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## **UNIT 3      SOURCE DOCUMENTS AND VENDOR MASTER MAINTENANCE**

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### **Structure**

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### **3.0      OBJECTIVES**

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The objectives of this unit is to familiarise the learners with:

- the source documents used in a P2P cycle;
- the utility and significance of the source documents; and
- the informaton provided in the source documents.

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### **3.1      INTRODUCTION**

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Source Documents are the testimonial that carries information on the transactions done by a business organisation with outside parties as well within its own departments/business units.

Therefore, the source documents are of two types

1. Internal source documents.
2. External source documents.

They are used to convert a commercial transaction into an accounting transaction so that the organization can recognize the transactions in its book of accounts. They are also referred to during audits and quality checks to establish whether the transaction have been recorded correctly.

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### **3.2      TYPES OF SOURCE DOCUMENTS**

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As mentioned earlier the source documents are of two types:

#### **3.2.1      Interl Source Documents**

They are the documents that are created within an organisation for internal use to help carry out transactions between one department of an organisation and another.

- a. **Purchase Requisition (PR): This is an internal document.** A purchase requisition is created by a user department and sent to the purchase department, when any material or service is required. For example, HR department may need printer and stationery, production department may need raw material and finance department may need professional services from an external tax consultant. In all the above cases, the respective departments will create a PR and get it approved, subsequently it is forwarded to the purchase department.

A purchase requisition typically contains the following information:

- PR Number
- Vendor information
- Date of request
- User and the department
- Delivery information e.g. where to deliver the goods/service. Date by which good/services are required.
- Approvals from the concerned managers (e.g. the head of the department for which the purchase is being made)
- Descriptions may Quantity of the goods.

Purchase requisitions may also be managed in accounting software or in an ERP environment like SAP, Oracle or People soft.

It acts as the means of internal control as well. Since the purchase department cannot make any purchases without receiving a PR. Without this control, the purchase department may order goods that may not be required or place order for too much or too less of some material. A sample PR is shown below:

<b>MARK SERVICE CO. LLC</b>		<b>Purchase Requisition</b>
FROM: David Sollenberg Human Resources, Mariette, GA Ext. 94645	TO: George Patrick Procurement Miami, FL Extn: 57645	<i>P. R. Number: 6865434</i> <i>PR Date: 12-Oct-2019</i>
QYT	UNIT	DESCRIPTION
1	Nos.	Laser Printer
5	Reams	Printing Sheets
3	Doz	Notepads (Small)
Authorized by (Charles Bucknor)		

**Fig. 3.1: Sample Purchase Requisition**

b. **Good Received Note (GRN):** This is a document created by the buyer at the time of delivery of goods. It is a record that the specified goods have been received by the buyer. A copy of this is also shared with the seller.

It is used by the vendors as proof of delivery and to support their claims for payment of invoices. The data provided in a GRN are:

- GRN no.
- Delivery note no.
- Purchase Order (PO) number (corresponding to which the goods have been supplied)
- GRN date
- Details of the goods received (description, quantity received)
- Receiver's id
- Vendor's id/code
- Shipper's id
- Delivery address

The utility of a GRN to the P2P process is to verify that goods have been received, before the buyer pays the invoice.

<b>Good Received Note</b>						
Supplier.....Date.....Advice note number.....						
Order Number.....Delivery Location.....Cost-Centre.....						
	Goods	Pack Size	Price	Order Quantity	Delivered Quantity	Comments
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
Received by.....Checked by.....						

Fig. 3.2: Sample GRN

### 3.2.2 External Source Documents

They are the documents that are used by an organisation to share information and do business with external parties like its customers and vendors.

- a. **Purchase Order (PO):** A PO is a commercial document issued by a buyer to a seller. Once the seller agrees to the terms of the PO, it becomes a contractual obligation for both the buyer and the seller. The seller has to supply goods and services as per the terms stated in the PO and the buyer has to buy and pay for these goods and services, once they are delivered as per the terms. It is an external document because it is created within the buying organisation and sent to an outside party (vendor) to make a purchase.

A purchase order usually contains:

- PO number,
- Issue date
- ID and address of the vendor
- Delivery date,
- Billing address (the address to which the invoice will be sent)
- Shipping address (the address to which the goods will be delivered)
- Terms of payment
- A list of services/products (including specifications and reference or part numbers of the items to be purchased, with quantities and prices)
- Approver's ID and signature.

PO is also a very important document used during invoice processing. While clearing the invoices for payment, the invoice processing team uses the PO and compares it with invoice to establish the following:

- What was ordered to be bought
- What was the price which was agreed to be paid
- What was the terms of payment

Types of Purchase orders:-

1. **Standard Purchase Order:** They are most commonly used purchase orders. In this case the buyer has all the details about what he/she is buying like quantity, price, delivery schedule etc.
2. **Blanket Purchase Order:** This is used when low cost items (e.g. stationery or low value consumables) are purchased frequently. The PO is issued with a limit on the purchase amount. Within that amount, the buyer can keep ordering material as frequently as required. When the PO limit is exhausted a fresh PO is created. Increase of the Blanket PO will help to reduce the manual intervention in invoice processing as the PO will always be ready with the funds.

