

BSB 7.0

BSBPUR301

**PURCHASE
GOODS AND
SERVICES**

BSBPUR301

Purchase goods and services

Release 1

Learner Guide

Aspire version 2.2



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Before you begin

This Learner Guide is based on the unit of competency *BSBPUR301 Purchase goods and services*, Release 1. Your trainer or training organisation must give you information about this unit of competency as part of your training program. You can access the unit of competency and assessment requirements at:

www.training.gov.au.

How to work through this Learner Guide

This Learner Guide contains a number of features that will assist you in your learning. Your trainer will advise which parts of the Learner Guide you need to read, and which Practice Tasks and Learning Checkpoints you need to complete. The features of this Learner Guide are detailed in the following table.

Feature of the Learner Guide	How you can use each feature
Learning content	Read each topic in this Learner Guide. If you come across content that is confusing, make a note and discuss it with your trainer. Your trainer is in the best position to offer assistance. It is very important that you take on some of the responsibility for the learning you will undertake.
Examples	These highlight key learning points and provide realistic examples of workplace situations.
Practice Tasks	Practice Tasks give you the opportunity to put your skills and knowledge into action. Your trainer will tell you which practice tasks to complete.
Summaries	Key learning points are provided at the end of each topic.
Learning Checkpoints	There is a Learning Checkpoint at the end of each topic. Your trainer will tell you which Learning Checkpoints to complete. These checkpoints give you an opportunity to check your progress and apply the skills and knowledge you have learnt.

Foundation skills

As you complete learning using this guide, you will be developing the foundation skills relevant for this unit. Foundation skills are the language, literacy and numeracy (LLN) skills and the employability skills required for participation in modern workplaces and contemporary life.

The following table provides definitions for each foundation skill.

Foundation skill area	Foundation skill description
Reading	<ul style="list-style-type: none"> Gathers and interprets a range of textual information to identify relevant key information
Writing	<ul style="list-style-type: none"> Creates everyday workplace documentation using terminology and format relevant to audience and purpose
Oral Communication	<ul style="list-style-type: none"> Uses suitable language to liaise with suppliers and clarify information within the organisation Uses active questioning and listening techniques to confirm requirements
Numeracy	<ul style="list-style-type: none"> Interprets simple numerical data and makes basic calculations to determine costs of goods and services
Navigate the world of work	<ul style="list-style-type: none"> Adheres to organisational procedures and policies Understands how own role connects with others and contributes to broader work goals
Interact with others	<ul style="list-style-type: none"> Selects from a small range of communication modes, forms and channels to meet a specific purpose within the immediate work environment Seeks to cooperate with others to achieve results in immediate work context
Get the work done	<ul style="list-style-type: none"> Takes responsibility for planning, sequencing and prioritising tasks for efficient and effective outcomes Responds to predictable routine problems and implements standard or logical solutions Uses the main features and functions of digital tools to complete work tasks

What do you already know?

Use the following table to identify what you may already know. This may assist you to work out what to focus on in your learning.

Topic	Key outcome	Rate your confidence in each section
Topic 1: Understand purchasing requirements	1A Understand the organisation's purchasing strategies	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	1B Clarify purchasing authority with relevant personnel	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
Topic 2: Make purchases	2A Receive purchasing specifications	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	2B Select appropriate purchasing methods	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	2C Obtain approvals for purchases	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	2D Get quotes from suppliers	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	2E Select suppliers, place orders and make purchases	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident

Topic	Key outcome	Rate your confidence in each section
Topic 3: Receive purchases	3A Receive goods and services and advise relevant personnel	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	3B Check goods comply with specifications	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	3C Take action to fix non-compliance	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	3D Register new assets	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	3E File and store purchasing records	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident



Topic 1 | Understand purchasing requirements

- 1A Understand the organisation's purchasing strategies
- 1B Clarify purchasing authority with relevant personnel

1A Understand the organisation's purchasing strategies

A person responsible for purchasing can be called a buyer, purchasing officer or even a requisitioner.

As a person who purchases products and services for their organisation, you must understand the process used to acquire and have them approved. You may have responsibility to make and receive purchases or you may need to work with other purchasing staff.

In this role you may come across the term procurement. Procurement involves identifying the requirements for a product or service and working with the terms and conditions with suppliers. Purchasing is a process of steps to receive and evaluate quotes, raise a purchase order, receive the product or service and sometimes arrange payment.

Purchasing strategies

Purchasing strategies, policies and procedures are guiding documents used by staff who make purchasing decisions. They provide information on the process for responsible purchasing.

Businesses use strategies to guide their purchasing decisions. Strategies are long-term plans that reflect the business objectives. For example, if a key objective for the business is to increase profits, then a purchasing strategy will aim to keep costs low and limit spending.

Here is a list of purchasing strategies that reflect a range of business objectives.

<p>Reduce the number of suppliers</p>	<ul style="list-style-type: none"> Business objectives: Reduce administrative costs of managing a large number of suppliers with relatively small amounts of business. Strategy: Reduce office suppliers from five to one. Increase the volume of the purchase to the one supplier. Investigate being able to negotiate discounts and more frequent deliveries in exchange for the increase in business.
<p>Bulk purchases strategy</p>	<ul style="list-style-type: none"> Business objectives: Lower costs and ensure consistent supplies; to reduce processing costs and packaging waste that results from smaller quantities. Strategy: Purchase office supplies such as paper in bulk to reduce costs and reduce the number of invoices and deliveries to be processed.

Sustainability strategy	<ul style="list-style-type: none"> Business objectives: Promote an ecologically sustainable brand and meet the objectives of the organisation's environmental policy. Strategy: Use packaging made from recycled materials and work with suppliers to make deliveries using reusable packaging; for example, pallets.
Buying local strategy	<ul style="list-style-type: none"> Business objectives: Meet legislation for minimum local content requirements and to promote a locally made product. Strategy: Choose a local product over a comparable imported one.
Reduce cost strategy	<ul style="list-style-type: none"> Business objectives: Achieve profit margin objectives and to reduce overall cost base. Strategy: Work with suppliers to reduce cost. Make cost a key selection criterion.
Ethical purchasing strategy	<ul style="list-style-type: none"> Business objectives: Satisfy moral requirements and promote an ethically responsible organisation. Strategy: Choose to buy fair trade ingredients from reputable suppliers with an invisible supply chain.
Preferred supplier strategy	<ul style="list-style-type: none"> Business objectives: Purchase from suppliers who satisfy minimum quality requirements. Strategy: Identify a range of preferred suppliers with agreed products without the need to source quotations.
Certified supplier strategy	<ul style="list-style-type: none"> Business objectives: Ensure minimal disruption to the production process. Strategy: Only use suppliers who have met specified quality requirements.

Selection criteria

A purchasing strategy outlines the criteria an organisation uses to select products and services.

Purchasing decisions are made by comparing alternative products or services against a list of criteria, such as price, quality, service levels, reliability, efficiency, environmental performance or other criteria important to the organisation.

For example, a manufacturer may want to buy local or Australian products as a part of its purchasing strategy. This may be because legislation requires a minimum amount of local content in the food product it manufactures, or because they intend to promote Australian made products in its marketing campaign. The company has identified that their top criteria for purchasing ingredients for their products is that they are manufactured in Australia.

Buyers use a range of selection criteria to choose the most appropriate product or service to meet the requirements of the business. The criteria they use depend on the product or service being selected and the type of industry or nature of the business. For example, reliability would be a high priority in the purchase of machinery used in high risk occupations, such as electrical or mining. A high-end fashion brand may value quality over efficiency.

Examples of common purchasing criteria are listed below:

Price	Comparing price is usually always part of the selection process. When comparing alternative products, it is important to compare prices for equivalent products or services. For example, comparing hourly rates for services or price per litre for petrol.
Quality	Measuring quality will vary by product and service. The criteria for measuring quality must be consistently applied.
Service levels	Levels of service can include support for the product after purchase such as maintenance is included in the purchase of office equipment. A product that includes services can appear more expensive, but not necessarily if the cost of the same number of services is added to the other product options.
Reliability	Reliability may be based on suppliers' reputation or experience. Many online and social media sites provide information about the customer experiences including information on the reliability of the company and quality of products and services.
Efficiency	Efficiency relates to the operating costs of the product. For example, an air conditioner may use low amounts of power, as this may save the organisation money on electricity costs in the long term. It may be worth paying a higher hourly rate for a tradesperson if their experience means they will complete the job more quickly than a less experienced person.
Environmental impact	Some organisations have an environmental policy that guides their purchasing decisions. This may mean that they prioritise products or services from organisations that have established environmental credentials, or products that are made using sustainable materials.
Warranty	Different suppliers may offer different warranty conditions. Depending on the product and the warranty, a buyer may choose a product that has a longer warranty over a cheaper alternative with a shorter warranty.

Workplace requirements

Being responsible for purchasing products and services for your organisation brings with it responsibilities and accountabilities. You will need to have knowledge of the processes, such as purchasing policies and procedures which are part of the purchasing strategy for the organisation. Check with your supervisor to make sure you are familiar with each of the requirements and that these are followed in during the purchasing process.

Workplace policies and procedures may include a procurement policy or a purchasing policy. These documents include information on what is acceptable in a negotiation about terms and conditions between the company and a supplier.

Standard terms and conditions may include:

- delivery requirements
- invoicing arrangements
- information on notice periods for changing quantities
- information on notice periods for receiving damaged or faulty goods
- other conditions.

Legislation

One law that governs the way business operates is the *Competition and Consumer Act 2010* (Cth). This Commonwealth law covers dealings with suppliers and unfair market practices. You would not be expected to be an expert in legislation, but you should be aware of actions that are against the law. Breaches of the Act can result in individuals being charged, not just organisations, so you should seek advice from a supervisor if you have any concerns.

Here is a general outline of specific provisions under the *Competition and Consumer Act 2010* (Cth).

Consumer protection

Organisations must provide accurate product safety information, honour their warranties without having unreasonable conditions attached and accept liability for injury or damage deemed to have been caused by their product or service.

Competitive practices

Organisations must not act in any way that may be deemed to reduce competition. For example, they must not agree with their competitors to set a higher price or collectively agree to boycott a third party. They must not require a customer to make a purchase from another organisation.

Depending on the nature of your business, other legislation may also be relevant to your organisation.

Import requirements	You may be purchasing products that come from overseas. There are different customs requirements in place for products from other countries. They may also be subject to tariffs or other charges. When dealing with these products, a company needs to understand the final cost, including piece price, freight, insurance and import charges.
Sale of goods legislation	Each state and territory have a version of the Sale of Goods Act, which requires organisations to provide goods and services that are fit for sale and as described in the purchase agreement. These Acts govern how organisations should deal with errors such as incorrect quantities being delivered, and any rights of return or exchange.

Read more about the competition and consumer Law in a document produced by the ACCC (Australian Competition and Consumer Commission): [aspirelr.link/accc-consumer-law](https://www.accc.gov.au/publications/competition-and-consumer-law)

Read more about the role of the ACCC here: [aspirelr.link/accc](https://www.accc.gov.au/about-us/role-of-accc)

Practice Task 1

You have been asked to research the replacement of printers across your organisation. Each printer costs \$2750, and the office has four departments, each requiring their own printer. The supplier is offering a deal on price and service because of the number of printers being purchased.

Question 1

Suggest at least two criteria in a purchasing strategy that could be used to select the printers.

Question 2

Which of the following statements relate to purchasing strategies for the printer?
Tick all that apply.

- The purchase is part of the bulk purchase objective of the business.
- You can refer to the purchasing policy for the terms and conditions.
- You will need to provide expert advice on the law dealing with suppliers.
- The documents will need to be filed so they can be accessed when needed.
- Records are only referred to when there is an issue such as the printers have a fault.

1B Clarify purchasing authority with relevant personnel

Reporting lines in an organisation are often represented in an organisational chart.

An organisational chart shows how each position fits in with other positions within the organisation. It illustrates how the work you do links into the rest of your department or into the overall organisation.

