problem areas. This can be accomplished by answering the following questions:

- How many invoices does my business process each week?
- Are there periods when invoice volume increases or decreases?
- Are invoices usually accurate, or do they often require additional follow-up?
- Do I frequently pay late payment penalties?
- How are vendor disputes handled?
- Do I utilize purchase orders for most purchases?
- Do I use a procure-to-pay application to handle purchases?
- Am I utilizing a three-way matching system to ensure accuracy before paying a vendor or supplier?
- Do invoices frequently get lost or misplaced?
- Do invoice approvals take longer than they should?
- Do I frequently have to correct data entry errors?

## Questions To Ask To Improve Invoice Processing Time



- How many invoices does my business process each week?
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Once your specific pain points have been identified, it's easier to determine where

you need the most help.

For example, if you're frequently dealing with data entry errors, having an automated system that eliminates the need to enter invoices manually can help.

## **How Many Invoices Can Be Processed In a Day?**

It's estimated that an AP clerk can process an average of five invoices daily. This time can vary, with clerks able to handle a much higher number when switching from manual invoice processing to an automated AP system that completes much of the time-consuming work that clerks are tasked with.

For example, using an automated procurement and AP automation software, the three-way match is completed automatically, flagging you when further investigation is needed. In addition, invoices are automatically routed to approvers electronically, with reminder messages automatically sent if invoices aren't approved promptly.

Finally, when using an accounting software application with optical character recognition (OCR) capabilities, invoices can be automatically uploaded into the application, eliminating human error and reducing labor time for AP staff.

## **How Long Can Someone Wait to Invoice You?**

If you have a written contract with your vendor or supplier, invoicing and payment terms are often spelled out in detail.

Invoicing and payment requirements can also vary from state to state or country to country, so if you do receive a very old invoice (more than a year old) it may be helpful to determine the specific requirements for the area that your business is located.

If you've received a product but have not received an invoice, you may want to record the expense using the goods received not invoiced (GRNI) account. Using the GRNI account, you can properly account for any missing invoices

immediately, reversing the entry when the actual invoice has been received.

# It's Time to Make the Move to an AP Automation Solution

Of course, the best way to improve invoice processing time is to move from a manual processing system to an automated invoice processing system that can streamline the entire invoice process from start to finish. Moving to an automated payable process:

- Eliminates manual data entry
- Reduces human error
- Expedites the invoice approval process
- Eliminates duplicate payments
- Reduces fraud in the department
- Speeds up invoice processing time
- Reduces invoice processing costs
- Automatically performs three-way matching

## Benefits of Automating Invoice Processing



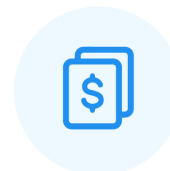
Eliminates Manual  
Data Entry



Reduces  
Human Error



Expedites the  
Invoice Approval  
Process



Eliminates Duplicate  
Payments



Reduces Fraud  
in Accounts  
Payable



Speeds Up  
Invoice  
Processing Time



Reduces Invoice  
Processing  
Costs



Automatically  
Performs Three-way  
Matching

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Managing AP properly includes streamlining the invoice process. By improving payable department efficiency and reducing costs, your AP department can prove

to be a valuable asset.

## **What's your goal today?**

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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:

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