



**UNDERSTANDING FREIGHT TERMS**  
in the  
University of Maine System  
PeopleSoft Financials System

A guide for the roles of Requisitioner,  
Accounts Payable, Vendor Create,  
and Campus Administrator

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## Why should one care? The case for paying attention to Freight Terms.

The University of Maine System, as a whole, spends hundreds of thousands of dollars on freight. Much of this expense could be avoided with the help of our PeopleSoft Financials system and with very little effort – just some knowledge. That is what this document is about – learning how to save money for your department and campus.

Unscrupulous vendors can use a freight charge as a way to make up for a low price they've offered on a quotation when freight wasn't addressed. They know people often don't pay attention to the freight costs. By paying attention to the features of the Purchasing and Accounts Payable system described here, the University can avoid paying unnecessary charges.

## Understanding Freight Terms and how they are used in the UMS PeopleSoft Financials system.

Freight Terms initially come into play when a requisition is created. Where does a requisitioner see Freight Terms? The navigation is [Purchasing>Requisitions>Add/Update Requisitions>Add a New Value](#). Click on the [Requisition Defaults](#) link, then the [More PO Defaults](#) link. The following page will appear:

Requisition Header Defaults	
Billing Location:	<input type="text"/>
Payment Terms ID:	<input type="text" value="30"/> Net 30
<input checked="" type="checkbox"/> Dispatch	Dispatch Method: <input type="text" value="Print"/>
<input type="checkbox"/> Amount Only	<input checked="" type="checkbox"/> Receiving Required
Freight Terms Code:	<input type="text" value="DEST_ALLWD"/>
Ship Via Code:	<input type="text" value="BESTWAY"/>

Clicking on the **Freight Terms Code** lookup button ( ) will produce the following options:

Freight Terms Code	Description
<a href="#">DEST CHRGD</a>	<a href="#">FOB Destination Frt. Charged</a>
<a href="#">DEST_ALLWD</a>	<a href="#">FOB Destination Frt. Allowed</a>
<a href="#">DEST CLLCT</a>	<a href="#">FOB Destination Frt. Collect</a>
<a href="#">ORIG CHRGD</a>	<a href="#">FOB Origin, Freight Charged</a>
<a href="#">ORIG_ALLWD</a>	<a href="#">FOB Origin Freight Allowed</a>
<a href="#">ORIG CLLCT</a>	<a href="#">FOB Origin, Freight Collect</a>

**Freight Terms generally resolve 2 issues:** (International shipments have a more complex system of freight terms – Incoterms – that covers customs and duty charges in addition to the following.)

### **1) When does ownership of the goods pass to the buyer?**

The first question is important because if anything should happen to the goods on the way to your department, the entity that owns the goods at the time of damage/loss (your department or the company sending the goods) bears the cost of the damage/loss and must file damage claims, etc.

Ownership is determined by the first part of the freight term: FOB Destination or FOB Origin. If FOB Destination (coded DEST in the Financials system) is used, the ownership transfers when the goods arrive at their destination so the vendor has owned the goods during the shipment. If FOB Origin (coded ORIG) is used, the goods will become the property of the University as soon as they are shipped. The University will own the goods during the shipment. If the goods are damaged or lost the University must still pay the vendor for the goods and file damage claims with the freight company. FOB Destination is the more favorable term for the University to use because the shipper will need to cover any damage or loss that happens in transit.

### **2) Who pays the freight charges?**

The second part of the freight term determines who shall pay the freight charges. Freight is usually prepaid by the vendor, but the vendor may absorb that cost or charge it back to the customer (University). You may see the second part of a freight term expressed in several ways, e.g., “Freight Prepaid,” “Freight Prepaid and Allowed,” “Freight Prepaid and Charged” or “Freight Prepaid and Added,” etc.

In the University’s PeopleSoft Financials system, the words Charged (abbreviated CHRGD) and Allowed (abbreviated ALLWD) are used to express this part of the freight term. Charged (CHRGD) means that the vendor will put the freight charges on the invoice or a separate invoice will be sent to the University for the freight charges. Allowed (ALLWD) means that the vendor will absorb the cost.

There is one other way that the University may end up paying the freight and that is if the vendor ships the goods “collect.” This means that the freight company itself will collect the freight charge from the University. In the Financials system, this term is abbreviated CLLCT.