A sample purchase order is shown below:

Source Documents and  
Vendor Master  
Maintenance

HARRIEST TECHNOLOGIES		PURCHASE ORDER		
4129, Main Street Lakeland, FL 23486.				
FROM :		TO:	P.O.NUMBER :	
<b>Walter Davis</b> Harriest Technologies 4129, Main Street LAKELAND, FL 23486.		<b>Randoiph Mcnamara</b> DEMON LLC 1967, Belltower Street OKLAND,OK,45381	<b>16382965</b>	
P.O DATE	REQUISITIONER	SHIPPED VIA	F.O.B POINT	TERMS
7/20/2016	Walter Davis	UPS		Delivery by 8/5/2019
QTY	UNIT	DESCRIPTION	UNIT PRICE	TOTAL
10	Nos.	RAM Chips (32 MB)	\$60.00	\$600.00
20	Nos.	DVD RW drive (52X)	\$50.00	\$1000.00
			SUBTOTAL	1600.00
1. Please send two copies of your invoice.			SHIPPING AND HANDLING	Nil
2. Enter this order in accordance with the prices, terms,delivery method,and specifications listed above			OTHER	Nil
			TOTAL	<b>\$1600.00</b>
3. Please notify us immediately if you are unable to ship as specified.				
4. Terms of payment: To be paid within 30 days of receipt of invoice				
5. Send all correspondence to:				
Walter Davis 4129, Main Street Lakeland, FL 23486. Ph : 816 294 3021				

**Fig. 3.3: Sample Purchase Order**

- b. **Invoice:** An invoice or bill is a commercial document issued by a seller to a buyer, indicating the products, quantities and agreed prices for products or services with which the seller has already provided the buyer and requesting payment for the products and services provided.

A sample invoice is shown below:

<b>Demon LLC</b>			<b>INVOICE</b>		
1967, Belltower Street Oakland, OK 45381 Phones 652 134 8262 Fax 6521348211			INVOICE : 23741966 DATE: DECEMBER 25,2019		
<b>TO,</b> Walter Davis Harriest Technologies 4129 Main St. Lakeland FL 23486 8162943021		<b>SHIP TO,</b> Walter Davis Harriest Technologies 4129 Main St Lakeland FL 23486 8162943021			
<b>COMMENTS OR SPECIAL INSTRUCTIONS:</b>					
<b>SALES PERSON</b>	<b>P.O. NUMBER</b>	<b>REQUISITION</b>	<b>SHIPPED VIA</b>	<b>F.O.B. POINT</b>	<b>TERMS</b>
Randolph McNamara	16382965	Walter Davis	UPS		Due on receipt
<b>QUANTITY</b>	<b>DESCRIPTION</b>			<b>UNIT PRICE</b>	<b>TOTAL</b>
10	RAM Chips (32 MB)			\$60.00	600.00
20	DVD RW drive (52X)			\$50.00	1000.00
				SUBTOTAL	1600.00
				SALES TAX	131.20
				SHIPPING & HANDLING	Nil
				<b>TOTAL DUE</b>	<b>1731.20</b>
Make all checks payable to Dell Ltd. If you have any questions concerning this invoice, contract Sharon Blesel (652 236 6651)					
<b>Thanks you for your business!</b>					

**Fig. 3.4: Sample Invoice**

The invoice can be sent to the customer:

1. Either along with the shipment of goods
2. Or after the shipped goods have been received by the buyer.

Most of the vendors wait for a Proof of Delivery to reach them before the invoices are sent. The Accounts Payable Dept. on receiving the invoice matches it with the purchase order (PO) & goods received note (GRN) and payments are released as per the due date.

The data provided in the invoice are:

- Vendor name and Vendor code (the unique identifier provided by the buyer to the vendor).
- Customer name and billing address
- Invoice date
- Purchase order no. (if applicable)
- Buying manager’s ID (on the customer’s side)
- Details of the goods/services provided along with the prices charged for them

- Details of delivery (shipment document no., delivery address)
  - Taxes as applicable (VAT, Services tax etc.)
  - Shipment charges (if applicable)
  - Payment terms (e.g “payment on delivery”, “net 30” or “1/15 net 45” etc.)
- c. **Debit note:** When a buyer returns some goods to its suppliers, it prepares a debit note and sends it along with goods returned to the supplier.

Debit note results in a debit entry against the seller’s account, in the books of the buyer.

- d. **Credit note:** When the goods are returned by the buyer, either the buyer can raise a debit note or the vendor can raise a credit note.

The credit note reduces the vendor’s receivables from the customers for the goods returned or excess payments/over charges against any invoice (credit entry in the account books of the vendor).

