Module 1: Purchasing Process.

Ch 2. Purchase Requisition.

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Recognition, Definition, Description, and Transmission of the Need

- The need for a purchase typically originates in one of a firm's operating departments or in its inventory control section.

- The purchasing department is usually notified of the need by one of two basic methods:
  1. A standard purchase requisitions, or
  2. A material requirements planning (MRP) schedule.

- If the need is a one-time purchase, then an engineering bill of materials is sometimes used.
Types of Purchase Requisitions.

Standard Requisition.

- Standard requisition is an organization's document (paper or electronic) that internal customers use to communicate to purchasing what, when, and how many products or services they need.
- Typically, a copy of the requisition or the purchase order is sent back to the original requester to show that the products or services have been ordered.

Electronic Requisition.

- Electronic requisition eliminates the need for paper-based systems, and it often enhances decision process and recordkeeping.
- Intranets are often used as the mechanism to link the internal customer and purchasing in today's information environment.
Types of Purchase Requisitions.

Bill of Materials.

- The bill of materials is a listing of all the materials and components required to produce a product or service. In some organizations, purchasers, acting as buyer-planners, use the BOM to generate purchase orders or trigger a release schedule against an existing order.

System Generated Requisitions.

- Many computer systems used today are in the production planning, consumption, supply management, and purchasing realm. Many of these will automatically or semi-automatically generate requisitions.
Purchase Requisitions

Types of Purchase Requisitions.

Traveling Requisitions.

- A form consisting of a printed card or a bar code with information on who item is purchased from. A traveling requisition can be helpful because it can conserve time when recording routine materials and supplies.
- Information on the card or database entry.
  - Description of item.
  - List of approved supplier and addresses.
  - Last prices paid to suppliers.
  - Reorder point and Record of usage.
The required information for a requisition.

- The name of the internal customer.
- The signature (or approval code) of the person authorized to sign/approve the requisition.
- A description and use of the desired products/services.
- The quantity.
- The date needed.
- The date of the requisition.
- The estimated cost/budget allocation.
- Possible sources.
- The account to be charged.
- The ship to location
Some Considerations.

1. Authorized Buying or Ratification.

Problems that can arise from unauthorized buying.

- Circumventing proper budgeting systems, thereby resulting in lack of expenditure control.
- Committing purchasing dollars to less-than-qualified suppliers.
- Circumventing the approval procedures for purchases.
- Resulting in a loss of volume from authorized contracts issued by purchasing.
- Making commitments with "sham" or boiler-room suppliers, creating unnecessary expenditures of funds.
1. Authorized Buying or Ratification (cont).

Procedure to ensure that necessary approvals have been obtained.

- Usually the director of purchasing, delegated individuals, and organization teams are responsible for the commitment of funds to acquire materials, equipment, and service.
- It is good practice for organizations to require the formal evaluation for suppliers receiving above a certain monetary amount per year.
- If there is an emergency or other situation where it may prove advantageous to the organization to do so, competitive bidding may be waived through management documentation of such actions.
Some Considerations.

1. Authorized Buying or Ratification (cont).

   Signing Limits.
   
   - Requisitions and other requests from internal customers affect specific purchasing personnel in terms of the "authority" to acquire the items.
   - When individual purchasers, purchasing agents, and managers are given specific dollar limits, this is termed "limits of authority." An order over this amount requires the signature of the purchasing manager, in certain cases, a higher-level purchasing executive.
   - Contracts for continuing needs such as blanket orders where the dollar expenditure level exceeds the individual's authority, should contain the manager's signature. This is true even though individual order releases will be less than the purchase's authority limit.
2. Leadtimes.

Two Components of Purchasing Leadtime.

- The first time is the time it takes purchasing to process the request from the customer, and is measured as the time between when the internal customer submits the request and when purchasing issues the purchasing order.
- The second component is the time from when the purchasing orders is placed until the goods or services are received.
3. Availability of Funds.

**Materials Budget.** This type of budget covers an organization's need for production materials and components.

**Capital Budget.** This type of budget covers the acquisition of equipment and construction that is capitalized as a depreciable asset on an organization's balance sheet.

