

SYSTEM AND PROCEDURES OF SALARIES AND WAGES IN ORDER TO INCREASE THE EFFECTIVENESS OF INTERNAL CONTROL

(CASE STUDY AT CV. SARI MUTIARA ABADI)

UNDERGRADUATE THESIS

Presented to Brawijaya University

As prerequisite of the Bachelor Degree of Business Administration

Faculty of Administrasi Science

**RIA JAYANTIKA
0810323074**



**UNIVERSITY OF BRAWIJAYA
FACULTY OF ADMINISTRATIVE SCIENCE
DEPARTMENT OF BUSINESS ADMINISTRATION
CONCENTRATION OF FINANCIAL MANAGEMENT
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MOTTO

Better Late Than Never



UNDERGRADUATE THESIS APPROVAL

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By : RIA JAYANTIKA

NIM : 0810323074

Faculty : Administrative Science

Department : Business Administration

Coaccentration : Financial Management

Malang, May 16, 2012

Board of Advisers,

Adviser I

Dr. Kertahadi, M.Com
NIP. 19540917 198202 1 001

Adviser II

Dr. Siti Ragil Handayani, M.Si
NIP. 196309231988022001

BOARD OF EXAMINERS APPROVAL

It has been examined and approved by the board of Undergraduate Thesis examiners of Faculty of Administrative Science Brawijaya University at:

Day : Monday
 Date : June 04, 2012
 Time : 10.00 A.M.
 By : RIA JAYANTIKA
 Title : SYSTEM AND PROCEDURES OF SALARIES AND WAGES IN ORDER TO INCREASE THE EFFECTIVENESS OF INTERNAL CONTROL (CASE STUDY AT CV. SARI MUTIARA ABADI)

HAD PASSED THE EXAMINATION

Board of Examiners,

Chairperson

Member

Dr. Kertahadi, M.Com
 NIP. 19540917 198202 1 001

Dr. Siti Ragil H, M.Si
 NIP. 19630923 198802 2 001

Member

Member

Prof.Dr.Suhadak, M.Ec
 NIP. 19540801 198103 1 005

Drs. R. Rustam Hidayat, M.Si
 NIP. 19570909 198303 1 001

DECLARATION OF AUTHORSHIP

Herewith 1,

Name : RIA JAYANTIKA

NIM : 0810323074

Declare that :

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Ria Jayantika
0810323074

SUMMARY

Ria Jayantika, 2012, **SYSTEM AND PROCEDURES OF SALARIES AND WAGES IN ORDER TO INCREASE THE EFFECTIVENESS OF INTERNAL CONTROL (Case Study at CV. Sari Mutiara Abadi).**

Dr. Kertahadi, M.Com., Dr. Siti Ragil Handayani, M.Si., 91 pages + ix

Accounting system of salaries and wages is one system that must be implemented effectively and efficiently, because the salaries and wages is an activity that is essential in order to maintain the viability of firms and related personnel executive who is always trying constantly to advance the company. So a company need a good and appropriate mechanism of company's goals. In this case, a company requires a good management to implement an accounting system of salaries and wages. Accounting system of salaries and wages was instrumental in the company's internal control, with accounting system, a company able to prevent corruption, errors, and carelessness in the implementation of salaries procedures and employee wages. Accounting system of salaries and wages used to improve the accuracy of wages the validity of accounting data, promote and enforce policy adhered to the enterprise and improve the effectiveness and efficiency. So that internal control can be accomplished effectively.

The objectives of this research are to know the implementation of salaries and wages accounting system applied by CV. Sari Mutiara Abadi, to know the implementation of salaries and wages accounting system at CV. Sari Mutiara Abadi as to whether it support the internal control or not.

Research method used is descriptive qualitative. The research focus is on organizational structure, procedure of salaries and wages system and internal control in accounting system of salaries and wages. Data sources used is primary data and secondary data, by using collection techniques of interview, observation and documentation.

Payroll payment is not under taken by accounting, but by personnel division. Personnel devision also works for EDP (Electronic Data Processing). It must be separated to avoid from misleading when reporting the computed data. In the payroll list, there is no space or column for signature. In the cash disbursement there are not number.

Some suggestions that could be given are it is better for CV. Sari Mutiara Abadi hiring worker for accounting position. It is important because the accounting position is conducting direct payment to the employee, not through personnel division. It is aimed to prevent the risk of misleading by personnel division because this division also prepares the report of salaries and wages. Enclosing the accounting position in the finance division. It is important because it explain the discretion of who is responsible for salaries and wages. Adding the signature column to acknowledge the personnel division as the preparer of salaries list. In cash disbursement should have number that has been printed so can minimize fraud.

FOREFACE

By saying grace on the presence of Allah SWT, for all overflow of His mercy and guidance so the authors can compile and present the Undergraduate Thesis at CV. Sari Mutiara Abadi entitled “System and Procedures of Salaries and Wages in Order to Increase The Effectiveness of Internal Control”. The benefit of writing this Undergraduate Thesis is as a means to increase the knowledge.