For example, a buyer may work in a team of five people who report to the finance manager. The finance manager in turn works in a team of four managers, who all report to the operations manager, who reports to the general manager. This pattern forms the organisational structure.

Your position description will include the duties you must perform as part of your role and who you report to. For example, the purpose of a job role for a buyer might read:

Purchase goods, materials and services to ensure that the company operational needs are met, taking into account price, quality and delivery and to ensure continuity of supply.

Example

Strategies influence purchases

The Total Body Shop has supported ethical purchasing strategies since the 1980s, when it launched a community trade program. Under this targeted purchasing program, it purchases accessories and natural ingredients for its products from disadvantaged communities around the world. This program aims to provide a regular source of income for the communities by paying a fair price and invests in the community.

Ethical purchasing is one of the core values of the Total Body Shop. Their purchasing guidelines prioritise sourcing products within the communities rather than price. In other words, even though there may be a cheaper source of cocoa butter for a face cream, the buyers at the Total Body Shop prioritise an ethical source over the cheaper source because of the organisation's ethical purchasing strategy.

Purchasing structures

Sometimes all the purchasing for an organisation is centralised and completed by a dedicated buyer or group of buyers. Other organisations use a decentralised purchasing process, where each department is responsible for its own purchasing arrangements.

Some organisations use a combined approach, where expensive or specialised items are purchased centrally, but lower value or frequently used items are purchased as required by the departments that need them.

There may be limits to your involvement with the purchasing process outlined in your position description. These limits will vary depending on your role, the organisation and the purchasing model used by your organisation.

Centralised purchasing

When working within a centralised purchasing model, you will have limits to your involvement. It is the senior buyer that needs to be involved in discussions about price or conditions of purchase but you may be required to attend to support the buyer on the detail of the requirements. This is generally the case for more complex or high-value items.

Even when products and services are purchased centrally, you may still be involved in the purchasing process. You may be required to review the product or service specifications so that they can request quotations. Initiate contact with suppliers to find out if they can prepare a quote on your requirements.

Decentralised purchases

If your organisation has a decentralised purchasing model, you may be involved in purchasing products or services for your department. Some decentralised models use designated buyers within each department; that is, positions that are authorised to approve purchases up to a certain value. Others allow each position to initiate a purchase order, but usually require a series of approvals based on the value and the type of product or service.

Sometimes decentralised models are used after initial involvement from purchasing. For example, the purchasing team may have negotiated terms for stationery with a local supplier. In this situation, your role may be limited to checking that the goods are supplied at an agreed price and having your stationery requisition, or a similar kind of order form, approved by your manager.

Example

Purchasing replacement printers

You are a buyer for an IT company. As a part of your job, you investigate the purchase of replacement printers and show the results of your research to the purchasing manager. Here are the steps you follow:

1. Complete a product specification including the features you require and have this checked by your supervisor.
2. Complete some research on which companies have products that meet your needs.
3. Provide the information you have researched in a report to the buyer together with the product specification.
4. Accompany the buyer when they meet with the supplier as part of the request for quote process or after the initial quote is received.

Competitive quotations

Purchasing policies may require that two or more competitive quotations be collected before an approval for a purchase can go ahead. This requires research and a comparison of the set criteria. If this is a requirement, you may be required to send these quotes with a recommendation of one of product or service over another. This allows your supervisor to understand the reasons for your choice. If you are not providing competitive quotes when this is normally required, you need to explain why not.

Approvals for spending

Most organisations have an approvals process that is required for spending the company's money. Depending on your job function, you may have a particular amount that you can spend without getting an approval from a supervisor. Each level of seniority in an organisation, may have a progressively higher approval level. Generally, the more expensive an item, the more senior the approver needs to be.

Some purchases require several levels of approval. This is common business practice and ensures that issues are resolved before a purchase is submitted to a senior manager; it also allows the lower level manager to be made aware of the request.

Record-keeping requirements

One of the principles of purchasing and procurement is referred to as accountability. This means that each of the steps in the purchasing process can be scrutinised and examined and nothing is covered up or hidden. Policy documents will outline the importance of a system so records can be located when they are required. A record keeping system needs to track the process, especially if there is an issue such as faulty goods, services not being delivered or approvals not being sought.

Purchasing records and record-keeping requirements
<ul style="list-style-type: none"> ▪ The product or service specification (details on the features required, quantities and delivery)
<ul style="list-style-type: none"> ▪ The request for quote to the supplier or suppliers
<ul style="list-style-type: none"> ▪ Copies of the quotations and any related correspondence
<ul style="list-style-type: none"> ▪ The approvals documentation and the signed approvals
<ul style="list-style-type: none"> ▪ Correspondence notifying unsuccessful suppliers
<ul style="list-style-type: none"> ▪ Approved purchase order documents
<ul style="list-style-type: none"> ▪ Invoices
<ul style="list-style-type: none"> ▪ Updated asset registry for new items

Communication

As a buyer, you will need to prepare written reports and communicate to a range of people inside and outside of the organisation.

There will be many situations when you will need to ask questions if you need information clarified and explained. You may need to know about a particular term in a contract or step of a procedure. You might need to ask a supplier to explain the features of a product or how the warranty works.

Effective communication means paying close attention when someone is speaking and not interrupting with questions until they are finished. The way you phrase your questions and who you are speaking to (your audience) should also influence the way you ask questions. For example, casual and familiar language is appropriate with a work colleague. However, you would be more formal when speaking with a supplier, especially if for the first time.

In written communication, incorrect spelling and grammar can lead to information being misunderstood or confused. The person sending the message and the person receiving the message may have a very different understanding of the writing. Always write a draft and check it before sending. If it is important commercial information, such as a price, ask a colleague or supervisor to check it before sending.

When speaking on the phone or face-to-face, listen actively and ask clarifying questions. Repeat back to the person a summary of the details you have noted to clarify they are correct. An example of a clarifying question is, 'Have I got that right?'

Communication tips
Make sure you have the person's attention.
Provide a suitable, quiet environment so you can both be heard.
Use clear, specific and relevant words, and avoid slang or abbreviated terms or too much terminology.
Speak to the person directly.
Use sentences that are easy to follow and interpret.
Ask if the person needs more information and explain yourself in different ways.

Practice Task 2

Question 1

Which of the following statements relate to the roles and limitations of a staff involved in purchasing? Tick all that apply.

- Position descriptions show the reporting lines and levels of authority.
- Some structures require that lower value items be purchased centrally, but expensive items can be purchased by the departments that need them.
- Suppliers often require different approval limits from the buyers in an organisation.
- Limitations on the responsibilities of the buyer depends on the type of purchasing structure and the processes that need to be followed.
- Quotes involve research and a recommendation for one product or service over another.

Question 2

List at least three examples of purchasing documents that will be needed as part of the purchasing procedure.

Question 3

Which of the following statements are correct? Select yes or no for each one.

- | | | |
|---|-------|------|
| a) Effective communication involves paying close attention when someone is speaking. | » Yes | » No |
| b) Use a warm, friendly and familiar tone and language when speaking to a new supplier for the first time. | » Yes | » No |
| c) In written communication, it is easy to misspell or use language that can be misunderstood or confusing to the reader. | » Yes | » No |
| d) Communicating over the phone requires you to listen actively and ask clarifying questions. | » Yes | » No |
| e) Repeating back what you have heard a person say is unprofessional and considered to be rude. | » Yes | » No |

Summary

- Purchasing strategies help organisations achieve their business objectives.
- Purchasing policies and procedures provide detailed information about terms and conditions.
- There are legal and workplace responsibilities associated with making purchases for an organisation.
- Documentation required for purchasing needs to show a trail of documents from the initial contact with a supplier all the way to the purchase and delivery.
- This is referred to as accountability.
- Your responsibilities and reporting authorities will differ according to the type of purchasing structure and the organisation where you are employed.
- Understanding how your role fits within the organisational structure helps to identify the limits of your role related to making purchases.
- Effective communication with suppliers and colleagues will ensure all the information and details are correct.

Learning Checkpoint 1

Understand purchasing requirements

Part A

1. Which of the following are purchasing strategies that reflect business objectives?
Tick all that apply.
 - Reduce the number of suppliers to reduce administrative costs.
 - Sustainability strategy to promote an ecologically brand.
 - Reduce cost strategy to achieve profit margin targets.
 - Buying local strategy to reduce the time it takes staff to get to work.
 - Ethical purchasing strategy to promote an ethically responsible organisation.
2. Which of the following statements relate to record keeping for purchasing? Tick all that apply.
 - Accountability means documents can be tracked and show each step of the purchasing process.
 - Accountability means checking documents when staff leave the company.
 - Product or service specifications include information on the features, quantities and delivery of products and services.
 - Approval procedures require signatures from every person who is involved in the process.
 - Buyers need to understand the record keeping system used by their employer.
3. Suggest three ways you can find information about your role, responsibilities and limitations of your role in purchasing.

4. List four tips for communicating effectively when confirming requirements for a purchase with a supplier.

Part B

Read the case study, then answer the questions that follow.

Case study

Theo works for a chain of retail pharmacy shops called Goodhealth.com. The regional manager in charge of staff who work in the shops, Trevor, wants to update the staff uniforms. He asks Theo to coordinate the purchase of new uniforms from a new supplier. Trevor explains that Theo has authority to spend up to \$2000. Trevor explains he wants a smart uniform that staff will be happy to wear. He wants them delivered in time to present the new uniforms to staff at a meeting in two months' time. Trevor tells Theo to include the existing supplier when asking for quotes and reminds him of the poor service they gave in their last order.

Theo prepares the product specification document with details about supplying 85 uniforms, in a range of sizes and information on the delivery time and other terms and conditions for payment. He selects three companies and sends them the specifications and requests a quote.

Within a week, Theo has received the quotes and from the information provided, prepares a recommendation to Trevor.

Trevor agrees with Theo's choice of supplier, but he would like some of the staff to see the samples and confirm it will be functional and practical to work in before going ahead with the order.

Once the supplier has been confirmed the availability, Trevor signs the record of his approval. Theo advises the supplier to go ahead and sends the finance department the order details including the amount and timing for when to expect the invoice.

1. Suggest at least one strategy Trevor wants Theo to use when arranging the purchase of uniforms.

2. Suggest two selection criteria Theo used for the purchase of uniforms.

3. Give two examples of issues that may happen with the order and why Theo should keep track of the documents used for the purchase.

4. Which of the following statements relate to the purchasing structure used at Good Health.com? Tick all that apply.

- They use a centralised system with a dedicated group of buyers.
- They have a decentralised system where each areas manager is responsible for its own purchasing arrangements.
- They have a combined approach that depends on the value of the goods being purchased.
- They don't have a system so Theo will take instructions from Trevor.



Topic 2 | Make purchases

- 2A Receive purchasing specifications
- 2B Select appropriate purchasing methods
- 2C Obtain approvals for purchases
- 2D Get quotes from suppliers
- 2E Select suppliers, place orders and make purchases

2A Receive purchasing specifications

If an organisation uses a decentralised purchasing model, the purchasing specification may be sent directly to the suppliers who are invited to provide a quote for the business.

A purchasing specification provides specific details about what is going to be purchased. It should provide all the information a potential supplier needs to develop a full and accurate quotation. It is often prepared by the person in the organisation who initiates the purchase.

Where a centralised purchasing model is used, the person may send the specification to the buyer. The buyer checks it and forwards it to the prospective suppliers.

Content of a purchasing specification

The more information provided to a supplier at the quotation stage, the more accurate the quote will be. There is also less chance of misunderstanding between your organisation and the supplier.

This is an example of content of a purchasing specification for the purchase of laptop computers. These are general headings can be used for a variety of products.

Technical specifications

What do you need the product to do? Indicate mandatory (must haves) and desired elements.

Example: Memory capacity, battery life, network capability, screen size, software.

Quantity

How many of the product will be required?

Example: One for each of the new staff and one for office to loan as required.

Availability

What products are available?

Example: If the product that you prefer is not available for some time, you may need to choose a different product to meet your immediate needs.

Intended purpose

When is the product required?

Example: delivery should be one week before new staff commence, to ensure products have been set up to company requirements.