**Maintenance, repair, and operating supplies (MRO) Budget.** This type of budget covers items needed for the operation of a facility, but are not part of the finished product.

**Administrative Budget.** This type of budget generally includes items for internal use such as office equipment and computers.
Some Considerations.

3. Availability of Funds (cont).

Funding for the Requisition.

- Some contracts allow the supplier to be reimbursed for its costs. These contracts would specially identify which costs are allowable and the requirements for documentation.
- Most public sector entities require that funding for the requisition be pre-encumbered or set aside at the time of requesting. This pre-encumbered dollar amount is adjusted, if necessary, by the "encumbrance" at the time the purchase order or contract is issued.
- In government contracting, unallowable costs are identified in the Federal Acquisition Regulation (FAR).
Some Considerations.

4. Priority Sequence for Handling Purchase Requests.

First-come, first-service. This approach ignores how important or critical a request is in favor of the concept of fairness to all requisitioners.

Arrangement by need date. Processing by need date improves the delivery performance as measured against the requestor's need data but ignores the issue of supplier leadtime.

Rush orders/emergencies. Rush or emergency requisitions are the top priority of any purchasing organization. This urgency requires purchasers to put aside other tasks, address the rush requirements, and return to the previous activity. In addition, suppliers are often selected for proximity rather than the least total cost.
4. Priority Sequence for Handling Purchase Requests (cont).

Order of importance or impact. With this approach, requests are prioritized using a variety of criteria. Relevant measures could include:

- The difference between the need date and estimated leadtime.
- Magnitude of dollar expenditure, criticality of product or service.
- The complexity of the purchase.

Seasonal. This approach prioritizes purchase requests based upon purchasing seasonal items first since they may not be available at a later point in time.

Longest leadtime. Another important determination of requisition priority is the leadtime required for delivery.
Some Considerations.

Material Requirements Planning Schedule.

- In firm using an MRP system, the structured bill of materials for each item being manufactured can be used in determining specific material requirements for a given production and purchasing schedule during a specific time period.

![Diagram of a table with items and their quantities]

<table>
<thead>
<tr>
<th>Material</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>200</td>
</tr>
<tr>
<td>Top</td>
<td>023</td>
</tr>
<tr>
<td>Base</td>
<td>200</td>
</tr>
<tr>
<td>Top</td>
<td>023</td>
</tr>
<tr>
<td>Legs(4)</td>
<td>203</td>
</tr>
<tr>
<td>Bolts(4)</td>
<td>220</td>
</tr>
<tr>
<td>Frame(1)</td>
<td>300</td>
</tr>
<tr>
<td>Boards(3)</td>
<td>030</td>
</tr>
<tr>
<td>Sides(2)</td>
<td>622</td>
</tr>
<tr>
<td>Ends(2)</td>
<td>411</td>
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<tr>
<td>Support(4)</td>
<td>533</td>
</tr>
<tr>
<td>Glue</td>
<td>066</td>
</tr>
<tr>
<td>Glue</td>
<td>066</td>
</tr>
</tbody>
</table>
Some Considerations.

**Statement Of Work (SOW).**

- A project such as new product design/development starts out as a statement of work (SOW)
- The SOW may be a written description of the objectives to be achieved, with a brief statement of the work to be done and a proposed schedule specifying the start and completion dates.
- It could also contain performance measures in terms of budget and completion steps (milestone) and the written reports to be supplied.
- Typical milestone might be the completion of the design, the production of a prototype, the completed testing of the prototype, and the approval of a pilot run.
Roles of SOW.

- SOW is the major means internal customers have of communication requirements to both purchasing and the potential supplier.
- Specifications can take the form of description by brand, specification of physical or chemical characteristics, specification of materials, specification of performance, specification of method of manufacture, engineering drawings, or market grade.
- When purchasing services, specifications are usually stated in the form of SOW.
- The SOW provides potential suppliers with a clear description of the work to be performed, including inspection, testing and acceptance, quality, support services, documentation, maintenance, results to be achieved, and so on.
Performance Check.

