Simplifying The Accounts Payable Process

For businesses looking to reduce costs and improve efficiency, automating labor-intensive and error-prone processes such as the Procure-to-Pay (P2P) process should be an easy decision. In particular, a sub-process of the P2P process—the accounts payable process—is one of the best places for any business to start automating, as spend is a powerful source of potential savings and value for the entire organization.

Realizing those savings and value, however, requires businesses to adapt their practices to the realities of the global marketplace. At some point, every organization reaches a tipping point, where manual hard-copy invoicing becomes too inefficient to continue. Moving to an automated accounts payable system is a great way to lower costs, generate value, and improve productivity.

How the Manual Accounts Payable Process Works

Manual processes are time-consuming and susceptible to costly human error. Slow, tedious, and painstaking, these tasks can quickly create a drain on both profits and value if they increase in volume. Manual processes are always at risk of data entry error, invoice matching errors, and lost opportunities for early payment discounts.

Often, companies grow but continue to rely on the same process they used when they started as a
tiny company when they were processing only a few invoices a month. As these companies mature, the accounts payable office can quickly become overwhelmed, creating a maelstrom of needless expense, restricted cash flow, and damage to vendor relationships.

1. **Receive Supplier Invoice**

   The accounts payable process begins when an invoice is received. In a manual process, invoices may arrive in many different forms: fax, email, mail, or hand delivered. With a decentralized process, each invoice may be delivered to a different person in a different department.

2. **Invoice Assigned Internally**

   After an invoice is received, it is forwarded to an appropriate person, either a department manager, the company accountant, or an accounts payable specialist.

3. **Invoice Data Entry**

   The invoice details are then manually typed into some form of accounting system (often as simple as a spreadsheet), and the document may be scanned and saved.

4. **Invoice Approval**

   Each invoice is reviewed and approved. In an organized company, the approval process includes verifying that the expense was initially approved, that the complete shipment arrived before payment is issued, and that the invoice is not a duplicate and already paid. This is known as performing a **3-way match**. It can be time-consuming to track down all the details for every invoice, especially when the pile grows high. With this kind of manual approach, it’s nearly impossible to ensure that payments are made in a timely manner to maximize discounts.

5. **Invoice Payment**

   Once vendor invoices are verified and approved, most companies will run a batch of checks and print labels or envelopes. Workers match the checks to the correct envelope, add postage, and mail.

The manual accounts payable process requires AP professionals to manage the entire process by hand — filing paper documents, manual data entry, matching numbers line by line to ensure the PO

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matches the invoice and delivery. It’s a costly, outdated process prone to error and lack of oversight.

**The Benefits of Accounts Payable Software**

Today’s sophisticated software eliminates much of the manual data entry by populating data fields with stored information. An excellent program matches POs to invoices to verified delivery slips, and keeps track of details such as delivery times and invoice payments.

Automating the entire AP process minimizes the time spent on data entry, eliminates the need to reprocess invoices, and simplifies exceptions for invoicing errors. This, in turn, will streamline and standardize invoice payments and improve your vendor relationships.

From the management view, accounts payable software offers much needed visibility into the accounts payable process. Intuitive and clear reporting allows AP managers to track transactions from start to finish for a better handle on the big picture. With accurate information available in real time, they can improve cash flow management, ensure timely payments, deal with disputes, and generate more accurate financial statements that can be used for improved decision-making and more strategic sourcing.

**Solving Auditing and Compliance Issues**

Preparing for an audit can be a tedious, time-consuming endeavor. In a manual system, this often
means searching for paper or scanned documents to match amounts and show proof of approval. Many industries also have regulations imposed by the company to meet industry standards, or by state, local, or federal agencies.

Using an automated AP system simplifies audits and compliance regulation. Audit trails for each transaction are automatically generated with all approvals, changes, and participating users. Authorized users can find all the information they need to verify compliance issues, satisfy an audit, or answer a non-payment claim.

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**Accounts Payable Best Practices**

While each organization requires a customized accounts payable process to meet its unique needs, general best practices can provide guideline strategies:

- **Centralize the accounts payable process with every department adhering to defined protocols and all data stored in a shared database.** This will eliminate redundancy and cut down on processing time, data entry mistakes, and erroneous ordering and payments.

- **Establish paperless processing.** While electronic data interchange (EDI) is not yet used by every business, the advantages are hard to deny. Businesses with automated AP systems realize significant gains in vendor transparency and communication, and cost reduction through discounts, reduced processing time and reimbursement, and fewer errors.

- **Set up reminders for payments.** This allows businesses to avoid late or missed payments, take advantage of discounts, and anticipate expenses.

- **Implement robust governance protocols and accounts payable procedures.** This way, you can categorize and automatically approve certain types of requests made by specified people to streamline the approval process.

- **Set up vendor portals.** Doing so will allow vendors to track the status of deliveries, scheduling, contract terms, and invoicing in your system, without the need to talk to a representative.

- **Streamline reporting for instant access to complete budget and spend details.** In the event of an audit, a budget meeting, or a request from the board, an accounts payable office using an eProcurement program never have to scramble to produce the requested information.

