Accounts and Invoice Reconciliation

For most businesses that rely on goods and services from outside vendors, invoice payments represent the largest cash outflow. Reconciling accounts and invoices helps you identify errors and irregularities and make adjustments as needed. While reconciliation can be tedious and time-consuming, the impact on cash flow can be significant.

What is Reconciliation?

Reconciliation is an accounting process where two sets of records are compared to ensure that the money going out of the bank account matches invoices. In simple terms: Has your business gotten what it has paid for and paid for what it has received?

There are several legitimate reasons invoices may show amounts that do not match bank statements or accounting records:

- An invoice may be partially paid.
- Discounts may be given for early payment.
- Bank charges may be deducted, for example if there is an international currency transaction.
- Delivery of goods may be delayed, which delays payment.
- Timing of payments and deposits may fall outside the scope of your reconciliation period.
- Missing or duplicate invoices.

Reconciliation helps separate legitimate anomalies from signs of error or fraud and identify accounts so overdue they may never be paid and should be recorded as a loss in the P&L statement.

Manual vs Automatic Reconciliation Process

Old accounting systems are a nightmare when it comes to reconciling accounts and invoices. Without the automatic reconciliation report feature built into procurement system software, accountants can spend a great deal of time comparing line items by hand to determine whether a vendor invoice was paid in full, partially paid, or overdue. Businesses using a manual process generally choose to balance the books on a monthly schedule.

Using a procurement system simplifies the process and minimizes the time spent reconciling accounts. The system automatically matches purchase orders with invoices, receiving documents, vendor records, and payments. Any item that does not match is flagged for review. Irregularities are identified and reconciled immediately. The automated features eliminate human error and identify overdue payments and opportunities to save money by meeting payment deadlines.

The Purpose of Reconciliation

When a reconciliation is performed, all transactions during a specified time period are examined and status is updated. With a manual process, this typically involves spreadsheets, stacks of invoices, and copies of financial records. Chasing down items that don't match up requires checking financial statements and determining whether there is a legitimate reason for the discrepancy, or whether a mistake was made by the bank or by your organization.

Identifying Fraud

Sadly, employee theft and fraud costs businesses $50 billion a year. Vendor fraud is one of the most common methods of stealing from a company, and with a disorganized system, it's easy, but not always easy to spot.

Automated accounts payable systems minimize opportunities for fraud and make reconciliation easy with three-way match. Purchase orders, invoices, and receiving documents are matched automatically before payment is made, and circumstances that affect the amount of payment are noted.

Because the process is well-defined and permissions are set in advance, automated programs make fraud far more difficult to pull off.

Check fraud is another common type of theft easily detected with account reconciliation. Unauthorized checks, altered checks, and checks written without an invoice are obvious red flags. A dedicated centralized procurement office and an automated procurement system are the most effective defenses against employee theft, embezzlement, and fraud of this kind.

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Questionable Timing

When accounts are reconciled, it’s common to find issues that affect the expected balance sheet. A Friday deposit may not yet show on Monday’s bank statement or a vendor may not have cashed a check sent weeks ago, for example. Most of these issues are easily resolved, either by checking deposit dates and verifying with the bank, or by calling the vendor to make sure they received the payment.

The Benefits of Accounts and Invoice Reconciliation

Late invoice processing can be costly. The business can lose out on early payment discounts, erode trust with vendors, and lead to disruption of supplies. Missing vendor invoices may turn out to be lost (your fault) or unsent (the vendor’s fault). Businesses that use procurement software won’t be surprised. The system will flag expected invoices that don’t arrive on time – for whatever reason.

With a manual accounting system, invoices can be attached to the wrong record, resulting in payments made to the wrong vendor. An unpaid vendor is likely to resend the invoice, prompting a duplicate payment. Automated systems guard against duplicate payments by matching invoices to POs and packing receipts.

One note of caution: keep your vendor pricing master up-to-date with current contract terms. One of the advantages of a dedicated purchasing department is to maximize deals by revisiting contracts, negotiating lower terms and early payment bonuses. An updated pricing master ensures that the business always pays the lowest price at the most advantageous time.

An audit can strike fear in the hearts of a disorganized accounting department, but businesses that use procurement software have little to fear. Accounts are reconciled by default, with the system alerting appropriate parties about any anomalies in line items, goods delivery, time sensitive issues, duplicate or missing invoices. Comprehensive reports can be generated in moments, with the information and documentation you need to show the most discerning auditor.

Improving your invoice payment process puts your business in a better position to negotiate with vendors in good faith. If your business requires goods or services, you already know how important vendor relationships are to your bottom line.

Reconciling your invoices with PurchaseControl is easy and error free

[Find Out How]

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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