Warranty

What is the minimum acceptable warranty period?

Example: 24 months plus service support as required.

Delivery

How the products should be delivered and the maximum allowable weight and dimensions.

Example:

- By courier to office address.
- 4 kg without bag and accessories.

Terms and conditions

Communicate the standard terms and conditions of the purchasing organisation.

Example: payment terms are net 30 days.

Response requirements

When are the quotes due?

How should the information be presented?

Example: written summary of options required within two weeks of receiving the specification.

The purchasing specification may provide additional information for the supplier about:

- the mandatory features and desirable features
- what they must do to be considered as a supplier for your organisation such as special delivery requirements or professional certification
- what is expected of them in terms of response timing and presenting their quotations.

A purchasing specification for services, needs to include information on what is required such as cleaning, maintenance and advertising. This includes the key deliverables, or outcomes that are expected from the service, rather than technical specifications that are used for products.

Review the specification document

The one specification should be provided to each supplier so they can all quote on the same information. This will mean the buyer can more easily compare the information provided by each supplier.

A specification must be clearly written and not subject to misinterpretation. You may need to read through a specification and clarify anything that is not clear. The author may need to explain some information, or you can ask questions and then update the document before it is forwarded to the supplier.

Here are some tips on what to look for in a well written specification:

- Communicate technical requirements clearly by:
 - avoiding technical jargon wherever possible
 - providing technical drawings if relevant.
- Use lists and tables to summarise detailed information.
- Use headings in the document, such as 'quantity', 'timing' and so on, so that suppliers can identify key information easily.
- Use a standard template for a specification wherever possible. This will be pre-populated with a list of areas that needs to be completed.
- Provide contact details for the person requiring the purchase and the buyer so that the supplier can confirm information.

Accurate records

Purchasing specifications provide a written record of what has been requested, which can be helpful in the event of a dispute. For example, a dispute may arise if a product is received but the buyer or requisitioner believes it is not what was requested. They would never be decided upon over the phone or in a face to face meeting without being followed up with a record documenting what has been decided and discussed. Written records do not rely on people being present or having good memories. They provide accountability.

There can sometimes be a dispute if the supplier changes the price after the initial quote is accepted because they believe a requirement did not appear in the original specification. You should keep records of any amendments to the specification and make sure the latest version is provided to all suppliers.

Here are some aspects of the purchase that may affect the product specification.

Complexity	If the purchasing specification is for a straightforward product or service from an existing supplier, you may simply transfer the details from the purchasing specification to a purchase order using your organisation's purchasing procedures. Then seek appropriate approvals before sending the approved order to the supplier and a copy to the requisitioner for their records.
Unusual purchase	If the purchasing specification is for something unusual or expensive, you may check the details with the person who requested the item or service. For example, you could find some information missing from the purchasing specification, so you may ask them to update it or to clarify some information.
Competitive tendering	If you are asking more than one supplier to quote, you may choose to discuss the specifications with potential suppliers before asking them to submit a quotation. Alternatively, you may send the purchasing specifications to the supplier or suppliers, asking them to submit quotes by a specified date.

Example

Using a purchasing specification

Tansy works in the administration office of a warehouse for electrical goods. The company is expanding its range to include air conditioners, so it needs new warehouse shelves to accommodate them. Based on the information from the air conditioner supplier and the estimated volume figures from the sales department, Tansy completes a purchasing specification for the new shelves and forwards it to Susanne in purchasing.

Susanne reviews the purchasing specification and contacts Tansy to clarify the details. She advises her that she intends to conduct a competitive tender. She asks Tansy to set up a meeting with her in three weeks, as she will have received the quotations from the suppliers by then.

When the quotes are returned, Susanne sends them to Tansy. During their meeting, they agree on the selection criteria for the supplier. They review each of the three quotes against these criteria and agree on the best supplier. Tansy develops a recommendation and circulates it for approval so that Susanne can process the purchase order.

Practice Task 3

Refer to the example above to answer the following questions.

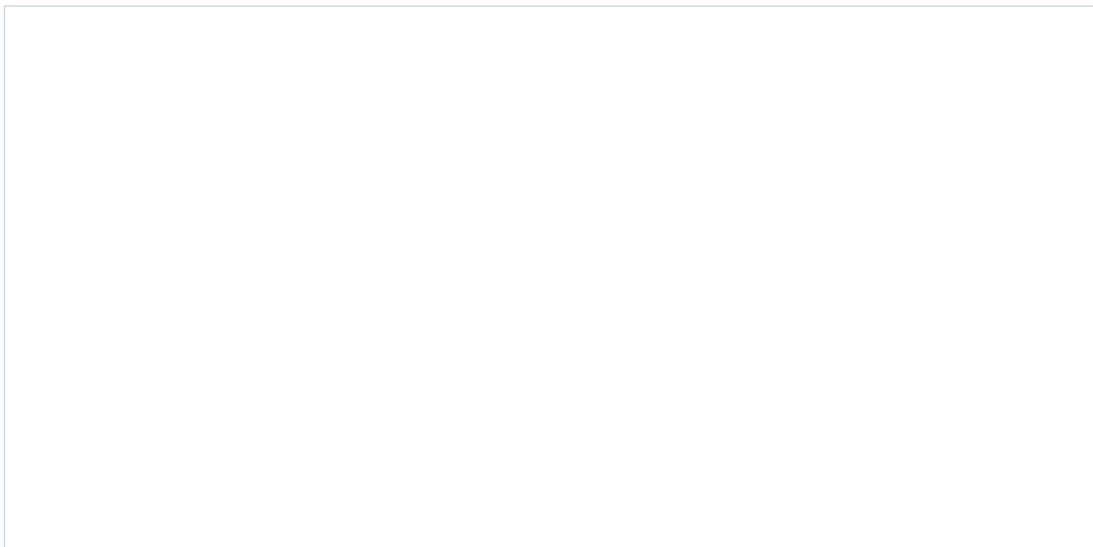
Question 1

Develop three questions Tansy can ask Susanne to make sure she has all the information she needs to write the purchasing specifications document.



Question 2

Suggest at least three pieces of information that Tansy will have included in the purchasing specification document she prepared.



2B Select appropriate purchasing methods

The methods used for purchasing depend on the size of the organisation and the type or value of the purchase.

Common methods used to purchase products and services include having a formal contract with a supplier. Low value purchases can be paid for using a cash and carry option where payment is provided on the spot when the product is collected or service has been provided. The use of a contract will depend on the frequency of the purchase. For example, if something is not required often (or for only a fixed period of time), the organisation may choose a purchase order and not enter into a contract.

Entering into a formal contract

All agreements are bound by contract law. Contract law binds all parties who have signed a document to the terms within it. Some company's use a template for their contract that has been checked that it is legal and binding. Department staff can then use the template to develop specific documents for different suppliers as required.

Your supervisor or manager will be familiar with the details of an agreement with a supplier; and you can refer to the policy or procedures for purchasing that will outline the company's requirements for contracts.

When signing a contract, the supplier is agreeing that they will provide a product or service for an agreed fee. A contract reduces the risk of a dispute over fees, payment, timeframes and the work to be performed or products to be provided. Many companies use contracts:

- where there are quality requirements, specifications or specific materials that must be used
- when you must have certain types of insurance for the work to be done
- where the contract contains essential terms, such as a critical date for the completion of the work before payment can be made
- where the company needs to keep certain information confidential
- when it is required by the insurance company for professional indemnity purposes.

Read more about contracts here: aspirelr.link/types-of-contracts

Using a purchase order

A purchase order is the most common method for initiating the purchasing process.

A purchase order details the goods and services to be purchased such as a description of the goods or service and the delivery date. It may also include other details of the purchase such as terms and conditions between us and the supplier.

A purchase order document can be a standard form or simply a written approval document that is forwarded to all parties involved in the transaction.

Here are some examples of areas of a business that may be involved in purchase order approval.

Requesting department

The requisitioner completes the details of the purchase order, including the supplier, the purchase, the value and the assigned budget centre. They also attach any supporting documentation, such as the purchasing specification, quotations, recommendation papers and approvals. The requisitioner may need to arrange for approval by a supervisor or manager before forwarding the purchase order, depending on the value of the order and the level of approvals required.

Finance department

Some organisations require finance approval before forwarding the purchase order to purchasing. This is generally to ensure that the budget authorised by the requesting manager is available.

Purchasing department

The buyer ensures that the terms and conditions of the purchase order are consistent with the organisation's requirements. They also review the recommendation. Depending on the value of the order, the buyer may need to forward the order to their manager for subsequent approval. In general, the buyer is the one to notify the supplier that they may proceed; however, this may be done by the requisitioner in some organisations.

Processing a purchase order

The process will vary in different organisations, and you may have some or all of the responsibility for the steps described below.

Processing a purchase order	
1	<p>Develop a product or service specification</p> <p>This outlines what is required, by when, in what quantity. A supplier needs enough information to develop a quotation. Organisations may require approval of this document before it is distributed to suppliers for high-value or customised items.</p>
2	<p>Submit a request for quote to the supplier or suppliers</p> <p>The product specification and any standard request for quote forms are sent to the supplier or suppliers. This includes a deadline for submitting quotes.</p>
3	<p>Review supplier quotes</p> <p>For complex or customised products, this can be a lengthy process. You may need to clarify details with suppliers.</p>
4	<p>Develop approvals documents</p> <p>Each alternative is reviewed against the selection criteria in accordance with the purchasing strategy. This forms the recommendation that accompanies the purchase order for approval. The amount of work required depends on the complexity and value of the order.</p>
5	<p>Complete purchase order details</p> <p>Most organisations have a standard purchase order form that must be completed with supplier details, product details, unit price, volume, any freight, import charges or other taxes, total cost, timing of supply and other details.</p>
6	<p>Circulate purchase order for approval</p> <p>This should be done in line with the approvals requirements of the organisation such as to a range of people including a supervisor or a person in a purchasing or finance department.</p>
7	<p>Provide purchase order to successful supplier</p> <p>This is generally accepted as an authority to start work or to dispatch goods.</p>
8	<p>Notify unsuccessful suppliers</p> <p>Once the final approvals have been received and the successful supplier has accepted the order, then you should notify unsuccessful suppliers. Don't take this step any earlier in case your recommendation is not approved.</p>

Requisitions

Requisitions are used to monitor expenditure or usage without creating more paperwork for the organisation.

Requisitions are generally used for low-value or frequently made purchases. They are submitted by an area of an organisation to the financial department. Once a requisition order has been approved by the financial office, a purchase order is issued.

Organisations use requisitions in different ways. Here are some examples of minor variations.

Purchaser signs	Organisations may allow requisitions to be signed by the person doing the purchase. In this case, their purpose is simply to monitor expenditure or usage, and not for approvals. This is only permitted for very low-value purchases. You may be required to sign a stationery requisition form before taking materials from the storage area or before using petty cash to purchase kitchen supplies.
Supervisor signs	Organisations may require a low level of approval for requisitions. This may be your immediate supervisor or a delegated buyer who is authorised to approve purchases within a given range.
Format changes	Requisitions may be standard forms created by your organisation or they may be order forms from the supplier. It is important that you file these requisitions as required by your work procedures, so that they can be used to reconcile the accounts in future.

Payment methods

Most organisations choose from a few payment methods that are used according to the method of purchase. For example, a credit card may be used with existing suppliers or according to ongoing supply agreements and contracts. If a purchase is made regularly or the organisation does regular business with a particular supplier, then it is likely to establish an account with that supplier. The supplier submits an invoice at the end of an agreed period, which is processed by the accounts department of the organisation.

For small value purchases that are made infrequently, an organisation may use credit card to pay for purchases or petty cash such as for buying supplies that run out in the staff room (cash and carry).

Organisations will have a strict set of guidelines about which employees can use a company credit card, to ensure that it is only used for authorised purchases.

Example

Purchasing choose the best payment method

Simon works for a community centre. One of his responsibilities is to support fundraising activities. He is developing a banner to advertise the centre's annual street festival, which is its biggest fundraising event of the year. He needs to arrange for the banner to be printed and assembled. He contacts several companies in the area for quotations.

