

# AccountAble<sup>TM</sup>

ASIA

Purchasing Material

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In the last ten years or so, Asia has seen a number of major natural disasters: earthquakes, cyclones, floods, Tsunami in Afghanistan, Bangladesh, Sri Lanka, China, India, Indonesia, Pakistan and Thailand, to name a few.

In each of these, NGOs took up relief and rehabilitation work. This also involved purchase and distribution of supplies. This work requires a different type of controls and procedures. In this issue, we take up one such area: getting best prices for material purchased.

### Issues surrounding Purchases

There are three issues surrounding purchase of materials. Firstly, you want to pay reasonable prices for the material that you buy. Secondly, you want to get the material that you paid for, not some other poor quality material. Thirdly, you want to make sure that you receive all the material that you pay for. Let us take these up one by one.

### Reasonable Prices

This is one of the most complex issues in purchasing. How do you know you are paying the right prices? Most people do this through a system of quotations. How does this work?

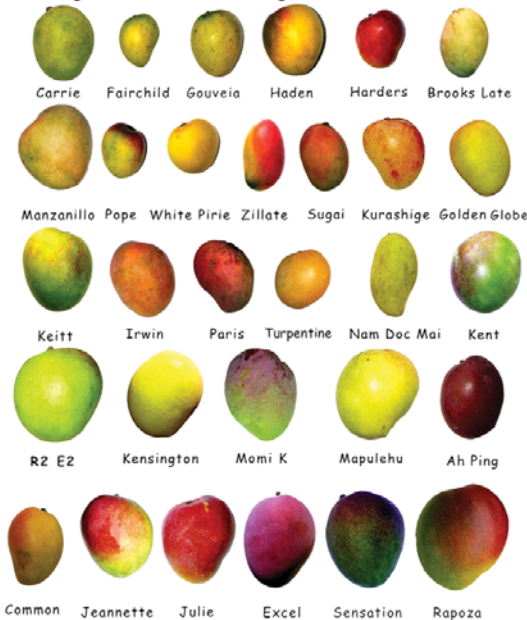
They ask suppliers to quote their best prices. Then these prices are compared. Sometimes, this also involves looking at other things, such as freight, credit, etc. Whoever gives the best offer, gets the purchase order.

What are the things that you need to keep in mind while doing this?

### Specifications ?

Before inviting quotations, you should finalise the specifications of material to be ordered (including the brand, if relevant). For example, there are many varieties of rice. The price of each variety will vary. Similarly, if you want to buy tarpaulin for rain-proof shelters, there are many brands, thickness and sizes.

### Mangos from the Big Island of Hawaii



Sometimes, it is good to first find out what types of material is available in the market, before deciding on what you want to buy. You should ask all the suppliers to send their quotations for the same product.

In one case, one supplier quoted prices for model X1 of Lenovo, another quoted prices for Lenovo's model X3. A third supplier quoted prices for a Sony model. This should be avoided, as you can not compare prices of apples with oranges. Rather, you cannot usefully compare the prices of one type of mangoes with a different type of mangoes!

Once you have decided the specifications (brand, size, quality, etc.), you should write this down as clearly as possible. The suppliers should be asked to quote for this particular item only. Quotations for different specifications should not be accepted for comparison - this will only confuse the matter.

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The request for quotation (RFQ) should also ask the supplier to quote relevant terms (rate, freight, advance, payment terms, etc.)

## Who is invited to quote?

You should ensure that all good suppliers get a chance to quote. This means that you should prepare a list of the good suppliers, and then ask them for quotations.<sup>1</sup>

If this procedure is not followed, then all sorts of problems arise. Sometimes, the same supplier gives multiple quotations, on different letter-heads. In fact, many traders create twin entities for this purpose only! Or, some of the shops which have quoted may not exist at all, or may not be dealing in the quoted items.

In some cases, a new shop may quote a very low price, without thinking. Then it fails to supply the material when the order is given.