1. Purchasing in the ___________ sector is usually tightly limited by the annual budget.

2. Order preparation time would fall into which category of lead-time?
   A. Transportation.     B. Purchase order.       C. Manufacturing.     D. Supplier.

3. Areas subject to budgetary control in purchasing are:
   I. MRO supplies.
   II. Capital.
   III. Operating expenses.
   IV. Materials.
   A. I, II and III       B. II, III and IV       C. I, III and IV       D. I, II, III and IV
Performance Check.

4. Materials consumed in the operations process, but which are not part of the final product are known as
   A. Capital expenditures. B. Operating expenses.
   C. MRO supplies. D. Components.

5. Requirements for purchasing components for stock come from all of the following, EXCEPT
   A. Production plans. B. Specific orders from an internal customer.
   C. Bill of material. D. Administrative staff

6. Who is MOST likely to be responsible for maintaining signature dollar limit lists?
7. Essential information on standard purchase requisitions includes all of the following EXCEPT.
   A. A price quote from a supplier.  
   B. A description to be charged.  
   C. The account to be charged.  
   D. The quantity and date required.

8. The PRIMARY reason that different signature approval levels are required for a purchase requisition is to
   A. Comply with accounting/audit procedures.  
   B. Authorize the expenditure of funds.  
   C. Authorize the purchase of goods.  
   D. Establish accounting codes.

9. Which of the following is LEAST likely to be found on an organization's purchasing requisition?
   A. The estimated cost.  
   B. The account to be charged.  
   C. Possible sources.  
   D. Current inventory levels.
Performance Check.

10. All of the following are needed in order for a Kanban system to work EXCEPT
   A. The resolution of all quality problem.        B. An approved purchase agreement.
   C. A dependable supply source.               D. A stable leadtime.

11. Which of the following is LEAST likely to be of benefit to a large organization using credit cards to purchase travel and living services?
    A. A reduction in the number of purchase orders.
    B. Improved cash flow.
    C. An elimination of cash advances for travel.
    D. Purchase leverage based on travel statistics.
Performance Check.

12. The success of credit card purchasing depends on the assumption that all of the following are true EXCEPT
   A. Both parties are trustworthy and reliable.
   B. The buying organization will realize considerable saving.
   C. Most of the items purchased are from local sources.
   D. The paper trail is reduced.

13. The use of competitive bidding is LEAST appropriate when
   A. Material is proprietary.       B. The dollar value is large.
   C. Tooling is required.          D. There is an adequate number of sellers.
Performance Check.

14. Which of the following are commonly used to purchase indefinite quantities of an item or items over a stated period of time at established unit prices?
   A. Purchase order drafts.
   B. Blanket orders.
   C. Purchase orders.
   D. Delivery orders.

15. Which of the following describes a preliminary contract outlining an agreement in connection with a specific procurement action, written prior to the issuance of a complete purchase order or contract?
   A. Letter of intent.
   B. Statement of work.
   C. Purchase order draft.
   D. Standing order.

16. Which BEST describes a BOM (Bill of Material)?
   A. A recipe.
   B. A store receipt.
   C. A shopping list.
   D. A work of art.
Performance Check.

17. What type of problems arise from unauthorized buying (non-agents making direct commitment with a supplier)?
   I. Dollars committed to non-qualified suppliers.
   II. By-passes the budgeting systems.
   III. Approval levels are skipped
   IV. Loss of volume with approved suppliers.

   A. I and II       B. I, II and III       C. II, III and IV       D. I, II, III and IV

18. In a typical organization, which of the following budgets does not make funds available for purchases?
19. Using a priority sequence based on need date to place purchase orders, results in
   A. Ignoring supplier's lead time.
   B. An element of fairness to all.
   C. Allowance for seasonal variations.
   D. Orders with large value placed first.

20. Which of the following systems generated statements is LEAST accurate?
   A. A card with standard part information is used.
   B. Automatically generated reports are valid.
   C. Systems generated requirements can be sent directly to suppliers.
   D. The computer system data must be accurate.
Performance Check.

Solutions.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20
B B D C D C A B D B A C A B A A D B A A