# Why, How to Reconcile Vendor Statements

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Vendor payments account for the largest cash outflow in most organizations. One of the best ways for accounts payable (AP) managers to sleep easily at night is to preform a reconciliation of vendor statements. While the benefits are numerous, this task can be time-consuming and tedious and is often overlooked. Organizations must use an effective process for reconciling vendors.

A vendor statement is a statement of account or document from the vendor's accounting system, listing all unpaid invoices at a certain date. It also can contain other items such as credit notes and payments. Reconciliation of this vendor statement requires matching the invoices and other lines to documents from your own system. Unmatched documents are discrepancies and comprise the vendor statement reconciliation report. All of the possible issues with your vendor account are represented on this single report.

## Benefits of Vendor Statement Reconciliation Process

Late processing of invoices can lead to disruption of future supply, and sometimes lost settlement discounts. Identifying vendor invoices you cannot locate allows you to request the vendor to resend these documents, often with proof of delivery, and to pay valid invoices on time.

Invoices can also be captured onto incorrect vendors in your accounting system, and that would lead to the incorrect vendor being paid. When the correct vendor queries this, you may then also pay this vendor, thus duplicating the payment.

Similarly, invoices may be duplicated on the same vendor if your accounting system does not have a suitable duplicate invoice check, or if the invoice number is captured slightly differently (say, with a dash in it). These duplicate payments can be avoided by matching invoices to the vendors' statements. If the invoice reconciliation is performed before payment, then duplicate payment can be avoided. Even if the reconciliation is only processed after payment, these duplicates can be identified.

The reconciliation report will identify payments you made but that your vendor has not yet received or allocated. It will also identify discounts your vendor has not passed, or pricing claims and returns that have not yet been credited. All of these reduce the total payment to the vendor. These deductions should be posted as early as possible to maximize cash flow. A timely vendor reconciliation report should be an early indication of money you can get back.

If your system's vendor pricing master data is incorrect, or if the vendor invoice is self-generated in your system or captured at the incorrect price, you could overpay. Similarly, during invoice processing, available discounts may be erroneously omitted. Matching your system's vendor line items to the vendor statement will either prevent or at least identify these overpayments.

The procure-to-pay process (P2P) often uses a GRIR (goods receipt-invoice receipt) account. Goods that have been received, but the vendor invoice has not yet processed, will be recorded in this account. Long-open GRIR postings should be cleared to profits and reduce balance sheet liabilities. If the vendor statement does not list an invoice for the goods, this is a reliable early indicator that the GRIR account can be cleared. Conversely, if the GRIR account is matched to a statement invoice, you know you have the goods and can actively chase posting of the invoice.

Internal and external audit controls often use the vendor statement to validate the vendor liability on the balance sheet. In the case of annual audits, often a material sample of vendor statements is selected. If you use a vendor reconciliation tool or system, a consolidated reconciliation report across all vendors will quickly identify any material differences. Accruals or provisional journals can be posted on this basis.

The vendor statement reconciliation is the litmus test at the end of the P2P process. It identifies the issues between your system and your vendor's accounts. A single, clear report will reduce vendor queries, improve your vendor relationship, and tighten your control over vendor spend.

## How to Reconcile Supplier Statements

While the benefits of reconciling supplier statements may be appealing, it can be an onerous task to match thousands of supplier invoices and other documents every month. Manual matching of statements may involve much printing and ticking or system downloads and manipulation to produce many disparate Excel spreadsheets.

As with other AP processes, it is essential to digitize. An automated supplier statement reconciliation will save employee time, be more accurate, and ensure proper audit controls.

If you can implement an automated supplier reconciliation solution directly in your existing accounting

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package or enterprise resource planning (ERP) software, this is preferable to an additional stand-alone system. For example, I spend much of my time working with businesses or shared service centers that run ERP software. We implement a specific add-on module to automate the supplier reconciliations directly in the ERP software. AP personnel then use their existing ERP software login, and you don't require any additional hardware or software. Unfortunately, if you cannot implement a solution directly in your current accounting system, then you need to interface all your transactions to a new stand-alone system, which can be technically difficult and unreliable. Cloud solutions are also stand-alone systems that require separate logins and interface extractors from your accounting system of all supplier master and transactional data. For a cloud-based solution, you must also consider the security of your confidential supplier transactions that will now be stored outside of your company environment at another organization.

## Supplier Statement Formats

You will most likely receive supplier statements in multiple formats, as each supplier system produces a different format or layout. Emailed statements usually come in Excel or PDF. Other statements will be paper via post or delivery. Unless your suppliers are able to conform to a single statement template, your automated supplier reconciliation solution should be able to automatically load all formats and layouts to ensure that you do not need to type the statement data into the system.

## Match Supplier Statements

If you cannot match the statement to a supplier invoice or credit note from your system, your supplier reconciliation solution should automatically match up the procurement chain:

- If you use an invoice automation solution such as ReadSoft, OpenText/VIM, Dolphin, eFlow or one of the many on the market, or EDI invoices, you need to be able to match invoices still in processing in this system. The same is true if you parked or held invoices before posting, such as invoices not yet approved, or those with processing errors. If the automatically produced reconciliation report immediately identifies where the invoice is, then this can be quickly resolved.
- Matching to the GRIR account is also essential to identify statement lines that have no invoice match, but for which a goods receipt has been posted.
- If the supplier can provide purchase order (PO) numbers on the statement, and the statement cannot be matched to any invoice or GRIR, then identifying the valid PO in your system will help the investigation.

## Go Paperless

Rather than signing paper, approve reconciliations in your accounting system to ensure a complete audit trail. The system should email approved reconciliations to the supplier so the supplier has sight of all issues, reducing follow-up ad hoc queries. Both the original statement and finalized reconciliations should be stored in your accounting system to alleviate the need for any filing. ■