Simon selects a company for the job. Not only is it the cheapest, but they can have it done and delivered well before the festival. He presents the recommendation to his supervisor for approval. Simon submits a requisition order to the financial department. It is returned on the same day and Simon prints off the purchase order. The purchase order includes:

- supplier details
- unit price
- freight/delivery charges
- total cost
- product details
- volume
- timing of supply.

Practice Task 4

Your company needs electrical work done in a warehouse to improve the lighting. The company has a centralised purchasing department and they require four quotes.

Question 1

Number each step from 1 to 7 in the order you would follow to process a purchase order.

- Review supplier quotes
- Circulate purchase order for approval
- Provide purchase order to successful supplier
- Develop a service specification
- Submit a request for quote to the supplier or suppliers
- Complete purchase order details
- Develop approvals documents

Question 2

Which of the following statements relate to formal contract? Tick all that apply.

- A verbal contract can be used when you are short of time.
- A contract must state the completion date.
- By signing a contract, the supplier is agreeing to provide a product or service for an agreed fee.
- Purchasing officers can write contracts and have the supplier check them for accuracy.

2C Obtain approvals for purchases

Policies usually require high value expenditure to be approved by at least one other person.

This is a normal process and is not a matter of trust in individual employees. These procedures can also apply to senior employees who are required to seek approval for spending beyond an agreed level.

Approvals can be paper-based, requiring signatures on a purchase order form, or online, where a digital system transfers the details to different people according to the level of approval required.

If purchasing is your core job function, you may have a level of authority level that does not require approval by a supervisor. There will likely be a financial limit based on either the individual purchase order value or the expected annual spend on the particular item.

Here are some examples of purchasing limits that may apply to your position.

Expenditure approval limits	You may be authorised to approve a purchase up to a certain financial limit. Generally, expenditure limits are related to your job function.
Product category limits	You may be authorised to approve different amounts depending on the type of product or service being ordered. For example, some high-use goods, such as office equipment or kitchen supplies, may have different limits from other products and services.
Approved supplier limits	There may be different approval limits when working with approved suppliers. You should make sure that you understand who the approved suppliers are and what products or services you are authorised to approve.

Finalise approval before proceeding

There may be different approval processes in your organisation. These can vary by department or depending on the type of purchase being made, so it is important to check the procedures for your current job role. Your supervisor should provide you with training on the procedures used in your organisation. You should ensure a purchase is fully approved before you give the supplier the authority to commence work.

Many larger organisations require that the purchase order be checked before an invoice is paid. If an order is wrongly approved for an amount that is beyond your authorised limit, then the supplier's invoice may be rejected after the goods have been received. Under most terms and conditions, any costs incurred by the supplier before they have received

the purchase order are at their own risk. For example, if they start production or dispatch goods while you are waiting for final approval, and then approval is denied, the supplier may not be paid for these goods. Since this can create an awkward situation, it is critical that you obtain all approvals before work commences.

Job roles and the approval process

For larger expenses, there might be a regular meeting at which approvals are submitted. This could be because approvals are required from a number of people and this is easier when people are together. If you have an item that requires approval in this kind of meeting, you should be prepared with your documentation.

Staff whose job function deals exclusively with purchasing are more likely to have higher limits than someone at their equivalent level in marketing, for example.

Here is an overview of typical roles in the approval process of staff working at different levels in an organisation. A suggestion is made as to what a typical limit is to the amount they can approve at their level.

Team leaders/ supervisors	<ul style="list-style-type: none"> Referring to the budget and confirming the availability of funds for the purchase A supervisor may also provide initial approval Possible approval limits: \$500–\$1,000
Managers	<ul style="list-style-type: none"> Provide approval following review of background and quotes Possible approval limit: \$5,000
Senior managers	<ul style="list-style-type: none"> Provide approval following review of background and quotes Ensure purchase is consistent with company priorities Possible approval limit: \$20,000
CEO	<ul style="list-style-type: none"> Provide approval following review of background and quotes Ensure purchase is consistent with company priorities Possible approval limit: \$50,000
Board of directors/ owner	<ul style="list-style-type: none"> Whether the board or owner has final approval will depend on the type of organisation Possible approval limit: unlimited
Buyers/ Purchasing officer	<ul style="list-style-type: none"> Provide advice on appropriate suppliers Help negotiate terms and conditions Ensure purchase complies with purchasing strategy and procedures Possible approval limit: \$10,000

Purchasing managers	<ul style="list-style-type: none"> • Provide approval for larger purchases • Ensure purchase complies with standard terms and conditions • Ensure purchase complies with purchasing strategy and procedures • Possible approval limit: \$50,000
Other employees	<ul style="list-style-type: none"> • Provide input on what products and services are required • Help develop product specifications

Example

Gaining responsibility

Examples of who to obtain approvals from
<p>Box of pens Supervisor Designated buyer for stationery; for example, administrative assistant</p>
<p>New photocopier Management level Likely to require purchasing and finance approval also</p>
<p>Biscuits for the tearoom Requisition May not even require supervisor approval</p>
<p>Upgrade of a new software Senior management level as part of a major project approval Will require purchasing and finance approval also Likely to require additional approval from IT department</p>

Practice Task 5

Read the case study, then answer the questions that follow.

Case study

Maria works in marketing for a chain of department stores. She and her supervisor, James, have been discussing having a sale promoting Father's Day, where they would arrange for discounts on automotive goods, hardware products and men's clothing. James congratulates her on the idea and says he will discuss it with management.

The next day, Maria is talking with the advertising agency, as she wants to make sure they have enough time to develop the concepts. She tells the agency about the sale and suggests that they start considering some ideas for promoting the sale. They agree to develop a proposal for Maria to present to James.

Two weeks later, Maria receives the proposal together with an unexpected invoice for the initial creative work. She meets with James to review the proposal.

After being sent the proposal, James tells Maria that the sale has not been approved to go ahead. He asks her why she authorised the agency to commence work. He explains that she needed his authority to ask the agency to commence any work and he could not give it until the sale was approved by management. Maria is now very concerned about the invoice, which she passes to James.

Question 1

Suggest what might happen to the advertising agency who provided the work. Explain your reasons in your response.

Question 2

How could Maria have handled this differently?



2D Get quotes from suppliers

Your organisation may have standard policies and procedures for requesting a quotation.

Some organisations, particularly those with centralised purchasing models, may require that only purchasing officers or buyers request quotes from suppliers. Others may require quotes to be sourced for any purchase above a set amount (for example, \$2,000) but may allow any employee to request them. Alternatively, you may be able to request quotes from existing suppliers, but not for new business.

Here are some reasons for requesting a quote.

Negotiation of standard price

The purchaser wants to agree a standard price with the supplier. This may be for products or services that will be ordered frequently for your organisation. A blanket purchase order sets a price for a given period of time for these products and simplifies the ordering process.

A particular project with a preferred supplier

Your organisation may have a preferred supplier who will supply all products, services such as equipment and trade work to your organisation for the duration of the supplier agreement. You may still request a quote from this supplier for a specific need. This quote should then accompany the purchase order for approval of this particular purchase.

Competitive tender

You may ask several potential suppliers to submit formal quotes for a particular product or service. This is a process that is generally used for higher value purchases. It may also be done before choosing a supplier for an ongoing supply agreement.

Being fair and transparent

A principle of purchasing is that all potential suppliers are given the same opportunity to win the business. As the buyer, you must demonstrate probity and transparency. This means you must always act with integrity, fairness and honesty. Bias, or giving one company an advantage over another, must not be part of the purchasing process.

Information given to one supplier should generally be provided to all potential suppliers to avoid bias. It would be unfair if existing suppliers can use information, they already have about an organisation that can give them an unfair advantage over others. For example, using terms or abbreviations unique to the relationship between an existing supplier and a company may give an advantage to this supplier over a new one.

Here are some general guidelines for obtaining quotations:

- Provide full and clear information to the supplier, for example, a copy of the purchasing specification.
- Provide clear information on timing, including responding to the quote and supply of the product or service.
- Specify standard terms and conditions for your organisation.
- Document the request for quote and retain a copy for your records. This may be particularly useful if there is a future dispute.
- No information about one supplier's response should be provided to another supplier before they have submitted their own response
- Each supplier should be given the same amount of time to respond to the purchase specification.

There is more information on acting with probity and transparency during purchasing and procurement here: aspirelr.link/plan-probity

Example

Receiving gifts

Many organisations include information about the giving and receiving of gifts in their purchasing policies. Any offer of a gift from a supplier or potential supplier should be discussed with your supervisor. This is being transparent and not holding back or hiding information regarding the purchasing process. Most organisations take breaches of policies or to their code of ethics very seriously. Breaches can result in disciplinary action.

The terms and conditions for purchasing staff who interact with suppliers may include the following rules:

Value of the gift	If a gift is worth more than \$50, check with your supervisor whether you may accept it. If not, you can either return it to the supplier or arrange for it to be donated to charity if you think your refusal may offend the supplier.
Nature of the gift	You may not feel comfortable accepting personal gifts from a supplier. Some organisations do not allow employees to accept alcohol. Organisations may be more inclined to allow employees to accept gifts that are marked with the supplier's logo.
Nature of the invitation	If a supplier representative is also attending a function that they invite you to, then it is generally acceptable for you to attend. Some organisations limit the number of invitations you may accept from a supplier within a given period; for example, one per quarter.
Supplier motivation	If you believe that the supplier may expect you to favour them over a competitor in a purchasing decision as a result of the gift or invitation, or to offer more favourable terms, then it is better to decline. The most important thing is to remain objective in your purchasing decisions.

Finding suppliers

You may know the market for your product and service well, so you know the best suppliers to contact. If this is not the case, you may need to research potential suppliers. You can ask others in your department or colleagues who they recommend. Finding suppliers is similar to finding someone to conduct a repair at your home or choosing where you can purchase a new appliance.

Here are some examples of sources of information.

Company records and marketing material	<p>Ask previous or existing suppliers to quote for the business. Ask colleagues who have dealt with the supplier before for their feedback. If they have negative feedback, you may choose to invite other suppliers to quote instead.</p> <p>Your organisation may previously have received marketing material related to the product or service you are purchasing. Review the file of material for potential suppliers.</p>
An internet search	For common products or services, do an internet search for suppliers. You may be able to use internet forums to gain feedback on the supplier or product. Don't rely on forums as participants may have limited knowledge. They can, however, be helpful in identifying questions to ask prospective suppliers.

Consulting with experts	Ask colleagues in your organisation whether they are familiar with suppliers of the product or service. Alternatively, you can ask other organisations, friends, family or acquaintances, providing this does not breach any confidentiality requirements.
Purchasing personnel	Purchasing staff in your organisation can be a valuable resource about suppliers and their experiences with them. They may be able to provide contacts that can assist you further.

Review quotations

When quotations are received, you may meet with the person requesting the purchase or a supervisor to discuss or decide on a recommended supplier.

When you receive a quotation back from a supplier, make sure you review and check it.

Your review should check for the following:	
▪	The quotation is on approved company letterhead from the supplier.
▪	It shows how long the quote is valid for.
▪	It matches the criteria established in your purchasing specification.
▪	It is signed by an authorised employee of the supplier.

Confidentiality requirements

You should only share the details with those directly involved in the purchase. Mentioning quotes to other employees, even in casual conversation, can indirectly compromise supplier confidentiality, which is unfair to participating suppliers.

Here are some examples of confidentiality considerations.

Supplier terms	Details of one supplier’s quote must not be provided to another supplier. It can provide an unfair advantage to one supplier if they know the terms of a competitor’s offer. For example, they may have been planning to quote at \$100 per hour, but if they know a competitor has quoted at \$107 per hour, they may raise their response.
Feedback	There may be times when a supplier asks you for feedback on why they did not succeed in a particular tender. While the business has already been secured by someone else, you should still be very careful in how you respond. For example, it may be appropriate to suggest that it was because the supplier offered better delivery conditions for a comparable price, but it is unwise to offer too much detail. If in doubt, it is better to advise the unsuccessful supplier that you are not able to provide that information.

