

6. Makes inventory more accurate by tracking items purchased for stock.
7. Identifies unauthorized purchases (like tools or batteries).
8. Makes sure items bought for stock, are entered in the correct warehouse.

Purchase orders are generally preprinted, numbered documents generated by the retailer's financial management system which shows that purchase details have been recorded and payment will be made.

PO Procedures (a twelve step process)

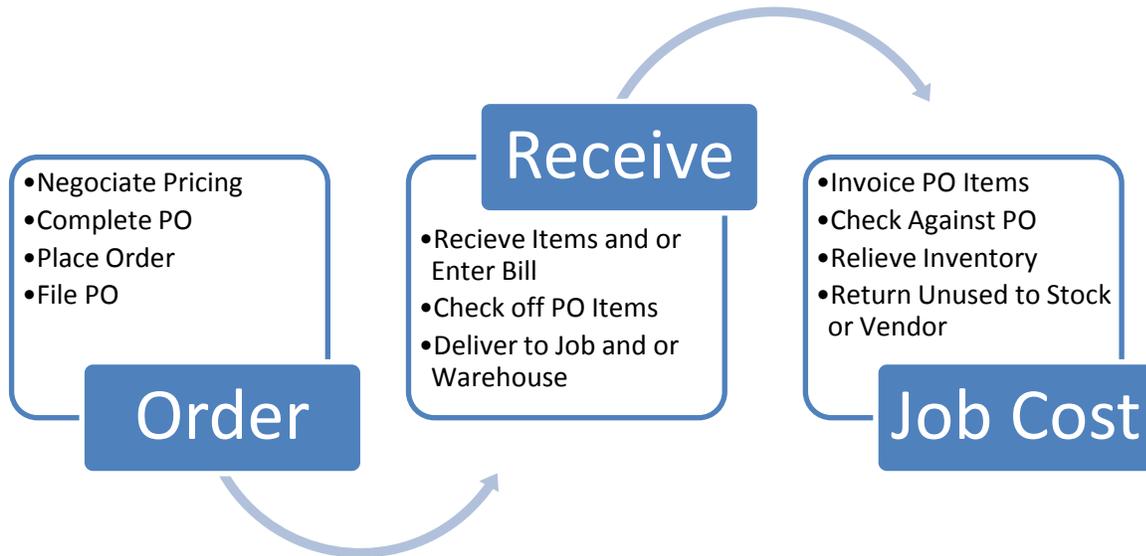
When a project or job is started, the company may need to order materials for the job. The company may also simply be ordering items to keep on hand (increase stock). Either way, the procedures are the same. Here is an overview of those procedures:

1. Vendors will be contacted as needed. Prices, terms, and conditions are negotiated.
2. A purchase order will be filled out. It contains all of the specifications, pricing, terms, and conditions that have been agreed to.
3. The PO is sent to the vendor via fax or email.
4. Items are delivered to the business location and or job site as agreed. A packing slip should accompany each delivery.
5. The delivery is compared to the packing slip and any discrepancies are worked out with the vendor. Packing slips typically do not include pricing information. So at this point, errors are usually related to model numbers, color, and quantity.
6. Notes are made on the POs related to discrepancies or other issues.
7. Packing slips and POs are turned into the office (or given to the appropriate person).
8. Packing slips are used to enter the items into the company's accounting software. There is usually a feature called "Receive Items". Packing slips are compared to the POs and discrepancies are worked out with the vendor (e.g.: wrong price).
9. When the vendor bill arrives, it is used to enter a bill into the software. Again, the bill is carefully compared to the PO and discrepancies are worked out with the vendor (e.g.: wrong price).
10. When items were purchased for a specific job, those items are marked off the PO as they are invoiced to the customer or job. This process makes certain that all items bought were invoiced.
11. When all items are received, the PO is marked "Closed" and filed.
12. The vendor bill is paid according to company policy and procedure.

☞ *Notice how the PO is used to make sure you are getting what you ordered for the prices, terms, and conditions you were promised.*

☞ *The PO is essential to proper billing, job costing, and project management.*

☞ *An effective PO system is essential to correct inventory management.*



The PO Form

A good PO form is needed for this process. The included example will be used for educational purposes. It can be modified as need using Microsoft Word® 2007 or higher.

Field Definitions

The following explains the meaning of each purchase order element.

Main Fields (the header portion)

- Date:** The date the PO was filled out.
- PO #:** A number used for tracking purposes. You can create your own rules on numbering. If you are using software, numbering is automatic.
- Vendor:** The name and contact information of the vendor you are ordering from. You must use one PO per vendor.
- Ship To:** The location that you want the items delivered to. This might be the job site or your warehouse.
- Shipping Method:** This is the way that the items are being delivered to the Ship To. This might be UPS, pickup, truck, etc.
- Shipping Date:** The date the item(s) are expected to be shipped.