- **Implement 3-way match authentication.** Three-way match ensures that only valid, accurate invoices are paid. The three-way match process compares the original purchase order and the packing slip or receiving report with the invoice to verify that the order was legitimate and approved, goods were received, and the invoice is correct. AP software automates the
comparison and flags any anomalous line entries.

For example, if the quantity delivered is different from the quantity billed, the information will be flagged for inspection. The invoice is approved for payment only after the information on all documents is reconciled.

- **Archive data.** AP software makes archiving records simple. At every step from PO to payment, documents are attached to the transaction record. Saving this documentation provides a complete overview of the business relationship with the vendor, allowing managers to assess how well contract terms were fulfilled, view comments, queries, or complaints, and when payment was made.

- **Manage your cash flow.** Knowing upcoming expenses is critical to maintaining a budget. An automated accounts payable system helps ensure that no surprises arise. Outgoing payments can be scheduled to match income. Build a cash reserve to fill any gaps when cash flow slows and bills are due.

### How an Automated Accounts Payable Process Works

In a cloud-based, centralized system like PurchaseControl, the focus of the entire P2P process, including the AP process, shifts away from cost reductions and toward value creation. Using such a system, implementing the best practices mentioned above is much easier—and faster.

Improved data management tools, better collaboration and communication, and the addition of proactive strategic thinking to reactive planning creates genuine opportunities for growth and innovation while improving employee morale, productivity, and efficiency. Data flow is consistent and transparent, so AP automatically receives complete and accurate data from earlier steps in the P2P process, greatly simplifying three-way matching between the purchase order, invoice, and shipping documents. In fact, a properly implemented procurement solution can improve first-time match rates to **90% or higher**.

In comparing the automated accounts payable process to its manual counterpart, it becomes easy to see how drastically automated process improvement and artificial intelligence can transform and streamline your workflows.

A typical transaction begins with a purchase order. Using process automation, supported by artificial intelligence (AI), much of the PO can be populated automatically from records already in your database, including:

- Pre-approved purchases for goods and services at or below defined thresholds
- Authorized signers and automatic contingency routing information
- Preferred vendor information
- Standard negotiated payment terms

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- Budget constraints
- Time constraints

In addition, POs can be automatically routed to the correct approving party, or routed to their backup if they're unavailable. Automatic alerts and reminders keep the process moving, so there’s less concern about lost discounts, production delays, and late fees.

The vendor fulfills the order, and the PO number is added to the packing slip. The receiving department verifies receipt, and the packing slip is automatically added to the order record—without the need for additional data entry.

1. **Receive Supplier Invoice**

   When a vendor invoice is received, the program automatically checks each line item against the PO and receiving information to be sure that the goods and services ordered are the same as the items received and billed. If an error is found, an alert is sent to the accounts payable department for verification.

2. **Invoice Approval**

   The system routes each invoice to the correct approver automatically for review. Automatic three-way matching greatly simplifies the verification of each vendor invoice, so the approval process moves much more quickly than it does with manual workflows.

3. **Invoice Payment**

   Approved invoices may be routed to accounts payable for payment, but in many cases automation makes it possible to issue payment directly to vendors using eInvoicing connected to your company’s AP system. Electronic vendor payments eliminate the expense, delay, and waste of paper payments made by mail, and protect valuable supplier relationships while ensuring your AP department captures all available early payment discounts and incentives.

   With a list of preferred vendors in place and terms entered in the system, the whole process requires minimal input from start to finish. Automation helps businesses minimize exceptions, improve reconciliations, streamline accruals, and generate accurate, up-to-date financial statements when needed. By doing this they reduce the cost of processing invoices.

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The net result for businesses who switch to an automated system is improved accounts payable governance, streamlined processes, increased productivity (and more strategic and valuable contributions from team members), accelerated invoice processing, and minimized risks associated with routine invoice payments such as invoice fraud or maverick spend.

Consistency strengthens vendor relationships, leaving the business in a better negotiating position for preferred service and better deals.

Implemented properly with full C-Suite support, following accounts payable best practices with an automated accounts payable system helps businesses stay within budget and maintain a smooth, efficient cash flow. And with total spend data aggregated in a single report, businesses have the power to make informed decisions based on current, accurate information and prevent small leaks, maverick spending, fraud, and overpayment errors.

**Optimize Your AP Performance**

From building stronger vendor relationships to optimizing internal processes to generating maximum return on investment (ROI) for every dollar spent, your accounts payable process is a crucial component of your company’s competitive strength—and a healthy balance sheet. By leaving behind the headaches, needless risk, and costly waste of paper invoices and manual workflows, your AP department can become part of a well-oiled, value-building machine that pumps up your company’s productivity and profits.

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Streamline Your Accounts Payable Process with automation and full visibility in PurchaseControl

Find Out How

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About PurchaseControl

PurchaseControl is cloud based procurement software for business spend management. We empower businesses by providing greater transparency and oversight into the purchasing process. With PurchaseControl, you have the flexibility to manage how spend actually happens instead of how you wish it would happen.

The entire PurchaseControl team has experience within a range of businesses, and as such, we bring a practical, holistic approach to purchasing. We understand what it takes to run a business and apply that knowledge to make PurchaseControl as effective as possible for all users.

Learn more at www.purchasecontrol.com

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