Purchase orders (POs) are central to the purchasing process and play an important role in controlling business purchases. In this post, we’ll define what a purchase order is, describe what information it includes, highlight key benefits to using POs, and explain the key steps in the purchase order process. But first, answering the question ‘what is a purchase order?’ would be a good place to start.

What is a purchase order?

A purchase order is the official confirmation of an order sent from a buyer to a seller of goods or services. It is a document sent from a purchaser to a vendor that authorizes a purchase.

What information does a purchase order include?

While some information may vary, purchase orders generally include the name of the company purchasing the goods or services, order date, delivery date, the description and quantity of the goods or services, pricing, vendor catalog item numbers, a mailing address, payment terms, invoice address, and a purchase
order number (or PO number).

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**PLANERGY**

Boston Office  
One Post Office Square, Suite 3600  
Boston MA, 02109  
USA

**Purchase Order**

PO No: PO00495  
04/26/2017  
PO Status Closed Completed

**SUPPLIER**

Taylor Dickens  
70 Bowman St.  
South Windsor, CT 06074  
USA

Terms: 30 Days  
Phone No: 800-123-4567  
Email: john@taylorcdickens.com

**DELIVERY ADDRESS**

Boston Office  
One Post Office Square, Suite 3600  
Boston MA, 02109  
USA

Phone No: 800-123-4567  
Attn: Patrick

**DELIVERY DATE**  
04/28/2017

**REQUESTED BY**  
Patrick Smith

**APPROVED BY**  
John Smith

**DEPARTMENT**  
IT Department

**NOTES**

Description ABC

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**ORDER TOTAL**  
$228.47
Why do companies use purchase orders?

Purchase orders are used for several reasons:

1. *They set clear expectations* - Purchase orders enable purchasers to clarify their exact needs to vendors. Not only does this help ensure that you get off on the right foot, but both parties can use it as a formal check in case orders are not delivered as expected.

2. *They help manage orders* - Many businesses designate certain individuals to manage inventory, which typically includes processing incoming orders. These individuals are typically in procurement, finance, or operations. Purchase orders give these individuals official documentation of incoming or pending deliveries, enabling them to track and manage orders more effectively.

3. *They help with business budgeting* - Once a purchase order is created, purchasers can immediately factor these costs into company budgets. Businesses benefit from having clear records of exactly how much money is being spent and where it’s going.

4. *They are legally binding* - We are often asked whether a purchase order is a legally binding contract. The answer is now officially yes, purchase orders are legal documents, per the 2014 court case, MidAtlantic International Inc. vs. AGC Flat Glass North America Inc. In this case, a federal court determined that purchase orders are an enforceable contract between two parties. In the absence of a formal contract, a purchase order can serve as a legally binding document only after it is accepted by the vendor.

5. *They are a key part of audit trails* - Auditors are on the lookout for financial discrepancies. They'll be particularly interested in goods and services coming in and payments going out. Issuing, processing, and recording purchase orders is a great way to keep auditors happy.

The benefits above are geared towards purchasers, but POs are important documents for vendors as well. Vendors use them for order fulfillment and payment processing.
Do businesses always need purchase orders?

Whether businesses need purchase orders depends on several factors, but in general, it’s a good business practice to keep things in order in accounts payable.

In today’s world, communication happens at the speed of light. Orders are made in passing over the phone, via email, and even through texting. Foregoing formal confirmation of an order means that you or your vendor may forget important order details.

Some institutions do not require a purchase order for certain items. We’ll illustrate using the requirements of a small private university which are listed on its website. POs are not required for the following expenses:

- Interdepartmental charges (bookstore, print room, etc.). These charges are billed monthly instead.
- The reimbursement of travel expenses. A check request form is used instead.
- The renewal of annual memberships and subscriptions. An expense reimbursement request is required instead.
- Ordering office supplies online from the university’s designated supplier.

In all other cases, the university states clearly that they can refuse payment without authorized purchase orders.

What is the purchase order process?

The following are the steps in the purchase order process. Note that the purchase order process is one part of a broader procurement process that includes everything from identifying the need for a good or service to payment. Read our blog post on the entire procurement process here. Many companies will implement a purchase order system.
Step 1: Purchaser creates purchase requisition – The purchase order process starts with a purchase requisition, a document that is created by the purchaser and submitted to the department that controls finances for purchase order approval. Consider this the part of the process where you get the thumbs up to purchase the goods and services you want. You’re not actually ordering anything, you’re getting the approval to do so. Approvers can choose to approve, reject, or flag your request for further discussion. The key difference between purchase requisitions and purchase orders is that a purchase requisition is about permission and purchase orders are about purchasing. Read our blog post on purchase requisitions vs. purchase orders for a detailed description of these two documents.

Step 2: Purchaser issues purchase order – Once the purchasing or procurement department has approved the purchase requisition, it issues a purchase order to the vendor. In essence, POs place the order. Purchase orders are typically created using