For all these reasons, it is very important that only genuine and capable suppliers are invited to quote.

The request for quotation (RFQ) should also ask the supplier to quote relevant terms (rate, freight, advance, payment terms, etc.).

## Suppression or leakage of quotations

Procedure for receiving, opening and recording the quotations received should be laid down clearly. If this is not done, then there may be a possibility that some quotations, which are more competitive than a 'favoured' supplier, may be suppressed or leaked.

For example, supplier A sends their quote early. The quota-

tion is opened in the office, without waiting for other suppliers to send their quotations. In this case, A's prices may be leaked to B, who will then quote a slightly lower price and get the order.

Quotations by e-mail also pose several problems.

- Information can be leaked easily to other suppliers as quotations arrive.
- Genuineness of such quotations is not easy to establish.
- Quotations enclosed in .doc or .pdf etc. formats can be changed and reused, without authorisation.

There are no easy solutions for this. However, some control can be exercised by:

- Receiving the quotations at a separate, secure e-mail ID.
- Downloading and printing<sup>2</sup> all the quotations together at the time of making comparison chart.
- Re-confirming the quotations in random cases with the suppliers

<sup>1</sup> If the purchases involve very large amounts, then you may consider floating tenders. However, this can take quite a bit of time. So think carefully before taking this route.

<sup>2</sup> The printed quotations, along with printed e-mail, should be kept on file.



### **Comparative chart of quotations**

After the quotations are opened, a comparative chart of quotations is prepared. This helps the manager or purchase committee decide which supplier is offering the best deal. This chart should not compare rates only, it should consider total cost of supply, including taxes and freight. Sometimes, vendors give very low rates for 2-3 items, and make up for the loss by quoting higher prices for other items.

Some people use a Purchase Committee to make a purchase recommendation. A multi-disciplinary purchase committee will help improve transparency, ensure better purchase decisions through collective wisdom and reduce chances of favouritism. However, it is not efficient for the Purchase Committee to meet for every small purchase - this leads to loss of time for the members. Instead, a tiered system can be laid down. Only certain types of purchases should be routed through a committee.

### **Issuing purchase orders**

Purchase orders are normally required for large purchases, when there is a time-gap between ordering and delivery. Written purchase orders help freeze the terms and conditions of a purchase, and facilitate proper processing of payments.

### **Right Quality**

How do you make sure that you get the same quality that you pay for? This can be a problem where you order large quantities, which are delivered later on. Also, in a large or multi-location organisation, the person who orders material may be different from the one who receives it. Therefore, the receiver should know exactly what kind of material has been ordered. This is especially important in case the material is to be distributed free of cost to beneficiaries.

### **Full Quantity**

You also need to check that you have received the quantity that you paid for. This normally means that the receiver should carefully count the material. They should then sign a challan, or some other proof of delivery, saying 'Received above material'. The supplier will then send a copy of this challan to the organisation along with the bill for payment. If the payment has been made in advance, then the challan or other proof of delivery should be attached to the paid bill.

Where delivery is taken immediately, the receiver can also acknowledge the delivery on the bill itself.



## Transportation

If the material was delivered by commercial truck, transportation charges might be paid by the organisation or the supplier. In either case, a copy of Transporter's Lorry Receipt or Goods Receipt (LR/GR) should be attached with the bill where available.

## Who should do this?

Does every NPO need to get quotations? No. This makes sense only when you are purchasing material regularly, or

when each of the items is expensive. If you are purchasing capital items, then also you might want to get quotations. For example, if you purchase rice worth 1 lakh Rupees over one year, then it may be useful to get quotations. Or if you purchase office furniture worth 10,000, then it may again be useful to get quotations.

**About AccountAid:** AccountAid is a private consulting firm based in New Delhi. It works on accounting and regulatory issues concerning NPOs. For this purpose, it conducts research, workshops, and publishes reference material relevant for NPOs and grant-makers. It also provides advice to donor agencies on grant management systems.

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info@accountaid.net