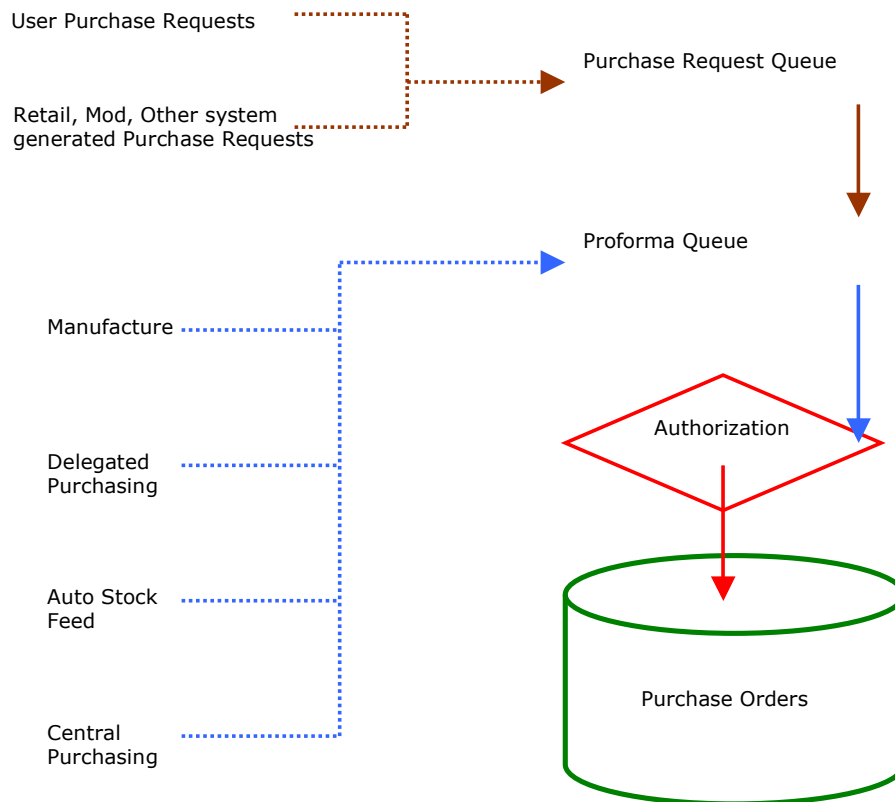# IES BUSINESS: Overview of Procurement (Purchasing)

## Introduction

The PURCHASING Module deals with the various actions involved in the Purchase Order cycle, inclusive of both Stock Replenishment and Direct Ordering. The Module is fully integrated with the rest of IES, and Purchase Order transactions may therefore directly update Ledger Cost Centres, AR Debtors, Job Costing, Inventory, etc.

A Purchase Order may be understood as a fully controlled mechanism that is applied in managing procurement of goods, both for Stock and non-Stock Items. The PO cycle includes all managed steps from Proforma (Purchase Requisition not yet authorized as an Order), to Authorization, Goods Received and Invoicing steps, plus Goods Return, Cancellations, Credit Note Processing and other events that occur during Purchase Order processing. At all times, the Purchase Order processing is 'in touch' with the Inventory system, plus the General Ledger and other Modules that PO processing is allowed to 'charge' Direct Items to. All processing occurs on an integrated basis in real-time. For example, the moment that a Purchase Order is authorized, then each Account that will pick up any charges from it already 'knows about it'.



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In the above illustration we show the feeding systems for Purchase Orders.

The Purchase Request Queue deals with 1 Line Item at a time, and is fed by User Purchase Requests plus system generated Purchase Requests originating in the Retail and Manufacture systems. This Queue is optional to use, and is NOT required for the creation of Purchase Orders. If the Request Queue is used, then the Buyers at Central Purchasing will move these Items, when approved for Purchasing, onto Proforma Orders.

The Proforma Queue is essential, and feeds the Authorization Queue. The Proforma Queue may be fed from Central Purchasing (Buyers), Automated Stock Ordering (Inventory system creating automatic Proformas for Stock Replenishment), from Manufacture and also from Delegated Direct Purchasing (Users with authority to order non-Stock Items directly). All the feeders to the Proforma Queue are optional to use, but a minimum of 1 of them must be in use to create any Purchase Orders.

The Authorization Queue is fed only by the Proforma Queue, and whatever gets authorized here becomes a Purchase Order.