Suppliers' agreements

Some tenders may require you, the potential suppliers or others involved to sign a confidentiality agreement. You should be sure that you clearly understand what you are being asked to sign and if you are unsure, speak to your supervisor or your organisation's legal representative.

Example**Treat suppliers equally in competitive tender**

Renee is the purchasing officer for a regional hospital. She has received a purchasing specification for replacing the chairs in the waiting area of the hospital. She meets with the hospital administrator, who wrote the specification, to clarify some details. At the end of the meeting, she updates the specification with the information the administrator has provided.

The administrator asks if she will use the same supplier who recently provided the furnishings for the children's ward and Renee explains that, because the furniture will cost more than \$2,000, the purchasing policy requires her to get at least three quotations before choosing a supplier. She will ensure that the previous supplier is given the opportunity to quote.

As the purchasing officer responsible for coordinating the quotes, can't guarantee who will get the business but she can accommodate the administrator's request that a past supplier be given the opportunity to quote.

Practice Task 6

Question 1

Which of the following statements relate to quotations? Tick all that apply.

- The purchaser can negotiate a standard price with the supplier.
- Centralised purchasing models may have staff responsible for requesting quotes from suppliers.
- Several potential suppliers can be asked to submit formal quotes for low value purchases.
- The best supplies end up being the current suppliers.
- The internet is a better source of information on suppliers than recommendations by purchasing staff.

Question 2

Which of the following statements are correct? Select yes or no for each one.

- | | | |
|---|-------|------|
| a) A principle of purchasing is probity and transparency which means acting with integrity, fairness and honesty. | » Yes | » No |
| b) Information given to one supplier should generally be provided to all potential suppliers. | » Yes | » No |
| c) Information about one supplier's response should be provided to all suppliers before they have submitted their own response. | » Yes | » No |
| d) Information on quotes should only be shared with those directly involved in the purchase. | » Yes | » No |
| e) Documents about quotes are usually only referred to when there is a dispute. | » Yes | » No |

2E Select suppliers, place orders and make purchases

Your organisation may have a list of criteria they use when selecting a supplier.

Selecting the supplier involves comparing the quotes and seeing how each supplier will meet the list of criteria set in the purchasing strategy.

One way organisations compare each quote is to prioritise the criteria by giving it a simple weighting, such as from 1-3. Assign the most important criteria as 3, moderately important criteria 2 and others 1. Then review each alternative product/service and assign them a score out of 10 on each criterion, with the highest number assigned for the best performance; that is, a 10 is better than a 5. Then the final number for each alternative product/service can be identified by multiplying the two numbers. This process can be used to simplify the decision-making process.

Financial health

Financial health of suppliers is most important when the product or service is one that your organisation depends on to conduct its own business. For example, if you are purchasing an ingredient to make a food product, it would cause considerable disruption if the product were not available due to financial problems with the supplier. If a product is used regularly but there are alternatives available, it would be inconvenient to find another source but would not significantly disrupt the core business.

Researching financial health will be the responsibility of the finance department and managers. Be aware that any sensitive information you are given is treated as confidential.

Ongoing quality

Higher quality products, even when more expensive in the short term, can save the organisation money overall because there are fewer concerns or defects. For example, suppliers can be asked to provide information about their quality performance.

Customer service levels

Suppliers' responsiveness in dealing with problems can be a key factor in how easy they are to work with. Since problems do occur from time to time, your company would prefer to work with a supplier who accepts responsibility for concerns and works to resolve them promptly.

Potential for long-term purchasing relationships

If the purchase requirement may continue for a long time, it is important to consider whether the suppliers will be able to support this and be able to work easily together. For example, your company may consider purchasing a short-term requirement from a company that has just opened for business, but you may wait to see how they perform before awarding them significant business.

Example

Using criteria to choose a supplier

An organisation has a low-cost purchasing strategy, so price is given the highest rating of 3. Efficiency and warranty, which affect operating costs, are the next most important and both rated 2. Quality is the least important and rated 1. After calculating the options, alternative two proves to be the best choice, although its initial price is the highest of the three.

This example shows how weightings can make a difference to the final recommendation.

Criterion	Weighting	Service one		Service two		Service three	
		Score	Weighted score	Score	Weighted score	Score	Weighted score
Price	3	10	30	7	21	8	24
Quality	1	5	5	10	10	6	6
Efficiency	2	6	12	7	14	4	8
Warranty	2	7	14	9	18	6	12
Total weighted score			61		63		50

Value for money

Value for money is not the same as getting the best or cheapest price or the highest value.

Consider value for money when selecting which supplier will meet the specifications of the purchase. This involves considering the different aspects of a product or service, such as the upfront purchase price, the after-purchase costs (i.e. the instalment costs) and whether the purchase will need modifications to make it fit for purpose.

Value for money means looking at the value of the goods or services over its lifetime. For example, if a piece of equipment will last up to 10 years, then the value for money is good because the item has a long life cycle. Another part of value for money is the end user of the product or service, such as employees or customers and try to consider the benefits to them. For example, purchasing laptops for staff can mean they can use them for travel or be uploaded with video conferencing software so they can work remotely.

Some more information on purchasing principles of value for money used by government buyers, can be found here: aspirelr.link/nsw-gov-value-for-money

Risk management

Risk management is about making sure the risks associated with the purchase are identified, assessed and managed.

When risk is managed, unexpected or undesirable outcomes are minimised, the purchasing strategy of the organisation can be met. In some organisations, a risk management process may be applied to purchases over a certain amount or for products or services that are essential for the functioning of the business.

The risk process covers these steps:

1. Identify risks, such as what might occur during the purchasing process.
2. Analyse risks including what is the impact or significance of the risk and how likely the risk is to happen. For example, low, medium or high.
3. Evaluate risks means ranking the risk according to its severity.
4. Treat risks such as coming up with a way to reduce or eliminate the risk.
5. Monitor and review the risk to see if other actions are required or other people need to be informed.

Some common risk categories associated with purchasing are included in the following table:

Planning and Preparation	<ul style="list-style-type: none"> • Delays in obtaining approvals • Unrealistic time or cost expectations
Product / Service	<ul style="list-style-type: none"> • Delays in delivery, installing and testing • Unsafe use of hazardous materials • Practices or final product/service does not meet expectations/ requirements
Procurement Process	<ul style="list-style-type: none"> • Changes to scope and/or specifications, specifications prepared in a manner that discriminates for or against particular suppliers • A proper process has not been followed
Industry and Suppliers	<ul style="list-style-type: none"> • Only a limited number of potential suppliers • Industrial disputes upsetting supply
Management	<ul style="list-style-type: none"> • Unethical behaviour and/or conflict(s) of interest
Stakeholders	<ul style="list-style-type: none"> • Conflict between the organisation and the supplier • Poor communication
Contract	<ul style="list-style-type: none"> • Lack of properly maintained records • Errors in a contract

The examples provided in the table and other examples can be found here: aspirelr.link/spb-risk-management-guidelines

Place your orders

After the supplier has been selected and the approval process is complete, a firm order should be placed with the successful supplier.

In most circumstances, this is the signal to the supplier to commence work on the product or service. Until this point, because the purchase may not have been fully approved, the supplier had no authority to proceed and no confirmation that they would be paid for the work.

A firm order is a commitment from the purchasing organisation that it will purchase the product or service under the agreed terms and conditions, and generally requires both parties to agree to any change, often with a fixed notice period.

If there are any special conditions related to the purchase, for example, a discount that is available providing the purchase is made by a certain time, confirm this in writing at the time of placing the order.

Here is more information about placing orders.

Supplier order form	<ul style="list-style-type: none"> ▪ Some suppliers may only process orders if they are submitted on their own paperwork. ▪ This is most likely for suppliers that have a large, detailed product range and want to ensure the correct product is supplied. ▪ They may require one of their forms to be completed but this will not replace the paperwork required within your own organisation.
Online order	<ul style="list-style-type: none"> ▪ Some systems allow you to submit an order online. ▪ This allows the order details can be transferred directly to their system without having to be processed again by the supplier. ▪ If you are processing an online order, ensure that you receive a record of the details of the order, whether it is emailed to you in confirmation or as something you can download or print from the system.
Purchase order form	<ul style="list-style-type: none"> ▪ Your organisation may have a customised purchase order form that is completed with the details of the purchase. ▪ You may choose to refer to the purchasing specification, use the supplier product codes, or provide a brief description of the product or service. ▪ Purchase order forms often double as the approval document within your organisation and need to be completed with financial details and supplier information. ▪ Copies of these forms will be required by different departments so follow the procedure given to you by your supervisor.
Customised system	<ul style="list-style-type: none"> ▪ Depending on the size of your organisation and the frequency with which orders are placed, you may have a digital system that transfers orders from your organisation to the supplier. ▪ For example, if the supplier replenishes stock to a warehouse, you may have a system that indicates when a reorder point is reached and triggers a replacement order to the supplier. ▪ These automatic systems usually have a manual review process and must be approved by an authorised employee. ▪ Such systems can only operate if the price is agreed in advance; for example, on a blanket purchase order set up as part of an ongoing supplier agreement.
Standing order	<ul style="list-style-type: none"> ▪ Your organisation may have a regular requirement for the same amount of a particular product; for example, office or kitchen supplies. It can be simplest to advise a supplier to send the same amount of office paper every month unless they are notified otherwise. ▪ Most suppliers request advance notice of a change to the order volume. ▪ In general, once a firm order is placed, the supplier is not obliged to meet a request to reduce it without an agreed amount of notice.

Example

Completed purchase order

To: Safe and Secure Shelving 123 Factory Square Productionville 1234			Purchase order number: 57298
Ship to: Best Electrical Warehouse Drive Retail Centre 9876			
Units	Product description	Unit price	Total price
6	Galvanised shelves	\$250	\$1,500
Product code ABC 456			
8 hours Fitment and installation		\$120/hour	\$960
GST	\$246		
Total including GST	\$2,706		
Requisitioner:		Tasy Nichols	Phone: X 5678
Buyer:		Susanne Netherton	Phone: X 8901
Approved:	Requesting department manager		
Purchasing			
Finance			
Budget centre	XZY 467		
Account	JKL 234		
Standard Best Electrical terms and conditions apply.			
Copies: white to supplier; blue to buyer; pink to requisitioner; green to finance			

Practice Task 7

Read the case study, then answer the questions that follow.

Case study

Margaret is organising the staff Christmas party. The general manager has agreed to host the party at his home since he has a large garden and has asked Margaret to find the caterers and also to rent a marquee, chairs and tables. He has set a budget for the event of \$5,000 for 50 employees and their partners. Margaret has been told to keep within the budget, but the manager wants good plenty of quality food and efficient staff who will clean wash up glasses and plates and clean up the house after the party.

Question 1

Suggest two places where Margaret could go for information about suppliers for the catering and equipment.

Question 2

Which of the following statements relate to criteria Margaret use when selecting one supplier over another? Tick all that apply.

- Presentation of staff
- The budget
- Quality of serving staff
- Availability of catering and equipment
- Style of decorations

Question 3

Suggest one risk that Margaret might identify when organising the work party, and explain the level of risk this may be to the success of the party.

Question 4

Value for money means thinking about the end user of the product or service and the benefits there may be for them in one product or service over another.

» True » False

Summary

- Purchasing specifications provide detailed information about the requirements of the purchase so that a supplier may provide a full and accurate quotation.
- Agreements with suppliers can be a formal contract or a simple purchase order.
 - All agreements are bound by contract law.
 - Contract law binds all parties who have signed a document to the terms within it.
- Purchase orders are the most common method used for making a purchase.
 - They make a formal contract with the supplier and include a description of the goods or service, the delivery date and other details such as the terms and conditions.
- Requesting quotes from suppliers, whether from an existing approved supplier or as part of a competitive tender, is a key part of the purchasing process.
- All suppliers must be treated equally and without bias and be protect by the confidentiality of the purchasing team.
- Full approval, as required by the organisation's purchasing procedures, must be secured before placing a firm order with the supplier.
 - Unauthorised commitments can have disciplinary consequences for the employee and financial or legal consequences for the organisation.
- Choose a supplier who best satisfies the overall requirement for the organisation including value for money.
- Risk management is about making sure the risks associated with the purchase are identified, assessed and managed.