Delivery Date:	The date you expect the materials to arrive. It may be common for materials to arrive at separate times. If that is common, you may consider adding another column to the PO item grid called "Expected Date".
Contact Name:	A vendor contact name. Someone the company can call with questions or concerns.
Ordered By:	The name of the person ordering the materials. For many companies, this is the sales person. If for restocking, it might be the warehouse manager.
Delivery Charges:	Will there be a fee for shipping or delivery? Mark yes or no and consider entering the amount of that charge. Shipping fees can sometimes be added and paid when they were not agreed to.
Note:	This area can be used for any purpose.
Special Notes:	This area can be used to enter information that might be helpful to the company or vendor.

Item Grid

Qty:	The number of items being ordered.
Item #:	The item number of the item being ordered. This can be either your company's number or the vendor. Enterprise level accounting software, such as Total Office Manager, allows you to automatically use the vendor's number regardless of your own numbering system.
Description:	A short description of the item being ordered. Notes may also be added here.
Job Number/Name:	The name or number of the job, project, or phase the item is being ordered for. If you are buying the same item for different purposes (like some for a job and some for stock), use multiple lines.
Price Ea:	Sometimes called "unit price", this is the price for one unit (or one item).
Price Ext:	This number equals the "qty" x "unit price".
Sub Total:	The sum of all "Price Ext".
Tax:	Sales or use tax (if applicable). Some companies might want to add any tax to the "Price Ea" field.
Total:	This is the sub total plus any sales tax. This is the amount you are expecting to pay the vendor.

Authorized Company Signature: This is the person who has authorization to approve purchase orders. This might be the same person that fills out the PO. It may also be a manager or owner. Your company might require the approval of certain people when PO amount exceeds a certain level.

Completing the Purchase Order

The sales person is the one who typically completes the PO. This happens after pricing, specifications, terms, and conditions are negotiated between the vendor and the company. These arrangements need to be written down so they may be verified later. The PO is the document that records these promises and authorizes these purchases.

Filing the Purchase Order

A copy of the PO will be entered into a file called "Open Purchase Orders". This file can be arranged by vendor name, date expected, or job name. Typically, PO files are sorted first by vendor name, then by job name, and finally by date expected.

With software such as Total Office Manager, you will not need to make a choice. POs can be arranged either way and changed at anytime.

☞ *The HVAC Operations Manual contains a complete section of going paperless. See the Electronic Document Management chapter in the Accounting and Bookkeeping section.*

Receiving Items

When items are received, they should be accompanied by a packing slip. This is a vendor document that is signed by your company; acknowledging that you received the items. The packing slip is only signed when the receiving person has checked the delivery carefully. Be sure the PO number is written on the packing slip.

The packing slip is turned into the office. The person who handles it will vary from company to company. This is usually the bookkeeper. The PO is pulled from the file and it is compared to the packing slip. The individual item(s) is crossed out, dated, and initialed. If all items were received at once, draw a line through all of them. If you are using software, the process will be different.

Entering the Bill

When a bill (vendor invoice) arrives, it is carefully compared to the purchase order. The item number, quantity, and price should match what is on the PO. If there are differences, they need to be worked out with the vendor and possibly the person who completed the PO. The idea behind the PO is be sure we are getting what we expected.

Paying the Bill

Paying the bill should be easy at this point. The bill has under gone multiple checks to make sure that it is correct and accurate.

Invoicing

The PO can be used for invoicing. When creating invoices for a job, check the PO to make sure that all of the items purchased and received for the job appear on the customer's invoice. You can use a variety of methods to do this. One good method is to mark the item with a T. A special column could be added to the PO form (it is a MS Word document so it is easy to edit).

Customizing the Purchase Order Form

The PO form is a MS Word 2007 document. Simple tables were used to construct it. It is easy to add fields, rename fields, and even add entire columns.

- ☞ *Always be sure to make copies of your original forms. As you are working in MS Word, save often.*
- ☞ *Using MS Word or Adobe Acrobat, you can create POs that can be filled in on the computer and emailed or printed. Fields can even be locked so that no one can edit them.*

Here are a few columns that you might find useful:

Invoiced?: This field you indicate whether or not you have invoiced the customer for the item.

Qty Received: This field would indicate how many of the items have been received versus what was ordered.

Printing the Purchase Order Form

You may print single copies of the PO form on your computer. You also wish to have them professionally printed. Ask your printer to use NCR (No Carbon Required) paper and include three copies (or more). You should also have your POs numbered in sequence. If you use software to print POs, you may use the form as a template.

Final Tips

1. Purchase orders do not affect your company's financial balances. They are considered "non-accounting" related forms. Your financials, job costing, inventory, and other numbers are affected when you go through the process of A/P and A/R (like entering the items into inventory or creating invoices).
2. Items are always entered into inventory; even if they were taken directly to the job site. From an accounting perspective, at one point in time, the items were still inventory. That's proper GAAP accounting.
3. You may wish to implement an approval process for purchase orders. Your company may wish to set a dollar limit on how much materials may be ordered on a particular job or PO. The PO form has a place for an authorized signature.
4. There can be only one PO per vendor. You may create a PO for many jobs including stock. Some companies elect to create on PO per job. For some companies this makes tying POs to job easier.
5. Be sure PO numbers are written on packing slips.

6. Ask your vendors to include the PO number on all bills.