



THE REAL COST OF INEFFICIENT ACCOUNTS PAYABLE PROCESSING

Abstract

Current invoicing processes are performed manually, and this method is time-consuming, prone to errors, and challenging to monitor. These issues have a direct impact on the costs related to the process. To address these underlying issues, we need to understand the drawbacks of manual accounts payable processes and their true cost (direct and indirect). In this POV, we will further explore how cloud-based invoicing can reduce manual touchpoints and make your accounting highly efficient.

Introduction

A whopping 60% of accounts professionals mention that invoice and payment processing takes too long, including invoices getting delayed or lost in transit. About 74% of companies have faced fraud due to intentional duplicate payments, false billing, and inaccurate audit trail.^[1] Traditional accounts payable (AP) processing uses hundreds of thousands of pages. According to a study, businesses use more than 4 billion paper documents annually. On average, an accountant spends:^[1]

- 13.3 hours creating documents
- 9.5 hours searching for information
- 6.8 hours in filing and organising
- 5.6 hours in data entry into systems or paper ledgers
- 4.3 hours managing approvals
- 4 hours routing documents through different stakeholders

In such a scenario, accounts payable on cloud (APOC) not only helps businesses go paperless but also achieves high efficiency in end-to-end accounting.



Common steps in manual invoice processing^[3]

Despite the fact that invoice automation technology has long been available, many businesses still handle their bills manually. The path of invoices and how they are managed may change from one company to the next, but in most situations, this procedure is broken down into several steps.

Step 1: Receive an invoice from the vendor(s)

The vendor sends the invoice either before or after fulfilling the order depending on the terms of your contract. Different vendors follow different invoice formats.

Step 2: Reconcile the information in the invoice(s)

The accounts team needs to match the items, quantities, rates, and taxes in the

invoice against the purchase order (PO). If there are errors because of the quality of service of your vendor's accounting team, you need to rectify them before proceeding to the next step.

Step 3: Make entries in the ledger

Once the information in the invoice matches with that in the PO, the accounts team makes entries in the ledger. If you are not using cloud AP system, your ledger could be either on paper books, in Excel sheets, or on legacy systems.

Step 4: Upload the copy into the system

The team will manually scan the paper invoices, upload them to the system, and store the hard copies in folders in filing cabinets.

Step 5: Obtain the necessary approvals before payments

Before payment is processed, the invoices are sent for approval. Depending on the size of the company, there could be multiple approving officers in a hierarchy. This process may take days or even weeks.

Step 6: Process the payment

Once the accounts team receives the approval, it either initiates the payment immediately or schedules it as per the contract terms. The team also logs the payment advice on the system or in files. This process comprises various manual touchpoints, which are prone to errors and delays. Let us examine the drawbacks of manual AP in detail.



Drawbacks of manual invoicing^[2] ^[3]

The impact of handling accounts manually is not limited to the company. It stretches from the vendor(s) you use to the client(s) you serve. As your operations expand, so do your stakes in terms of money and reputation. You don't want to end up facing one or more of these problems.

High cost of processing

Businesses have several clients and suppliers spread across departments, branches, and locations. Those that engage in manual accounting processes pay a considerably higher (direct and indirect) cost of processing each invoice. The cost ranges between \$6 and \$8 for each transaction.

Takes longer time

Manual invoicing requires more people to work for long hours without a guarantee of 100% accuracy. Often, the accounts team spends hours churning out paper invoices only to realise that they committed a mistake and have to restart the process. The more vendors and clients you add, the more complex the system becomes. The payment and service delivery terms may change for every vendor, and it is not possible to keep track of these manually.

Prone to errors

Consider that you paid your vendors through bank transfer, but the accounts team recorded them against petty cash. This small mistake would generate erroneous balance sheets. Your account balances will not reconcile and require substantial manual effort during audits and annual returns. Several other AP errors can happen resulting in:

- Penalties from vendors for late payments
- Missed opportunities to avail discounts from vendors
- Over- and underpayments
- Missed due dates and possible litigations, resulting in deterioration of your relationship with the vendor

Impacts productivity

In companies where teams perform multiple tasks, the same person who sells a product may be generating an invoice for the client. If your AP process is manual, the staff member will be under tremendous pressure to generate the correct invoice and provide excellent service to the client simultaneously. When the team has to

repeat the same task multiple times a day, mistakes are bound to happen.

Information tracking is difficult

When you have thick folders of invoices, purchase orders, payment receipts, credit notes, debit notes, etc., stacked in multiple cabinets, it is not easy to find a record quickly. Your accounts team will have to make a considerable effort to find the records. You will also need to spend on storage space and inventory, adding to your fixed expenses.

Duplicate payments and litigations

When you don't have rules-based checks, you may make duplicate payments to the vendor. This not only takes away the cash required for operations but also places you in a long and frustrating loop of follow-ups to get the payment back (if you get it). Companies have high stakes when the invoices are worth thousands of dollars. One missed invoice could have a ripple effect starting from the company to the final client that may never receive their product or service. The litigations that follow are even more expensive to settle.