Learning Checkpoint 2

Make purchases

Read the case study, then answer the questions that follow.

Case study

Thuong is an office manager for a computer sales company. For some time, she has been frustrated with their current IT contractor. Their service is often delayed, and issues not identified quickly enough. This can lead to staff not having access to the internet or software needed to do their job. She speaks to Ralph, the organisation's purchasing officer, and asks if she can change suppliers. Ralph explains that current supplier must be given with two months' notice, as per their contract. Ralph suggests Thuong write a draft purchasing specification using the company template. Ralph will then send the document to other suppliers, so they will be ready to review quotes to start with a new supplier when the current contract expires.

1. Which of the following statements relate to the purchase specification document Thuong needs to develop? Tick all that apply.

- Thuong will send the specification to Ralph who will check it and forward it to the prospective suppliers.
- The specification will need to outline the company's expectations for the service they want for the supplier.
- The specification will need a description of the technical requirements of the IT systems used by the business.
- Thuong has authority to prepare the specification and send it to the suppliers she has chosen.
- Thuong will use a specification template with the areas that she needs to provide to the suppliers.

2. List two approval procedures that must be followed and suggest reasons why the approval procedures are required.

3. Which of the following relate to information included on the purchase order for the new IT supplier? Tick all that apply.

- Names of the unsuccessful suppliers
- Payment methods
- Supporting documentation, such as the purchasing specification
- unit prices, the overall value or total cost
- Personal contact details in case of an issue or problem
- Names and signatures of people authorise to approve the order

4. Draw a line to match each term on principles of purchasing to its description.

- | | |
|-------------------|---|
| » Transparency | » Providing each supplier with the same information so they all have the same opportunity to win a quote for the order. |
| » Value for money | » Telling a supervisor about a valuable gift received from a supplier who has provided a quote. |
| » Risk management | » Identifying what will happen if there is a delay in obtaining quotes or approvals from management |
| » Probity | » Considering the service needs of staff in the selection of a supplier. |

5. Identify two reasons why policies and procedures require contracts to be in writing.

6. Identify three places Ralph can look to find information about a potential new supplier.

7. Draw a line to match each term about the ways to confirm an order to its description.

- | | |
|-----------------------|---|
| » Standing order | » An approval that includes financial details and supplier information |
| » Online order | » Used by suppliers when they have a large, detailed product range and want to ensure the correct product is supplied |
| » Purchase order | » Order details are uploaded directly to a software system without having to be processed again by the supplier |
| » Supplier order form | » Used for regular supply requirement for the same amount of a particular product |



Topic 3 | Receive purchases

- 3A Receive goods and services and advise relevant personnel
- 3B Check goods comply with specifications
- 3C Take action to fix noncompliance
- 3D Register new assets
- 3E File and store purchasing records

3A Receive goods and services and advise relevant personnel

Products or services should be checked to ensure that they are correct and align with organisational procedures.

This process ensures the organisation has received what it paid for, but it is also an important part of managing stock.

In a small organisation, the administration staff or other company representative may sign for a delivery so that a courier can deliver it. The employee responsible for signing should notify the person whose name is on the delivery note or department representative as soon as possible. In other organisations, a signing authority may be required to accept deliveries when the designated person is absent or unavailable.

Ways to delegate signing authority

- Ask the person you have in mind if they will be available.
- Provide them with details so they know to expect the delivery.
- Ask the authorised person's manager or supervisor to authorise the receipt.
- Notify all employees in a work area that another person has been authorised to sign for receipts in your absence; for example, by sending a group email.
- Establish a permanent alternative authority; for example, two members of a team may be authorised to sign for receipts so that in the absence of one, the other has authority.

Notify others

It may be standard receiving procedure to notify accounts payable of a receipt and a formal document is usually required. Other organisations may use different methods to notify a person who has ordered goods that they have been delivered.

Formal documents	<ul style="list-style-type: none"> • Invoices, delivery receipts, purchase orders and order forms are examples of formal documents that may be used to notify different areas of an organisation about the delivery status of a purchase. • Some of these documents may have multiple copies, allowing you to circulate copies while keeping one for your records. • For example, accounts payable may receive a copy of a purchase order once it has been approved. The receiving area may forward a copy of a delivery receipt when a product arrives. • Finally, when a supplier submits an invoice to the requisitioner, they will approve its payment and forward this approved copy to accounts payable, who will, in turn, reconcile all the documents before paying the invoice.
Email notification	<ul style="list-style-type: none"> • This is a more informal method of advising relevant personnel, yet it still provides a written record of the notification, if there is a concern in future. • Email can be used to ask the user of a delivery to collect it.
Phone or personal contact	<ul style="list-style-type: none"> • These are the best methods when a delivery is urgently required. If you cannot reach the person named on the delivery or you are not sure they are available, try to contact another person in their area who will take responsibility. • It may be necessary to ask this person to sign for the delivery. This will depend on your organisation's procedures surrounding the internal movement of goods.
Digital systems or software programs	<ul style="list-style-type: none"> • Organisations that receive regular deliveries often have an electronic system that retains details of orders, receipts, stock on hand and so on. • When these systems are in use, the receiving area updates them when stock has been received, and when it has been checked and released for use or sale to customers. • Such systems are very convenient, because they provide information to all authorised users without the need for additional contact.

Providing information

Different areas of an organisation may need different information about the receipt of a purchase:

- The buyer may only be interested in confirming that the order has been received and if there are any errors.
- Accounts payable, on the other hand, will want details by line item, so they can verify the invoice.
- Requisitions or users may need to be notified that the delivery has arrived so that they can verify the receipt against the order.

What is required depends on the person's reason for needing the information. If in doubt, ask your supervisor what is required. Here are some examples of the types of information the person receiving the goods or services may need.

Quantities received

- Identify the quantities of each product received. Each product in the order will be labelled with an identifying name or product number.
For services, it may be appropriate to record units of time, numbers of people who attended or other such information.

Discrepancies in the delivery information

- Make sure the delivery note has the correct person and company and address. Deliveries should be clearly labelled with the name of the purchasing organisation.
If this is not your organisation, notify the delivery agent (usually a courier) as soon as possible. As this is a relatively quick check and it can be performed before signing for the delivery.

Damaged goods or incomplete services

- Record any products that have arrived in damaged condition, including any indication of whether the products have been damaged in transit, if this is known.
If a service has not been properly completed (for example, there is still a fault after an electrician has completed the job), this should also be recorded.

Timing of delivery

- Recording the time and date of delivery can be important. This information may help the buyer compile a report for example, asking them to justify why their deliveries are often late or a service may have taken two hours more than quoted.

Example

Receiving and passing on goods

Thomas is walking to the lunchroom when he notices a delivery person waiting. The receptionist is not available, so he asks if he can help. The delivery person asks him to sign for a delivery of marketing materials for the sales manager. Thomas works in finance, but signs for the delivery and leaves the marketing materials on the sales manager's desk.

The next day Petra, a sales coordinator, rings the printers, concerned that the marketing materials have not arrived, as they need to be dispatched to the regional offices quickly. The printer advises that they were delivered the day before and contacts the delivery company to confirm. Finally, after a lot of confusion, Petra realises that Thomas received them and figures out that he left them on the sales manager's desk.

Practice Task 8

Read the case study, then answer the questions that follow.

Case study

Petra speaks with the printer who she believes has not delivered her marketing materials. She realises that they were delivered as required but she was not informed. She needs to work out where they are and apologises to the printer.

Question 1

Which of the following statements outline the process that should have been followed to receive the goods? Tick all that apply.

- Petra should have waited at the front desk for the delivery to arrive.
- Petra could have delegated signing authority to another staff member.
- Petra should have called the supplier to get a delivery time.
- Thomas could have left the materials with the front desk person who would be familiar with the process.
- Thomas could have taken the parcel to his desk.

Question 2

Identify three reasons why it is important to notify the user of a product or service that a delivery has been received.

Question 3

Which of the following statements are correct? Select yes or no for each one.

- | | | |
|---|-------|------|
| a) Email can be used to advise relevant staff about details of an expected delivery. | » Yes | » No |
| b) Recording the time and date of delivery doesn't need to be recorded but a note can be kept of the time if there is an issue such as a late delivery. | » Yes | » No |
| c) A record needs to be kept of any products that have arrived in damaged condition, including any indication of whether the products have been damaged in transit. | » Yes | » No |
| d) Electronic systems are a convenient way to notify others where the receiving area updates the arrival of stock, when it has been checked and released for use or sale. | » Yes | » No |
| e) Rather than keep a delivery company waiting, it is best practice to sign for a delivery and hand it over to the person when you have time. | » Yes | » No |

3B Check goods comply with specifications

Verifying that products or services received are what has been ordered is an important part of the receiving process.

Identifying any discrepancies early in the receiving process helps minimise the cost and inconvenience to both the purchasing organisation and the supplier.

Receiving the incorrect product when a purchase is delivered is a common problem. Whoever is checking the delivery can use the purchasing specification to confirm what should have been received. This supports their request to the supplier to seek either a refund or a replacement.

Verify receipt against order

Most suppliers accept returns if the order is incorrect, but this may only be allowed for a certain period; for example, the purchasing organisation may only have 48 hours from the time of receipt to return incorrect goods to the supplier.

Here are some examples of checks that can be made to verifying receipt against order.

<p>Check against order</p>	<ul style="list-style-type: none"> ▪ Record any products or services that have different quantities from those ordered. For example, there may be three missing items of a particular product. ▪ For orders of more than a few items, this check must usually wait until after the delivery agent has left. ▪ Depending on the structure of your organisation, this may or may not be done by the person who placed the order. For example, the receiving staff in the warehouse may check it before it is put away.
<p>Check for damage</p>	<ul style="list-style-type: none"> ▪ Goods should be checked for damage that may have occurred either at the supplier or in transit. ▪ Your organisation may require a different level of checking for different types of goods. ▪ For some goods, a simple visual inspection may be enough. ▪ For more expensive or high-technology goods, it may be appropriate to conduct a test; for example, with some electrical goods.

<p>Confirm all obligations have been met</p>	<ul style="list-style-type: none"> ▪ This confirmation may be conducted by different personnel depending on the type of order. ▪ For example, if the order is for goods against a blanket order or under a supplier agreement, then the receiving staff may be able to confirm all obligations for that particular order such as delivery method, specialise delivery agent, or other goods to be picked up at the same time. ▪ For more unusual orders or for customised goods or services, the buyer or requisitioner may complete this task.
<p>Complete all necessary documentation</p>	<ul style="list-style-type: none"> ▪ Most delivery agents require some authority before they leave the premises; for example, they may ask the receiving personnel to sign a delivery sheet or receipt document. ▪ After the delivery has been checked against the order, the receiving personnel should complete the appropriate paperwork. ▪ This may simply be marking off the invoice as each item is checked or it may require updates to a digital ordering system, depending on the system in place at your organisation.

Checking services can be more difficult than checking products for damage. For example, if you have hired an electrician to conduct a safety test, then you may not be able to see any change. For the delivery of services, some organisations require a written report from a supplier. For some other services, such as engaging training personnel, it may be sufficient to check attendance registers or speak with the attendees and get their feedback.

Check the specifications

The receiving employee should check the purchasing specification before the products are booked into stock.

Some errors in large, complex shipments are reasonable. However, if a supplier routinely supplies incorrect goods or the services provided do not meet the requirements, then the receiving area should notify the buyer so that they can address the concern with the supplier.

In a decentralised purchasing model, this may be the same person. Where purchasing is centralised, the buyer or purchasing officer must be told of these concerns.

