

The subcontracting process

Subcontracting

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Subcontracting

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Create an order, send materials, receive the finished goods and pay for the work.

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Plan availability

Ask us whether this is part of your package.

Overview

The steps are: set up the items, create a **Subcontracting Order**, **send** the raw materials, **receive** the finished goods, and **bill** the supplier.

Prerequisites

Read Subcontracting overview. Prepare:

- The **service item**: an item with **Maintain Stock** unticked and a service type.
- The **finished item** with a default **BOM** that lists the raw materials. On the BOM, tick **For Subcontracting** where offered, or use **Subcontracting BOM** to link the service item to the finished item.

Steps

Before you start

- Create a non-stock **service item** for the work, and separate items for the raw and finished product.
- On the finished item, tick **Supply Raw Materials for Purchase**.
- Create a **Bill of Materials** for the finished item, with the raw materials as sub-items.
- Create a **Supplier Warehouse** to track materials held by the supplier.
- Optionally create a **Subcontracting BOM** linking the service item and finished good item, so one fills in the other.

1. Order

1. Create a **Purchase Order** for the **service item**, choose the supplier, and quantity. Tick **Is Subcontracted** if the field shows.
2. Submit it, then click **Create > Subcontracting Order**.

3. Choose the **Job Worker Warehouse** (where the goods are held while with them) and the **Finished Good** item and quantity. Check the **Supplied Items** table lists the materials from the BOM.
4. Submit.

2. Send the raw materials

1. In the order, click **Transfer Materials > Material to Supplier**. A **Stock Entry** of type *Send to Subcontractor* is created.
2. Check the quantities, source warehouse and the supplier warehouse, and submit.
3. The materials move to the supplier's warehouse, and are still counted as your stock there.

3. Receive the finished goods

1. When the supplier delivers, open the order and click **Create > Subcontracting Receipt**.
2. Enter the quantity **received**, and the **warehouse** to receive it into. Any **rejected** quantity goes to a separate warehouse.
3. The materials used are taken out of the supplier warehouse according to the BOM. Check any difference.
4. Submit. The finished goods enter your stock, and their value includes the materials and the service charge.

4. Pay the supplier

Create a **Purchase Invoice** from the receipt or order for the service. See Recording supplier bills.

Practical example

A garment maker sends 100 metres of cloth and 200 buttons to a tailor. The tailor returns 48 shirts, charging KES 350 for each. After receipt, the shirts are in stock at a cost of cloth, buttons and the tailor's KES 16,800.

Important notes

- Do a regular stock check of items at the supplier's warehouse. See Opening stock and stock counts.
- If the supplier loses or wastes material, agree on how it is dealt with, and record the cost.
- Inspect the goods on arrival. See Quality inspections.

Common mistakes

- Receiving goods without sending the raw materials first, so stock goes negative.
- Not linking the service item to the finished item.

Troubleshooting

If the **Supplied Items** table is empty, the finished item has no active BOM, or the service item is not linked to it. Check the BOM.

Next steps

Return to Subcontracting overview.

Related documentation

- Subcontracting overview
- Bills of materials
- The procurement cycle
- Recording supplier bills