

PO Receipt Accrual (RNI) Maintenance

By Keith Wayland

It is the burden of ERP systems that they must somehow take complex Procure-to-Pay transactions and translate them into accurate and timely financial information that makes sense.

PO Receipt accruals (RNI) are designed to bridge the timing gaps between the date goods are used and the date the corresponding invoice is expensed. RNI accruals are only as good as the data on which the projections are based, and if they are not pro-actively maintained they can easily veer off target, inflating a department's expenses and a company's projected liabilities.

During RNI clean-up assessments, it is not uncommon to find as much as 30% of the month-end RNI accrual is not valid. Correcting this monthly accrual can return millions of dollars to the bottom line.

RNI Accruals

RNI accruals are projected estimates of unrecorded payables and department expenses. When a non-stock or special item is ordered and delivered to a department it is *not expensed* in Lawson. It's actually the

Why RNI Maintenance Matters:

Invalid accruals inflate department expenses and projected liabilities, reducing your bottom line.

What RNI impacts: Department manager's budgets, accountant's financial statements and purchasing manager's performance.

invoice that will ultimately drive the departmental expense – which makes a lot of sense given that the invoice is the most accurate reflection of quantity and purchase price actually paid. In the event that the invoice processing is in some way delayed, the RNI accrual serves as the bridge between the time the goods are ordered, delivered, and consumed by the organization and the time the invoice is finally processed.

For example: If a department uses \$100 worth of vendor goods in June and the invoice is not processed until October, the actual invoice-driven expense will not be recorded until October. The PO Receipt accrual creates an auto-reversing monthly entry against the departmental expense until the invoice is processed. The Accounting

Department Expense – Table 1

	June	July	August	September	October
(RNI Reversal)		7/1 – (\$100)	8/1 – (\$100)	9/1 – (\$100)	10/1 – (\$100)
Invoice					10/23 - \$100
RNI Accrual	6/30 - \$100	7/31 - \$100	8/31 - \$100	9/30 - \$100	N/A
Net Effect on Month-End Dept. Expense	\$100	\$0	\$0	\$0	\$0

Department Expense – Table 2

	June	July	August	September	October
(RNI Reversal)		7/1 – (\$100)	8/1 – (\$100)	9/1 – (\$100)	10/1 –(\$100)
Invoice					10/23 - \$90
RNI Accrual	6/30 - \$100	7/31 - \$100	8/31 - \$100	9/30 - \$100	N/A
Net Effect on Month-End Dept. Expense	\$100	\$0	\$0	\$0	(\$10)

Unit and Account are derived from the MM Distribution record associated with the corresponding PO Line. This allows an estimate of the expense to be reflected in June – when the goods were ordered and utilized. (Table 1)

The RNI accrual is an estimate of the invoice expense, based on receipt and purchase order data. The PO Receipt Accrual program (PO135) uses the receipt activity date and unmatched quantity from the receipt line table as well as the unit cost on the purchase order to produce this estimate. If the estimate eventually proves to be inaccurate, the invoice will result in a credit or debit for the difference between the final PO Receipt Accrual Auto Reversing entry and the actual expense.

Using the same example as above, let's assume the invoice processed in October was for \$90, not the \$100 that were originally

expected (Table 2).

As long as the invoice closed out the receipt line, the month end accrual would cease and the net effect on the department's expenses would be a correction of the projected cost (in this case a credit for \$10) in October.

Is the RNI Accrual Legit?

While the RNI accrual serves a critical function in tracking monthly departmental expenses, it relies on the accuracy of receipt and purchase order data. If received not invoiced lines are not maintained, the PO Receipt accrual can result in over-inflated expenses. It is not uncommon to find as much as 30% of the RNI accrual is actually not valid.

There are several paths through which invalid RNI lines can develop. For example: If a receipt line is entered into Lawson, but the item was never actually delivered by the vendor, it will still create a monthly accrual.

Department Expense – Table 3

	June	July	August	September	October
(RNI Reversal)		7/1 – (\$125)	8/1 – (\$125)	9/1 – (\$125)	10/1 –(\$125)
Invoice			8/14 - \$125		
RNI Accrual	6/30 - \$125	7/31 - \$125	8/31 - \$125	9/30 - \$125	10/31 - \$125
Net Effect on Month-End Dept. Expense	\$125	\$0	\$125	\$0	\$0

Department Expense – Table 4

	June	July	August	September	October
(RNI Reversal)		7/1 – (\$100)	8/1 – (\$100)	9/1 – (\$100)	10/1 – (\$90)
Invoice				9/17 - \$100	
RNI Accrual	6/30 - \$100	7/31 - \$100	8/31 - \$100	9/30 - \$90	10/31 - \$90
Net Effect on Month-End Dept. Expense	\$100	\$0	\$0	\$90	\$0

The system has no feasible way to distinguish between valid and invalid receipts. Since there will be no corresponding invoice coming to claim the invalid receipt, it continues to accrue until the receipt line is fixed.

Another source of invalid RNI lines are goods that are procured and received against a purchase order, but for which the corresponding invoice ends up being processed as an expense (or non-PO) invoice. Because it is never matched, the receipt continues to accrue indefinitely and effectively results in a double booking of the expense (Table 3).

In this case, the department was charged both in June (when the accrual started) and then again in August (when the actual invoice was processed). While only \$125 worth of goods were used and spent, an additional \$125 continues to be projected as a future liability and charged against the department expense account. And this projection will continue indefinitely until the receipt is cleared.