### The 3-column IES concept for Purchase Order Processing

| Purchase Order # CCV2325 | Quantity | Value | |
|---|---|---|---|
| Goods from Supplier C2008 | | | |
| Stock Replenishment for Commodity 011001234 | 10.00 | 100.00 | |
| Direct Item to Ledger Cost Centre 10000235 | 1.00 | 5000.00 | |
| Direct Item to Job Code J8722 | 0.00 | 55250.00 | |
| | | | |
| **Supplier Account C2008** | Ordered | Committed | Actual |
| [when order is placed] | | | |
| Stock Code 011001234 | -100 | 0 | 0 |
| Goods Item | -5000 | 0 | 0 |
| Services Item | -55250 | 0 | 0 |
| [when goods received] | | | |
| Stock Code 011001234 | 100 | -100 | 0 |
| Goods Item | 5000 | -5000 | 0 |
| Services Item | 55250 | -55250 | 0 |
| [when invoiced] | | | |
| Stock Code 011001234 | 0 | 100 | -100 |
| Goods Item | 0 | 5000 | -5000 |
| Services Item | 0 | 55250 | -55250 |
| | | | |
| **Job Costing Account J8722** | Ordered | Committed | Actual |
| [when order is placed] | | | |
| Services Item | 55250 | 0 | 0 |
| [when goods received] | | | |
| Services Item | -55250 | 55250 | 0 |
| [when invoiced] | | | |
| Services Item | 0 | -55250 | 55250 |

In the illustrations above and below we introduce a distinct IES feature for dealing with Purchase Order processing: - Ordered, Committed, Actual.

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These 3 columns track all stages of the Purchase Order cycle. At Proforma stage, there is absolutely no impact in the Accounts, but when a Proforma is authorized it becomes a Purchase Order and at this stage all Items on the Purchase Order result in the related charge and supply Accounts (e.g. Payables, Ledger, Stock, etc.) being updated in the Order Column. The Order Column represents Memo Value and does not have any impact at all on P&L or Balance Sheet. However, when Goods Received are processed, the values move out of Ordered into Committed, and this now impacts on the Accounts and Balance Sheet. When Invoices are processed, the values move from the Committed Column into the Actual Column.

The illustrations shown above and below provide a view of the Financial Movement that takes place in the cycle of a Purchase Order. Needless to say, there are equivalent Movements for Goods Returned, Credit Notes, Part or Over Deliveries, etc. Also, in this example we are merely demonstrating the Financial Movement, but there are also Ordered, Committed and Actual columns for the Quantities, and all of these Values may be viewed in the various Enquiry Display and drill options, or reported on in a variety of Reports.

Perhaps more significantly, we may point out that the sum of the Committed and Actual Columns comprise the Value passed to Balance Sheet and various other Reports and Representations of your Accounts. A major benefit here is that Goods Received in a prior Financial Year but Invoiced in the current, is dealt with transparently by IES, because of the Committed and Actual columnar concept. There is then NO NEED TO DO ACCRUALS DURING YEAREND! [Actually, IES requires no yearend processing at all.] Even Budget comparisons deal with this issue correctly, i.e. when Goods Received 'last year' (and from that Budget) are Invoiced 'this year', it does not impact at all on the current Budget Comparatives.

Another benefit of the 3-column concept is that all Users can see the Purchase Order Values progressing through their Accounts during all stages of Purchase Order Processing, i.e. it does not hit the Expense (Actual) Column with a bang!, because it can be clearly seen to be coming through the 'columns', and this is shown on Account Enquiries, Transaction drills, Management Reporting and Audit Trails.

| Inventory Ctrl Acct & Sub Ledger | Ordered | Committed | Actual |
|---|---|---|---|
| [when order is placed] | | | |
| Stock Code 011001234 | 100 | 0 | 0 |
| [when goods received] | | | |
| Stock Code 011001234 | -100 | 100 | 0 |
| [when invoiced] | | | |
| Stock Code 011001234 | 0 | -100 | 100 |
| | | | |
| Ledger Cost Centre 1000235 | Ordered | Committed | Actual |
| [when order is placed] | | | |
| Goods Item | 5000 | 0 | 0 |
| [when goods received] | | | |
| Goods Item | -5000 | 5000 | 0 |
| [when invoiced] | | | |
| Goods Item | 0 | -5000 | 5000 |

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Summary of Purchase Order Steps: -

- ❑ Purchase Request Queue may be used to prompt Buying Department (CP or Central Purchasing).

- ❑ Proforma Orders (Purchase Requestions) are created, may be amended, may be cancelled prior to authorization.

- ❑ Authorization step is required for any Proforma before it becomes an Order.

- ❑ Once an Order, some or all of the following steps may follow: -

  - o Order Printing
  - o Price Adjustments
  - o Line Cancellations
  - o Order Cancellation
  - o Goods Received
  - o Goods Returned
  - o Invoice Processing
  - o Credit Note Processing
  - o Landed Cost Processing
  - o Opening, Re-opening and closing of Orders

At each of the steps listed, the system will automatically integrate to and perform updates in related parts of the system. For example, when Goods are Received, Stock is automatically updated, and likewise when Goods are Returned. The Supplier Account is credited and debited automatically when Invoices and Credit Notes are processed, etc. When Direct Items (non-Stock) are Invoiced, the charge Accounts in the Ledger, Job Costing (or where it was originally allocated to) or other are automatically 'charged'.

Have you used your IES today?