How to calculate the true impact of manual invoicing?^[3]

Companies only consider the salaries of the staff as costs but miss out on indirect expenses that come with manual invoicing. The effects can cascade upstream or downstream and quickly get out of hand.

Cost of staff

Processing each invoice end-to-end could take 1–2 weeks. The time taken to process the invoices is from the hours your accounts staff spend in the office. Let us assume one employee's salary is \$10 per hour and the person spends an average of 15 hours on each invoice. And let's say that employee handles 10 invoices a month. The total expense is:

$$\$10 \text{ (per hour wage)} \times 15 \text{ (hours)} \times 10 \text{ invoices} = \$1,500$$

Cost of inaccuracies

The calculation above applies when the invoice is cleared in a single iteration. If the invoice doesn't match with the PO and needs correction, it takes more days to coordinate with the vendor. For example, two accounts team members spend 2 hours each day a month handling inaccurate invoices. Cost of inaccuracies will be:

$$2 \text{ (hours)} \times 22 \text{ (workdays)} \times 2 \text{ employees} \times \$10 \text{ (per hour wage)} = \$880$$

Cost of storing and shipping manual invoices

You incur a courier cost each time you send a physical copy of the invoice. Add these costs to the cost of consumables such as

envelopes, adhesives, staples, and more.

To store the invoices, you need an extra room with filing cabinets. Depending on whether your property is owned or rented, you spend on electricity, cabinets and files purchased, and more. The paper records are also prone to fire, rodents, and theft.

Penalties due to payment delays

Your contracts may have clauses for penalties due to payment delays to the vendors. This not only places your reputation at stake but also opens doors to possible litigations and inflated claims through the legal system. You also need to consider the cost of wages for extra work hours that each employee spends during the week or on weekends.



Advantages of automated e-invoicing^[3]

As technology makes inroads into every aspect of businesses, accounts departments cannot survive if they stick to legacy processes. The revenue leakage we calculated above is for a small size company. For mid-size and large companies with multiple accounts departments and hundreds of clients and vendors, this cost can quickly go out of control. Here is where automated e-invoicing or APOC comes to the rescue. Not only does it streamline the end-to-end process but also gives you a bird's eye view based on standard metrics.

Lower cost of operations

From receiving the invoice to processing the payment, an APOC system automates all these processes with minimal manual touchpoints.* This means zero cost of postage, printing, and manual entries and reviews. Your accounts team can map the incoming invoice with the PO

within seconds, and the system flags any inaccuracies automatically. You can reduce the size of your finance team and witness an immediate jump in the ROI. With lesser employees, you spend less on fixed expenses such as electricity, computers, internet, and telephone.

High efficiency

Your staff can upload the invoices into the system using optical character recognition (OCR), reconcile, and send them for approval electronically. Even if the approvers are not in the office, they can approve from their mobile devices, thanks to the device-agnostic platform. The super admin can set user access and roles within the system. This way, the employees can work on and access only specified task, thus increasing data security. At each access level, extensive dashboards immediately display any accounts payables that are overdue, header-wise expenses,

and profit-and-loss statements.

Eliminate manual errors

APOC minimises any manual data entries into the system, thus eliminating any chances of errors. The accounts system can also integrate directly with the CRM or inventory management systems and email accounts for data synchronisation. APOC allows you to set up rules-based workflows to fire automatic alerts before you make any duplicate payments and push the information into downstream systems.

Improve relationships with stakeholders

APOC processes the invoices in minutes and leaves your vendors delighted. After all, who doesn't like quick payments? More liquidity means more capacity to deliver products and services on time. Use the benefits of automation as an opportunity to get discount offers and special rates on items and services that you procure from your vendors.

Conclusion

Despite being one of the most important departments, accounts departments have been plagued with inefficiencies that lead to fraud and revenue leakage. An accounting automation solution sets

efficient workflows and reduces manual touchpoints. It helps the managers set KPIs and measures the performance based on metrics. AP processing on cloud integrates the information lying in silos across a

company's geographic locations and departments. It produces a unified view of the metrics for the management to review and make data-driven business decisions.

*For organisations on the digital transformation journey, agility is key in responding to a rapidly changing technology and business landscape. Now more than ever, it is crucial to deliver and exceed on organisational expectations with a robust digital mindset backed by innovation. Enabling businesses to sense, learn, respond, and evolve like a living organism, will be imperative for business excellence going forward. A comprehensive, yet modular suite of services is doing exactly that. Equipping organisations with intuitive decision-making automatically at scale, actionable insights based on real-time solutions, anytime/anywhere experience, and in-depth data visibility across functions leading to hyper-productivity, Live Enterprise is building connected organisations that are innovating collaboratively for the future.

References

1. [8 Top benefits of accounts payable \(AP\) automation | Medius](#)
2. [What is the true cost of manual invoicing for your business?](#)
3. [The true cost of invoice payments](#)



For more information, contact infosysbpm@infosys.com



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