Lastly, if the invoice is mismatched to a portion of the receipt line, the unmatched quantities on the receipt may continue to accrue. Assume 10 widgets are ordered and received at \$10 a piece, but when the vendor sends the invoice, the detail shows 1 case of

widgets at a \$100 price. Accounts Payable mistakenly applies an invoice quantity of 1 at \$100 unit cost to a single widget, creating a cost message. The Buyer approves the \$100 unit cost for the case and the invoice is released for payment, while the receipt line continues to accrue for the remaining 9 unmatched widgets (Table 4).

Quick ROI from RNI Maintenance

Clearly, unmatched receipt lines must be regularly maintained to ensure the integrity of PO Receipt accruals. But a large portion of unmatched receipt lines will be valid, and it is time consuming to research each line. Does the vendor show an outstanding invoice for the Purchase Order and item? Has that invoice already been entered into Lawson and matched?

The use of date thresholds can help separate lines that are more likely to be valid from those that are not. Since most receipt lines entered within the previous 90 day period will turn out be valid, focusing on receipt lines that are over 90 days old will yield a higher percentage of invalid RNI lines and less overall items to research.

Focusing on RNI lines with high dollar extended values will also yield a better return on time invested. Four \$25,000 lines could produce up to \$100,000 in accrual reductions, while 400 lines for \$25 offer the

potential of only a tenth the reduction in liability at 100 times the work.

The use of a dollar threshold can prove useful in streamlining the RNI cleanup process. Lines over \$1000 (or \$5000) and over 90 days old can easily be researched on a regular basis without becoming a major drain on Materials resources.

Lawson's PO135 (RNI Report) can be run anytime in non-update mode, providing both Receipt Date and Extended Dollar amounts.

Using Archive Quantities to Stop Accruals

Low dollar lines can be substantial. There might be thousands of lines with an extended cost of a \$1 or less. Clearly the effort to research those lines is not worth the potential return. An alternative to time-consuming research and transaction clean-up is to stop the accrual by populating Archive Quantities in the Receipt line and PO line tables. The advantage is that this can be done very quickly and result in a large dollar impact for a minimal time investment. Additionally this method leaves a historical footprint, providing auditors with a trail.

Under this method, we make a blanket assumption for a specific subset of low dollar RNI lines. But this does not mean that all the lines we have stopped from accruing will turn out to be invalid. The few that are actually valid RNI lines will (in theory) eventually have invoices arrive as the vendor would expect to eventually be paid. Upon attempting to enter such an invoice, Accounts Payable would find the specific receipt lines (and perhaps the Purchase Order itself) were closed, preventing the

invoice from being matched. But with a little due diligence, AP would drill into the Purchase Order and note the telltale archive quantities – a sign that the line was closed because its RNI projection was no longer deemed reasonable (or worth researching).

The invoice can then be processed as an expense invoice and coded to the accounting unit and account on the corresponding PO line. (Comments should also be added detailing the circumstance.) Any pricing discrepancies could be verified with purchasing. Use of the PO number would allow the invoice to be drillable from the PO module and show up when the PO was queried.

While this process requires some additional (minimal) effort on AP's part for the small percentage of these RNI lines that turn out valid, it is significantly less than the effort of researching every line to identify the few that still matter.

Of course, to ensure that the percentage of these remains small, larger date thresholds should be used (e.g. 180 days) when using archive quantities to stop accruals. As expected, there is a direct correlation between the age of RNI Lines and the percentage of those RNI lines that are invalid.

The projected liability itself is also less accurate as the date threshold increases. If for example, only 5% of RNI lines over 180 days old will ever be invoiced, then an accrual of 0% of lines over that date threshold is considerably more accurate than an accrual of 100%, even if some lines do in the end correctly represent pending liabilities. The alternative of manually researching all RNI lines and reversing the 95% that are invalid might be slightly more

accurate but would take considerably more effort.

A dollar threshold is important as well. A single \$100,000 RNI line over 180 days will represent a disproportionate amount of the total dollars that stop accruing. Its validity (or lack thereof) creates too much variance on eventual dollar outcome and heavily skews the statistical integrity of this method. Manually researching high dollar items reduces variance and more evenly distributes accrual dollars across lines.

Summary

PO Receipt accruals (RNI) are a key component of accurate financial information. These expense estimates depend on the validity of purchase order and receipt data. Due to a variety of reasons, open receipts may not reflect pending invoices and must undergo regular maintenance to stay reasonably accurate.

To allocate research time efficiently, concentrate on unmatched receipt lines with high dollar extended values that are more than 90 days old. These are more likely to include invalid RNI lines and will result in the greatest impact towards financial accuracy.

Time can also be saved on unmatched receipt lines with low dollar extended values that are over 180 days old by using the archive quantity fields on the PO Line and Receipt Line tables. This will close the PO line and stop the accrual but leave a historical footprint if a corresponding invoice ever comes in. While the quantity of low dollar RNI lines is likely voluminous, their financial impact should be negligible.

Moreover the accrual of anything over 180 days old is questionable at best.

Remember, clean RNI makes accountants, department managers, receivers, and accounts payable representatives happy.

About RPI Consultants

With over 10 years of experience optimizing Procure-to-Pay processes for Lawson customers, RPI combines the utmost expertise in best practices and business process redesign with a deep understanding of Lawson forms, tables, and functionality.

Author

Keith Wayland
kwayland@rpc.com
410.276.6090