Methods of checking for discrepancies	
Product codes	Check that the product codes of the goods received are the same as those ordered. This may be a physical check against the order document or product specification, or an electronic method such as scanning barcodes.
Quantities	Check that the quantity of each product received matches the quantity ordered.
Condition	Do a visual inspection of all products for any damage. For some high-value, technology products, there may be a testing procedure. This may be specific to the product, so check your organisation's procedures. You may have requested specific changes to a standard product, so verify that these have been made.
Time sheet	For services, it may be more appropriate to check the time spent on the assigned job. This should be the same as or even less than the time noted in the original quote. If the number of hours claimed is higher than quoted, ensure you understand why and you secure any necessary approvals.
Deliverables	For some services, it may be more appropriate to check the outcome of the service than the time spent. You may have a check sheet summarising what should have been done or you may be able to check the outcome; for example, whether a computer is working again.

Example

Standard warehouse procedures

A large shipment of clothing arrives and Kerri, who works in the receiving area, counts the cartons, checks each one for damage and checks each address label. She notes that one carton is damaged, but a quick inspection of the contents shows there is no further damage within, so she signs the driver's delivery note.

Kerri enters the consignment number into the computer software system and then changes the status from 'on order' to 'at receiving'. A summary of each item is displayed and the quantities in which sizes that have been ordered from the supplier. She scans each item using a barcode scanner, so the system can identify it, and checks it against the order.

Once this is complete, she checks the report. One whole product line, a red jacket in various sizes, was not available from the supplier. She records this as 'not received' in the system and then approves the rest, which changes the status to 'received'.

Kerri then advises the warehouse supervisor that the received items can be put away. The supervisor updates the record so that the items show as being in stock or 'on hand'. Kerri looks up who ordered the stock and gives the buyer a call to notify them of the arrival of the shipment.

Example

Recording missing items on a receiving document

A consignment number is the number assigned to the whole order, while the product number relates to a specific product.

Receiving personnel may mark up any missing items on the original delivery note, which will form part of the overall record. They may choose to only identify non-compliant items.

Consignment		No: 67238		Page 1 of 4	
To: Fashion First, 123 Catwalk Street, Melrose Place					
From: Quality Streetwear, 678 Factory Road, Big City, China					
Quantity	Product number	Size			
30	1234565	8			Rec'd
30	1234565	10			Rec'd
80	1234565	12			Rec'd
80	1234565	14			Rec'd
40	1234565	16			Not rec'd
30	1234565	18			Rec'd
100	7893456	8			Rec'd
140	7893456	10			Rec'd
160	7893456	12			Rec'd
Copies: white to receiving; blue to requisitioner; pink to supplier; green to finance					

Practice Task 9

Read the case study, then answer the questions that follow.

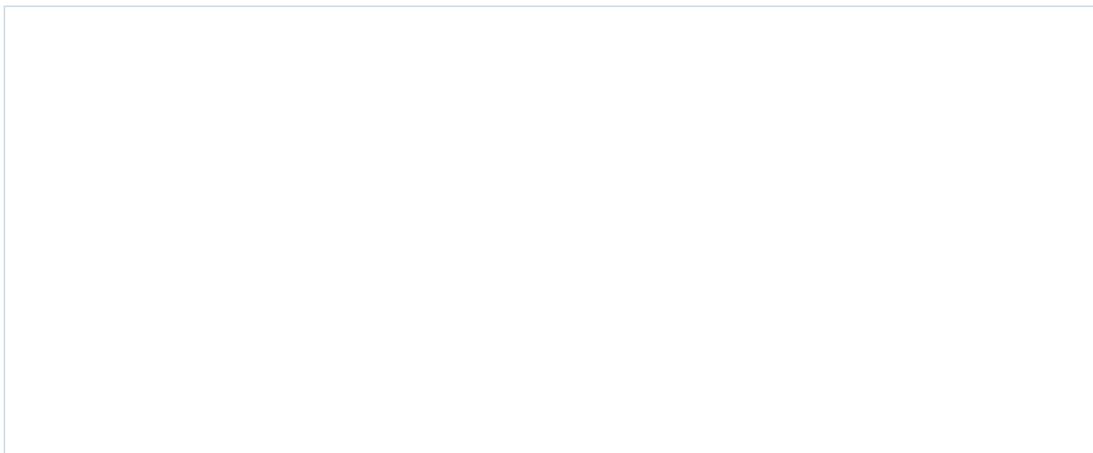
Case study

Kathy, who works in receiving at a clothing wholesaler, receives a parcel marked 'Sample – attention Martha'. She realises this must be a prototype of a new product, which Martha must check for quality levels before approving the product to be produced in large numbers. Martha has sent Kathy an email advising that this parcel is expecting, so she calls Martha to let her know it has arrived. Martha sounds relieved and says she will pick it up within the hour.

The warehouse's normal receiving process includes conducting an initial inspection for damage and quantity, checking the consignment number and scanning items so they can be checked by the computer system against the order recorded in the system. Staff in other departments have access to these records and can also monitor the delivery status of items.

Question 1

Identify three things that can be done when checking for compliance of the delivery of clothing.



Question 2

Draw a line to match each term about checking for discrepancies to its description.

- | | |
|-----------------|---|
| » Time sheet | » Check that product codes of the goods received are the same as those ordered using an order document or product specification, or by scanning barcodes. |
| » Condition | » Check that the quantity of each product received matches the quantity ordered. |
| » Quantities | » Do a visual inspection of all products for any damage. |
| » Deliverables | » For services check the time spent on the assigned job against the time noted in the original quote. |
| » Product codes | » For services check what should have been done or the outcome, for example, whether equipment is working again. |

3C Take action to fix non-compliance

When a purchase does not comply with the purchasing specification or order documents, it must be reported.

Different parts of the organisation may be affected by non-compliance in different ways. For example, if a supplier does not provide a product that has been advertised as part of a sales catalogue, then the organisation can be penalised for incorrect advertising. Suppliers should notify the buyer or stock analyst prior to sending an incomplete shipment, but it is important to check what has been received so that action can be taken to fix any non-compliance.

Reporting requirements can vary. Some areas may not need to be advised of every successful purchase (since this is a standard business process) or of purchases with small or inconsequential errors. However, non-compliance usually needs to be addressed, so there may be wider reporting requirements when this occurs.

Report non-compliance

The same staff members that you advise when a purchase is received should be notified of any non-compliance, although for different reasons. Your organisation may have specific reporting mechanisms, such as what to do in the case of non-compliance, while others, such as the user of the goods, may need to be notified regardless.

Here are some methods of notifying noncompliance to people in the organisation.

Who to notify	Why you need to notify them	Possible notification methods
Accounts payable	To ensure the invoice is paid according to what is received, not what was ordered	Approved copy of invoice, with any discrepancies noted; email notification; update to digital records
Requisitioner	They may be the user of the product or service; may need to advise others who are affected by noncompliance	Email or phone notification; update to digital records
Buyer/purchasing officer	To provide feedback on supplier performance	Email or phone notification; update to digital records
User of goods	They may be waiting for delivery; may need to advise others who are affected by noncompliance	Email or phone notification; update to digital records

Take corrective action

Errors in shipments are reasonably common. Most organisations develop a procedure to limit the inconvenience and cost that occur as a result of these errors.

Two of the most common errors are products missing from an order and incorrect stock being received.

Missing stock

- If missing stock that was ordered is still required, then the supplier will be contacted to arrange for delivery as soon as possible. If this is urgently required, then a courier or special delivery may be arranged. The supplier may agree to bear the expense if they accept responsibility for the missing stock. If not, you may need to seek approval to fund the extra delivery charge.
- If the supplier makes regular deliveries and there is sufficient stock to cope with usual demand levels until that time, it may be appropriate to receive the missing stock with the next order. In this case, the records need to be updated so the invoice for the current order does not include the missing stock; otherwise it will be paid for twice. Accounts payable should be notified, either using a digital stock system, email or an updated copy of the formal documents.

Incorrect stock

- If a product is incorrectly received, then in most cases it needs to be returned to the supplier. The supplier may send someone to collect the product or collect it next time they make a delivery. Regardless, the stock needs to be stored somewhere where it is clear to all employees that it is quarantined and is not to be put into stock or used for other purposes.
- Some organisations have a designated area for stock that is not to be used for a variety of reasons. Incorrectly received stock will be labelled explaining why it is there and when it will be collected.
- For incorrect stock that will be returned, the receiving personnel should ensure the delivery documents are updated so that the organisation will not be charged. The supplier may reissue the invoice without the incorrect items. Alternatively, they may ask that the invoice is paid in full and that the receiving organisation submits a claim for a refund. The procedure will depend on the organisation.

Discrepancies

If the receiving process reveals that an order is either incomplete or incorrect, claims must be processed against the supplier to correct the error. The documents required to report a discrepancy may be unique to each supplier or your organisation may use standard documents for every supplier. They may be processed electronically as the order is checked.

Here are the steps that could be taken by a person receiving an incomplete or incorrect delivery.

Accept order	<ul style="list-style-type: none"> ▪ If the order is incomplete, receiving personnel need to decide whether the order should be returned completely or whether the partial shipment can be accepted. ▪ If the order is for a large number of different, separate products, receiving procedures usually allow acceptance of part of the order. This prevents unnecessary delays in receiving the correct goods, and unnecessary expense and inconvenience in returning correct goods.
Record appropriately	<ul style="list-style-type: none"> ▪ To ensure stock records remain accurate, it is important that any missing goods are not wrongly recorded as having been received. For example, there may be an electronic system that automatically accepts an order and books it into stock.
Inform buyer	<ul style="list-style-type: none"> ▪ If a supplier has not met their obligations, then the receiving personnel, or whoever notices the discrepancy, should notify a supervisor or the buyer or purchasing officer as soon as possible. ▪ If discrepancies are consistent or are of particularly high value, then receiving personnel should ask the buyer to help them address these concerns.

Example

Accounting for missing and damaged goods

Rachel is in charge of the administration staff for a management consultancy firm. She receives a regular stationery order delivery and as she puts each item into the stationery cupboard, she marks it off against her order form. As she does so, she notices that the clips on one of the binders she ordered are damaged and she also identifies three missing items.

She calls the supplier and advises them of the issues. They assign her a claim number and direct her to the claim form on their website. Rachel confirms that her organisation will not be charged for the missing and damaged items. She places a note on the invoice before sending it to the finance department for processing.

Rachel logs onto the supplier's website and submits the claim form. She prints a copy for her records, as well as one for the purchasing officer, and adds the missing items and the binder to her reorder list, so that she will receive them next time.

Register of concerns

Orders are compiled by individuals, who make mistakes. However, some suppliers may have more errors than others. There may be underlying causes that, if corrected, could help reduce errors in shipment and save both organisations time and money.

Regularly reviewing the errors made is a good way to identify trends and improvement opportunities. Establishing a concerns register is one way to do this. A concerns register is a document that summarises key information about any errors or issues with shipment or other aspects of the business. Information that can be recorded is listed below.

Name of supplier
Name of receiving employee
Type of product and number of products in order
Date and time when the order was placed and date and time of delivery
Names of buyer and requisitioner
Type of error (missing stock, incorrect stock, etc.) And number of errors in order
Special order type and customer order type
Total number of orders that day

Practice Task 10

Read the case study, then answer the questions that follow.

Case study

Steven works in a restaurant and often takes delivery of fresh foods including fish and other meat. When he arrives at work, the supplier has left before the restaurant opens and the boxes of perishable foods are left on the steps. The restaurant has an agreement with the supplier that all deliveries must be handed over to a staff member and signed off by a staff member.

When Steven goes through the order he counts fish that was not ordered and several other items are missing that are needed for lunch service.

Question 1

Identify at least two actions Steven can take to resolve the issues with the delivery, including the incorrect order and the actions of the delivery company.

Question 2

Number each step from 1 to 3 in the order you would follow to check and follow up on any non-compliance.

- Record any missing goods to ensure stock records remain accurate.
- Whoever notices the discrepancy, should notify a supervisor or the buyer or purchasing officer as soon as possible.
- Accept the order but if it is incomplete, receiving personnel need to decide whether the order should be returned completely or whether the partial shipment can be accepted.

