**4.02 Filling out a Purchase Order Instructions**

**How to Fill Out a Purchase Order Form:**Listed are the standards components of a purchase order.Purchase orders are often required by sellers to clearly outline the intentions of a buyer and confirm availability, price, etc., of goods. Before completing a purchase order, let’s find out more about the use and function of a purchase order.

**What Is A Purchase Order Form?**
A purchase order is a business form that initiates a purchase between businesses – buyer and seller. The required information to correctly complete a purchase order is relatively simple. Basically, the form is an agreement for a buyer to purchase goods or services from a seller according to pre-arranged conditions, if applicable. The purchase order may be used later to match up to an invoice to ensure accurate payment.

**Components of a Purchase Order:**

* **Contact Information:** Name and contact info for the individual submitting the purchase order, such as email, phone and fax number.
* **Purchase Order #:** A buyer will typically generate a unique purchase order number as a point of reference for a specific order.
* **Vendor ID:** If known, a seller may include a vendor ID number, which may allow the seller to more easily confirm the purchaser and complete the order.
* **To:** Complete address information of the seller, which may specific to the purchasing department or individual handling purchasing responsibilities.
* **Ship/Bill To:** Complete address information for the purchasing business, which may identify where the goods will be shipped to.
* **Date:** The date the purchase order was completed and submitted.
* **Date Required:** Date the goods/services are needed by.
* **Ship Via:** Preferred method for shipment/transportation of goods to be received.
* **Terms:** Timeframe within which payment is due. Net 30 (30 days) is common.
* **Item & Description:** Provide details, including the supplier’s item number and any details to ensure accurate ordering.
* **Price, Quantity & Totals:** List the price and quantity of each item to determine totals to ensure agreed upon pricing is accurate and set prior to purchasing.
* **Notes:** List and special needs or requests to the seller.
	1. **Calculating a Reorder Point (page 1)**

The reorder point (or reorder level) is the inventory level at which a company would place a new order or start a new manufacturing run.

The following two formulas are used for the calculation of a **reorder point or level**

for maximum daily or weekly or monthly usage × Lead time and a reorder level for maximum daily or weekly or monthly usage × Lead time + Safety stock.

#1 Formula for Reorder Point (Level) = **Lead Time** x **Daily Average Usage**

* Lead time is the time it takes the supplier or the manufacturing process to provide the ordered units.
* Daily average usage is the number of units sold (or used) on a daily.

 **Example:**

ABC Ltd. is a retailer of footwear. It sells 500 units of one of a famous brand daily. Its supplier takes a week to deliver the order. At what quantity should the inventory manager place his/her next order?

*The inventory manager should place an order before the inventories drop below 3,500 units (500 units of daily usage multiplied with 7 days of lead time) in order to avoid a stock-out.*

#2 Formula for Reorder Point (Level) with Safety Stock= **Lead Time** × **Daily Average Usage** + **Safety Stock**

If a business is holding a safety stock to act as buffer if daily usage accelerates the reorder level would increase by the level of safety stock.

 **Example:**

ABC Ltd. has decided to hold a safety stock equivalent to average usage of 5 days. Calculate the reorder level.

*Safety stock which ABC Ltd. has decided to hold equals 2,500 units (500 units of daily usage multiplied by 5 days).*

*In this scenario reorder level would be 6,000 units (2,500 of safety stock plus 3,500 units based on 7 days of lead time).*