Three-Way Matching

Three-way matching of vendor invoices is an essential internal control process. Using this process, a company can bypass profit drains from making erroneous, duplicates, or fraudulent payments. It is a method for processing a vendor invoice to ensure that payment is complete and accurate. The primary objective of this process is to save businesses from overspending or paying for an item that they didn't receive.

Definition

Three-way matching is the procedure for comparing the purchase order; the goods receipt note and the supplier's invoice before accepting a supplier's invoice for payment, which helps in figuring out whether the invoice should be paid partly or in its entirety.

Components of Three-Way Matching: Documents and Common Practices

AI-based Optical Character Recognition (OCR) can significantly speed up the three-way matching process, eliminating manual processes and increasing accuracy.

The three-way matching components and documents are including:

Purchase Order:

A purchase order is basically a company's standards. It is the official confirmation of an order. Purchase orders include the name of the company purchasing the goods or services, the description, date of purchase, and quantity of the specific goods or services, billing and shipping address, vendor product number, product serial number, sales taxes, discounts offered, mailing address, price information, invoice address, payment information, and a purchase order number. The purchasing department of a company or business develops a purchase order based on a signed and approved purchase requisition after vendor selection.

Order Receipt:

A receipt is basically an electronic or physical document that shows the actual receipt of goods, as verified by the customer's receiving department, matched with the itemized vendor packing slip included with the delivered products relating to the purchase order. A packing slip is the proof of payment and delivery. It includes details exactly the same as in the invoice.

Vendor Invoice:

A vendor invoice is a document that bills the customer based on deliveries from an authorized purchase order number. The invoice is delivered to the customer on the full or partial delivery of items from the supplier.

Like purchase orders, invoices are sequentially numbered for internal control, which promotes the invoice matching process. It also includes an invoice number and the same information as in the purchase order.

A vendor invoice delivered to the customer doesn't require a supplier's signature. Upon three-way matching in accounts payable without exceptions, documented confirmation of the invoice by an allowed approver is equal to a signature.

Three-Way Matching Objectives:

Here are some objectives of three-way matching:

1. Saves Business Money:

Checking that data is true across purchase orders, receipts, and invoices help businesses avoid overspending, paying for duplicate items, and paying for things they haven't got. Having such close tabs on finances also helps reduce the risk of fraud.

2. Ensures Optimal Vendor Relationships:

Professional vendors appreciate the value of purchase orders, invoices, and receipts to the account's payable process. Numerous mistakes on receipts and invoices can be a sign of a larger business issue and may show that it's time to shop around.

3. Prepare Business For Audits:

Auditors are especially on the lookout for financial differences. Compiling these documents before an audit and checking that the numbers line up using the three-way matching process is a big step in the proper direction.

Three-Way Matching Roles and Duties

Procurement teams, vendors or suppliers, and finance teams are the main stakeholders in the three-way matching process.

Procurement Teams:

Procurement teams, also known as purchasing teams, receive approved purchase requisitions from an employee desiring purchased goods or services. They play a significant part in the procurement to pay cycle in an organization's supply chain management. Procurement teams verify vendors in a company's supply chain and assessing their capabilities.

Procurement should consider vendor performance related to the purchase order and also check the supplier's financial condition before placing an order.

Vendors and Suppliers

Vendors have the responsibility to accept or reject the purchase of the orders. Before receiving a purchase order, vendors should run credit reports on that customer to secure that the customer has the financial condition to pay for the products ordered.

Suppliers also play a role in testing and quality control. Vendors assure products delivered to the customer under the purchase order meet specifications and high-quality standards.

Finance Team

The finance team of a company (including accounting and accounts payable) records the purchase orders in their accounting software or EPR (Enterprise resource planning) system. When the receiving department enters receiving reports into the EPR system, then the account payable, finance team members and the operations department can access the data.

Account Payable Performs Three-Way Matching

Then the account payable performs three-way matching ensuring that the purchase order, purchase receipt, vendor invoice are in agreement or that only the actual goods are received and paid before the deadline.

Approvers Approves or Reject Invoices for Payment

Approvers, including managers responsible for the expenditures, chief financial officer, chief executing officers, and the board of directors review the matched invoices and supporting documents and approve the invoices for payments unless an exception exists.

Account Payable Department Pays Invoices

Account payable makes payments to the suppliers according to the company's terms and policies on taking early payment discounts. If discounts aren’t provided by the vendor or received by the customer, the accounts payable department pays the full invoice amount by the deadline.

The vendor provides a two percent discount when the customer pays the invoice within ten days; else, the total invoice amount is due 30 days after the invoice date. Vendors cut off future order shipments to the customer until they secure payments if payment of customer invoices or account balances are held for too long.

Advantages of Three-Way Matching

Now I'm going to discuss some advantages of three-way matching;

1. Eliminate Fraud

By matching the numbers between the three documents, accounts payable can assure that your company doesn’t acquire the same costs multiple times. In this way, it is easy to bypass becoming a victim to fraudulent invoices or even original invoices with slightly changed figures.

2. Painless Audits

The first things an auditor looks for are purchase orders, shipping orders, and invoices. By constantly sorting out your company’s documents, you eliminate the need for an in-depth analysis of your business.

3. Increase Profits

Three-way matching helps secure business from unnecessary expenditures, which, in the long run, adds to your bottom line. It’s always simpler turning a profit when you are not wasting money on fraudulent claims.

4. Isolate Trouble Spots

Three-way matching supports liability through clarity. Mistakes can be investigated simply because they are easy to trace.

Disadvantages of Three-Way Matching

There are some problems in the three-way matching process. Here I'm discussing the most common and significant problem of this process;

Labour Intensive

This is one of the primary disadvantages of implementing the three-way match. Gathering all the documentation and analyzing it requires a lot of eyes, effort, and hours. This can affect payment delays and your business may catch fines for not satisfying the terms and conditions of payments.