

Why should we use Purchase Orders?

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In business, it is good practice to put agreements in writing to avoid misunderstanding. A Purchase Order (or PO) is an agreement between you and your vendor setting forth the terms for the purchase of goods or services. Even if you verbally order product, it's a good idea to record the PO so that you know what products are 'On Order' and don't duplicate orders.

In terms of general information a PO should have numerically sequenced PO numbers, order and expected ship dates, bill to and ship to addresses. Ship to address is especially important if you have multiple locations, drop ship or ship to sub-contractors.

POs may have a shipping method and FOB. FOB means 'Freight-on-Board' which indicates when legal ownership of the goods are transferred. For national shipments, FOB is usually customer warehouse. For imports, it could be vendor warehouse which means the goods become yours (for insurance purposes) when they leave the vendor's dock.

Most importantly, the PO will list codes, descriptions, quantity and price of products and services ordered.

Finally, a person authorized to make purchase should sign the PO. You should inform your vendor who in your company is authorized to make purchases.

A copy of the PO should be kept in receiving and accounting (Electronically or otherwise). When goods are received, codes and quantities are compared to the PO. You may want to instruct receiving not to accept shipments without a PO unless approved. In accounting, the PO and receiving document's quantity, codes and prices are compared to the vendor bill. Any differences should be reported to the vendor in writing.