Debit/Credit notes are also used to adjust the revenue recognized by the vendor against the selling transaction. A sample credit note is shown below:


 <b>Electronics Co</b> P O Box 123 Sydney 2000, NSW, Australia Tel : (02)9522 1233 Fax : (02)9522 1235 E-mail : sales@CSelec.com.au		<b>Credit Memo</b> ABN/Tax Reg. No : 123456789R			
<b>Computer Spares Ltd</b> 100 City Road Southgate Melbourne, Victoria 3000 Australia		Credit Memo No CM1002 Date 31/01/2019 Your Ref PO S100 Our Ref IN1001 Terms Cash Sales Person John Job No. JB1000			
Attention : Mr Henderson Tel : 9300 0000 Fax : 9300 0001					
SN#	Product ID	Description	Qty UM	Unit Price	Amount
		To adjust IN1001 item 1, being unit price overbilled at \$2,040.0 ea instead of \$2,000.00 ea			
1	CNB3000	Hewlett-Packard 4281 Notebook	2 ea	\$40.00	\$80.00
Total Before Tax					\$80.000
Total Tax					\$8.00
Total After Tax					\$88.00

Fig. 3.5: Sample Credit Note

**Check Your Progress**

1. Which of the following fields is not a necessary part of a PO?
- Logistics company’s address
  - Billing address
  - Shipping address
  - Vendor’s address

**2. Fill in the blanks:**

- a. When goods are returned by a buyer to a vendor, the vendor submits a ----- to the buyer.
  - b. When the goods are received by the buyer, a ----- is created to indicate the quantity of goods received.
  - c. When the production department wants to buy raw material, they will send a ----- to the ----- department.
  - d. When an invoice is received from a vendor, it is compared with the ----- and the ----- to verify what was ordered and what was received respectively.
  - e. The documents that are used by the business to do business with outsiders are called -----.
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**3.3 LET US SUM UP**

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Source Documents carry information on commercial transactions done by a business and are used to translate these commercial transactions into accounting transactions. They are also used to verify and audit the correctness of the accounting transactions.

Some of the source documents that are frequently used in a P2P cycle are purchase requisition, purchase order, invoice, GRN and credit note. When some material/services are needed by a business the need is communicated to the procurement department using a purchase requisition, based on the purchase requisition, the procurement team selects the vendor and sends him a purchase order indicating their intention to purchase the material/service. Once the vendor ships the goods across, the goods received note is created. The received goods are checked for quality and then accepted. The goods that do not meet the quality standards are rejected and returned to the vendor. When the goods are returned to the vendor, a debit note is raised by the buyer or a credit note is raised by the vendor to make the related accounting adjustments to recognise the return of goods.

Vendor sends an invoice to the buyer providing details of material sold or services provided and requesting the payment for it.

**3.4 KEY WORDS**

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**Credit Note :** A document generated by the seller giving credit to the buyer for the goods returned or excess payment etc. It is called a ‘credit’ note because it credits (lowers the assets/accounts receivables) the customer’s account.

**Debit Note :** It is a similar document like a ‘credit’ note. The only difference is that it is initiated by the buyer instead of the seller.

**External Sources Documents:** The source documents that are used by an organisation to transact business with outside parties e.g. purchase order, invoice, credit note etc. (See **Sources documents** for more information)

**Goods received note:** The document generated by the buyer indicating the



quantity and other particulars of the goods received. It is used by the seller as a proof of delivery of goods.

**Internal Source Documents:** The source documents that are used within the organisation e.g. purchase requisition and GRN. (See **Source documents** for more information).

**Invoice:** A document sent by the vendor/supplier/seller to the buyer, requesting payments for the goods/services provided.

**Purchase Order:** The document sent by a customer to a supplier, indicating an intention to buy a certain quantity of goods at a certain price. Confirmation of a purchase order by a supplier indicates that he is in a position to supply goods as per the agreed terms. The confirmation also makes the purchase order a one-off legally binding agreement between the buyer and seller i.e. the supplier has to supply the goods as per the agreed terms and the buyer has to buy the goods.

**Purchase requisition:** An internal document within the buyer's organization generated by the end user department and forwarded to procurement/purchase department. The purchase department creates a purchase order based on receiving a PR.

**Source documents:** The documents that contain the source information on the transactions done by the business. Purchase requisition, purchase order, invoice etc. are all examples of source documents.

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### 3.5 ANSWERS TO CHECK YOUR PROGRESS

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1. a. Logical company's address
2. a. Credit note  
b. Goods Received Note (GNR)  
c. Purchase Requisition, Purchase department  
d. Purchase order, Goods received note  
e. External source documents.

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### 3.6 TERMINAL QUESTION

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1. What is the use of Source Documents? What are the differences between internal and external source documents?
2. Explain the use of the following source documents in the P2P processes:
  - a. Purchase requisition
  - b. Debit note
  - c. Goods received note
3. What are the data that a Purchase order usually contains?
4. Explain the following:
  - a. Standard Purchase Order
  - b. Blanket Purchase Order