Here's is a chart to help in understanding how the terms work:

Freight Terms Code	Ownership	Who pays?	Claims
DEST CHRGD	Passes to buyer at delivery	Buyer pays	Seller must file any claims
DEST ALLWD	Passes to buyer at delivery	Seller pays	Seller must file any claims
DEST CLLCT	Passes to buyer at delivery	Buyer pays	Seller must file any claims
ORIG CHRGD	Passes to buyer at shipping point	Buyer pays	Buyer must file any claims
ORIG ALLWD	Passes to buyer at shipping point	Seller pays	Buyer must file any claims
ORIG CLLCT	Passes to buyer at shipping point	Buyer pays	Buyer must file any claims

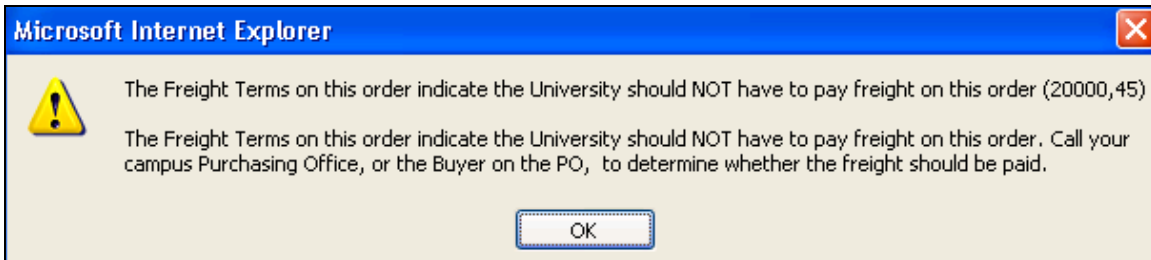
### What is best?

The Freight Terms that are most advantageous to the University are FOB Destination, Freight Allowed (abbreviated in PeopleSoft Financials - DEST\_ALLWD.) This has been made the default freight term in the Financials system. When the University sends out a Purchase Order with the default shipping terms, and the vendor accepts the order by shipping the goods, the University does not have to pay the freight even if the vendor has added it to the invoice. By shipping the goods, the vendor has accepted **our** terms.

If a vendor is set up in our Financials system with freight terms specific to them, those terms will override our default settings when the requisition is created. If a vendor is not set up with special terms, but you know that they are going to charge freight for a specific order, you should change the terms on the requisition, to the term that reflects what is to happen.

### How the Financials system helps the University to avoid unnecessary freight charges.

The Financials system warns Accounts Payable Technicians when they are entering a freight charge on an invoice that should not have included freight:



When AP Technicians see this warning they should delete the freight charge from payment. If a vendor will not accept our default terms on a future order, then the Freight Terms on the vendor record, for your Location, should be changed in the Financials system. Staff with the Accounts Payable and Vendor Create Roles can do this.

Ideally, all of these arrangements should be worked out with the vendor before the order is placed, but they seldom are. Frequently, freight is not discussed at all, allowing the vendor to charge anything. Sometimes those freight charges can be significant!

Of course, if the Accounts Payable staff is entering freight on an invoice that did not result from a Purchase Order, this warning will not appear. It's the Purchase Order that protects the University in this way – a good reason to create a Purchase Order when buying goods!

## A Tool for Campus Administrators

There is a public query in PeopleSoft that may be useful to Campus Administrators that shows what freight charges may have been paid unnecessarily, i.e. the terms of the PO were FOB Destination and Freight Allowed and yet the University paid for the freight. The name of the query is UMS\_PO\_FREIGHT\_PD. The output looks like this:

Unit	Voucher	PO	Name	Freight	Last Pd Date	Fr location
UMS08	80002318	8000000166	PERLMUTTER PURCHASING POWER WORKGROUP TECH	98.000	9/30/2005	LN
UMS08	80005088	8000000208	PARTNERS INC	110.140	1/24/2006	HDR
UMS08	80007459	8000000282	WA MESSER CO	105.040	5/19/2006	HDR
UMS08	80008673	8000000350	DELL MARKETING LP PERLMUTTER	135.000	6/20/2006	HDR
UMS08	80008800	8000000364	PURCHASING POWER PERLMUTTER	217.000	6/23/2006	LN
UMS08	80008802	8000000351	PURCHASING POWER	250.000	6/27/2006	LN
UMS08	80010323	8000000441	DELL	100.000	8/31/2006	HDR

The results show the vouchers where the terms of the PO were FOB Destination, Freight Allowed and yet the freight charge was paid anyway. (There are some instances where it was valid to pay the charge. When that is the case, the freight terms should have been changed when the order was created.) So the results of the query show two things:

1. Unnecessary freight was paid, or
2. The freight terms were incorrect.

A review of the PO will determine which scenario applies.

Additionally, the last column has 2 values, LN and HDR. HDR indicates that the freight amount was entered correctly in the header of the voucher. LN indicates that the freight amount was vouchered like any other line on the PO. Freight should be entered on the Voucher Header in order to meet Generally Accepted Accounting Practices (GAAP). That is, the Accounts Payable System will prorate the cost of the freight to the goods purchased.