3D Register new assets

Assets are anything owned by an organisation that has value. They are something that provides a benefit over a reasonably long period of time.

Assets include:

- current assets, such as money due from customers or other debtors (accounts receivable), cash investments, stock and materials
- fixed assets, such as building or machinery
- intangible assets, which are not easily valued or physically held, such as intellectual property, patents and goodwill
- net assets (the difference between the total assets held by an organisation and its total liabilities).

Many organisations only record fixed assets in their asset register, while current assets and intangible assets are recorded elsewhere.

Asset register

A business needs to know what assets are held by an organisation at any point in time.

An asset register is a detailed record of the assets held by an organisation and usually provides key information about each asset. Organisations maintain an asset register and it is updated when any new assets are purchased and its value. When an asset is sold or no longer useful, it needs to be removed from the asset register. and its disposal. They will also limit the number of people who can enter and retrieve information from the register to maintain the security and reliability of the information it contains.

Asset registers are a requirement of accounting procedures and also of financial policies and procedures in your organisation. In addition, they provide a useful record for insurance purposes.

Adding information about an asset can be done online, so that it is automatically entered into a central database. Alternatively, a form may be required.

Register assets

Here are some examples of the type of information included in an asset register.

Description	A brief outline of the asset, including item name, make, model and manufacturer
Supplier	Details of the supplier, including contact information where relevant
Warranty information	Period of warranty, any key exclusions, general coverage information
Unique identifying number	A unique number that should be listed on all documentation related to that asset and also fixed to the asset itself
Purchase date	The date when the asset was purchased
Custodian	Who is responsible for the asset within the organisation; this may be either the name of an individual or a position title
Funding information	May include whether any grants were used to purchase the asset or the budget centre information if organisational funds were used

Value and disposal of assets

Your organisation will have procedures outlining how assets should be registered in the asset register, which may vary depending on the type of assets held by your organisation and their value. For example, a large manufacturer may only require assets worth over \$5,000 to be registered, whereas a small consultancy firm may require all assets worth over \$1,000 to be registered.

An asset register may also include information about the value of an asset and the disposal of the asset, as shown below.

Asset's value	<ul style="list-style-type: none"> ▪ Several items relating to an asset's value may be required in an asset register. ▪ The purchase value of the asset: this may include any other valuations; for example, a property may increase in value over time. Accounting procedures govern which value is used. ▪ Accumulated depreciation: this is an accounting value applied to the asset over its depreciable life, usually calculated by multiplying the asset value by the assigned depreciation rate over the relevant number of years. ▪ Written-down value: this is an accounting value calculated by subtracting the accumulated depreciation from the asset value. ▪ Depreciation date: this is a date set by the financial procedures (in order to calculate the annual depreciation) for when the asset value will be nil.
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Disposal of asset	<ul style="list-style-type: none"> Disposal date: this is the date that the asset is scheduled to be removed from service. This may also record the actual date of disposal. Disposal method: this is the details of disposal, such as trade-in, sale, exchange or donation. Disposal receipts: this is the amount received for the asset. Financial procedures may require formal documentation of disposal, such as receipts from the new owner and other formal records.
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Example

Asset register

		(Name)						
Asset location:		(Address)						
Asset ID number (unique no.)	Asset description (item) (make) (model)			Asset serial number (as given)	Supplier (name) (address)		Asset custodian (Officer title)	
Asset ID number (unique no.)	Purchase date	Asset value \$	Department funds used \$	Financial year of funding	Department program	Accumulated depreciation \$	Written-down value \$	Dep'n date
Asset ID number (unique no.)	Disposal date	Disposal method (sale by public tender) (sale by public auction) (theft) etc.				Disposal receipts \$		

Practice Task 11

Question 1

Which of the following statements relate to registering new assets? Tick all that apply.

- All staff can enter information about assets in the company's register.
- An asset register is updated when any new assets are purchased.
- Information on an asset includes a brief outline of the asset, the item name, make, model and manufacturer.
- The value of an asset varies over time and this makes it difficult to record a set value in the register.
- A disposal of an asset may be due to a trade-in, sale, exchange or donation.

Question 2

Draw a line to match each term about assets to its definition.

- | | |
|---------------------|---|
| » Fixed assets | » Money due from customers or other debtors, cash investments, stock and materials |
| » Net assets | » Building or machinery |
| » Current assets | » Things that are not easily valued or physically held, such as intellectual property, patents and goodwill |
| » Intangible assets | » The difference between the total assets held by an organisation and its total liabilities |

3E File and store purchasing records

Purchase records are important documents required for financial audits and formal financial reports. They are also useful when there is a query or dispute with a supplier or when making a claim under warranty or insurance.

Purchase records need to be filed and stored in a methodical manner so they can be accessed by authorised employees. The way these documents are to be stored will be outlined in the organisation's policies and procedures.

In some organisations, this may mean matching the paperwork from the order with the delivery documents and providing them to the accounts department before the invoice is paid. In other organisations, this may require updating digital records or a combination of both procedures.

Purchasing documents

Different purchasing methods and different transactions create different types of purchasing records. Records are kept in financial files, requisitioner or purchaser files, receiver files or supplier files. Multiple copies of some documents may be required and some records are held in more than one place.

Order documents, delivery notes and invoices are the most common documents used in the receiving process. They are important documents in an organisation's stock control process, which helps maintain stock accuracy. They are also used when reconciling invoices against orders, which is a standard process when paying invoices. It is also helpful if there is any dispute with the supplier about what was received.

A list of purchasing records is listed below:

Purchasing documents	
Approval document	This record holds a summary of requirements, summary of tender responses (where available) and approvals.
Delivery note	This includes date of supply, item description, number of items, any notes made. It can be held in receiver files.
Purchase order	This includes purchase order number, outline of purchase, item value, tax details, delivery information, terms and conditions of supply, budget centre information and approvals.
Purchase specifications	These include detailed description of requirements as provided to supplier.

Purchasing documents	
Quotation	This includes detailed response on pricing and supply conditions, tax information, timing for quote validity.
Record of supplier performance	Details can include errors in orders, delivery issues and damage or service problems.

Purchasing records for finance

Here are some examples of financial files and documents.

Corporate credit card transaction documents

These should be filed by credit card holder or credit card type and include details such as date, value, supplier and description.

Invoices, statements and payment requests

These can be filed by supplier, purchase category or date. Details include date, value, supplier, description, tax details and total value.

Petty cash vouchers

These are filed by date and include date, value and description.

Receipts

These are filed by supplier, purchase category or date. Details include date payment received, outline of purchase, value, payment method and supplier information.

Purchase orders

These may be held in financial files, as well as files of purchaser or requisitioner and supplier.

Digital records

Electronic records are generally preferred because they take up no physical space and are more easily copied and backed up.

You need to understand where in your organisation's file directory to store files and how they should be named. Naming conventions are used in organisations to help identify and retrieve documents. Your IT or supervisor can help you understand the best location for electronic storage of documents within your organisation.

Maintain security

Some documents, such as purchasing specifications for future products or quotations from different suppliers, may be commercially sensitive. Regardless of whether these are stored in paper or digital format, always maintain confidentiality.

Records may be stored on a part of the network with limited access or may be password protected. Procedures will outline the organisations requirements for maintaining the security of records.

Review and dispose of documents

You may choose to review your documents periodically to determine whether they still need to be retained. This can vary considerably based on their subject and why they were filed in the first place. Regular review of documents for items that are no longer required is an important part of maintaining any filing system.

Once the storage time lines have been met, dispose of the information. Check with a supervisor or team leader to make sure you meet any confidentiality requirements when destroying documents. Some documents that contain personal customer information or other confidential information may need to be shredded before they can be recycled.

Practice Task 12

Question 1

Identify three examples of instructions in a procedure for filing and storing purchasing documents.

Question 2

Draw a line to match each purchasing document to its description.

- | | |
|---------------------------|---|
| » Purchase specifications | » Stored in receiver files; includes date of supply, item description, number of items, any notes made |
| » Quotation | » Includes purchase order number, outline of purchase, item value, tax details, delivery information, terms and conditions of supply, budget centre information and approvals |
| » Delivery note | » Includes detailed description of requirements as provided to supplier |
| » Invoices | » Includes detailed response on pricing and supply conditions, tax information, timing for quote validity |
| » Purchase order | » Stored in supplier files by purchase category or date. Includes date, value, supplier, description, tax details and total value |

Summary

- All purchase receipts, whether for products or services, should be verified against the details of the order by an appropriately authorised person.
- Different areas should be notified of a purchase receipt, so that they can collect the delivery, complete work arising from the delivery or process financial transactions.
- Receipts should be verified for compliance with orders or specifications in a timely and accurate manner to ensure correct payment and facilitate return or exchange where required.
- Any non-compliance should be recorded and reported to affected personnel, including the requisitioner, buyer and finance department, so that they can take the necessary corrective and preventive actions.
- New assets worth over a certain value should be recorded in an asset register to facilitate creation of financial records and to maintain control over an organisation's assets.
- Purchase records should be filed and retained for both financial and general business purposes.

Learning Checkpoint 3

Receive purchases

Read the case study, then answer the questions that follow.

Case study

Amy is a purchasing officer who has been coordinating an upgrade of computer equipment for her company, a chain of baby product supply stores. The 15 new computers are for head office staff and the managers at each of their five stores. She worked closely with Matthew, the IT manager, to develop the purchasing specification and review the quotations from potential suppliers. She notifies the warehouse supervisor, Marc, that delivery is expected this week and asks him to let her know when the equipment arrives.

The next day, Marc calls Amy and advises that he has received 30 cartons, one for each computer and each monitor. Mark checks each carton matches the delivery note and the product identification numbers. As this is not stock, Marc cannot book it in using his usual system.

Amy notifies Matthew that the new computers and monitors have arrived and asks him to begin installing the company software onto the machines before they are issued to staff.

Matthew begins to load the company software, but finds that several machines have problems with the operating system loaded by the supplier. He calls the supplier and explains the problem, then arranges for the affected machines to be collected and have the operating system reloaded. He also emails the supplier and confirms the details, copying Amy on the email. Matthew is frustrated because this will delay his roll-out, but it is important that the computers function correctly.

After having completed the roll-out, Matthew is ready to dispose of the old machines. When they approved the purchase of the equipment, management also approved delivery of the old machines to a computer recycler for a nominal fee. He contacts the selected recycler and arranges for them to collect the equipment.

1. List three reasons why Amy needs to be notified when the new computers are received.

2. List three ways Marc let her know.

3. Which of the following statements relate to Mark checking the compliance of the delivery of computers? Tick all that apply.

- Check each carton matches the delivery note and that the product identification numbers are correct.
- Check for damage that may have occurred either at the supplier or in transit.
- Confirm all obligations have been met such as the date of delivery.
- Complete all necessary documentation such as signing a delivery document.
- Check the order and send an email to Matthew that the goods have arrived.

4. Identify at least three pieces of information about the computers that Amy will need to add to the asset register.

5. Which of the following statements relate to Matthew's responsibilities for reporting the issues he identified with the software? Tick all that apply.

- Matthew can offer to work with the supplier to speed up the fixing of the issues with the operating system.
- Matthew must check the basic functionality of the computer operating system.
- Matthew must fix the problems as the IT expert in the organisation.
- Matthew must work with Amy to ensure that the supplier has met their obligations for supplying computers outlined in the product specifications.
- Matthew must record the issues in writing to Amy.

6. List at least three purchase records that have been generated in this process and suggest where they could they be filed and by who.

7. Which of the following statements are correct? Select yes or no for each one.

- a) The disposal of the old computer equipment must be recorded in the asset register. » Yes » No
- b) Amy or Matthew can update the asset register with the information on the new computer equipment. » Yes » No
- c) Hard copy records are generally preferred because they are more secure than digital documents. » Yes » No
- d) Naming conventions are designed to make it hard for hackers to access secure information. used in organisations to help to identify and retrieve documents. » Yes » No
- e) Commercially sensitive records may be stored on a part of the network with limited access or may be password protected. » Yes » No

8. List three procedures that might be included in a procedure for storing and filing of purchasing documents.