The thesis is the group final task proposed to meet the requirements in obtaining a Bachelor Degree of Business Administration Science at Faculty of Administrative Sciences Brawijaya University Malang. Preparation of this report is obtained based on the thesis activities undertaken by the authors, contains an overview of the company such as company history, system and procedure of salaries and wages in company, etc. This report also discusses in detail about thesis activities undertaken by the authors.

The authors realize that the preparation of undergraduate thesis would not be realized without help and encouragement from various parties. Therefore, on this occasion the authors would like to express their gratitude to the honorable:

1. Prof. Dr, Sumartono, MS as the Dean of Faculty of Administrative Science Brawijaya University Malang.
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6. Wiji Lestari, leadership of CV. Sari Mutiara Abadi who has provided guidance and direction.
7. My husband who have given support, motivation, and advice during thesis activity undertaken.
8. My parents who have given prayers, motivation, and advice during thesis activity undertaken.
9. To other parties that we can not mention one by one, thanks for helping us.

The authors realize that this undergraduate thesis is still far from perfect. So the authors need suggestions and contructive criticisms to the perfection of this report. Hopefully this undergraduate thesis can be beneficial and contribute significantly to those who need.

Malang, May 24, 2012

Authors

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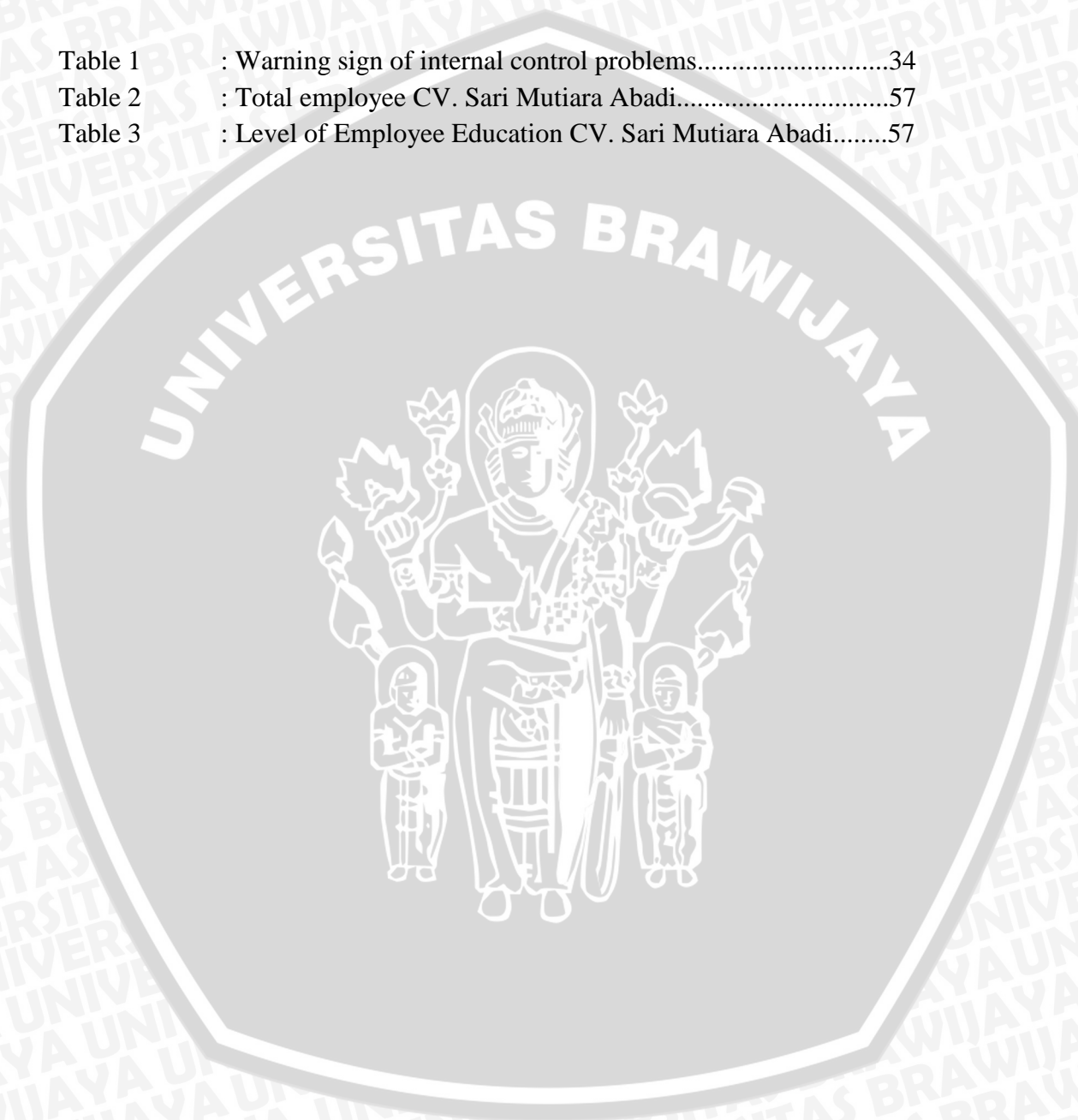
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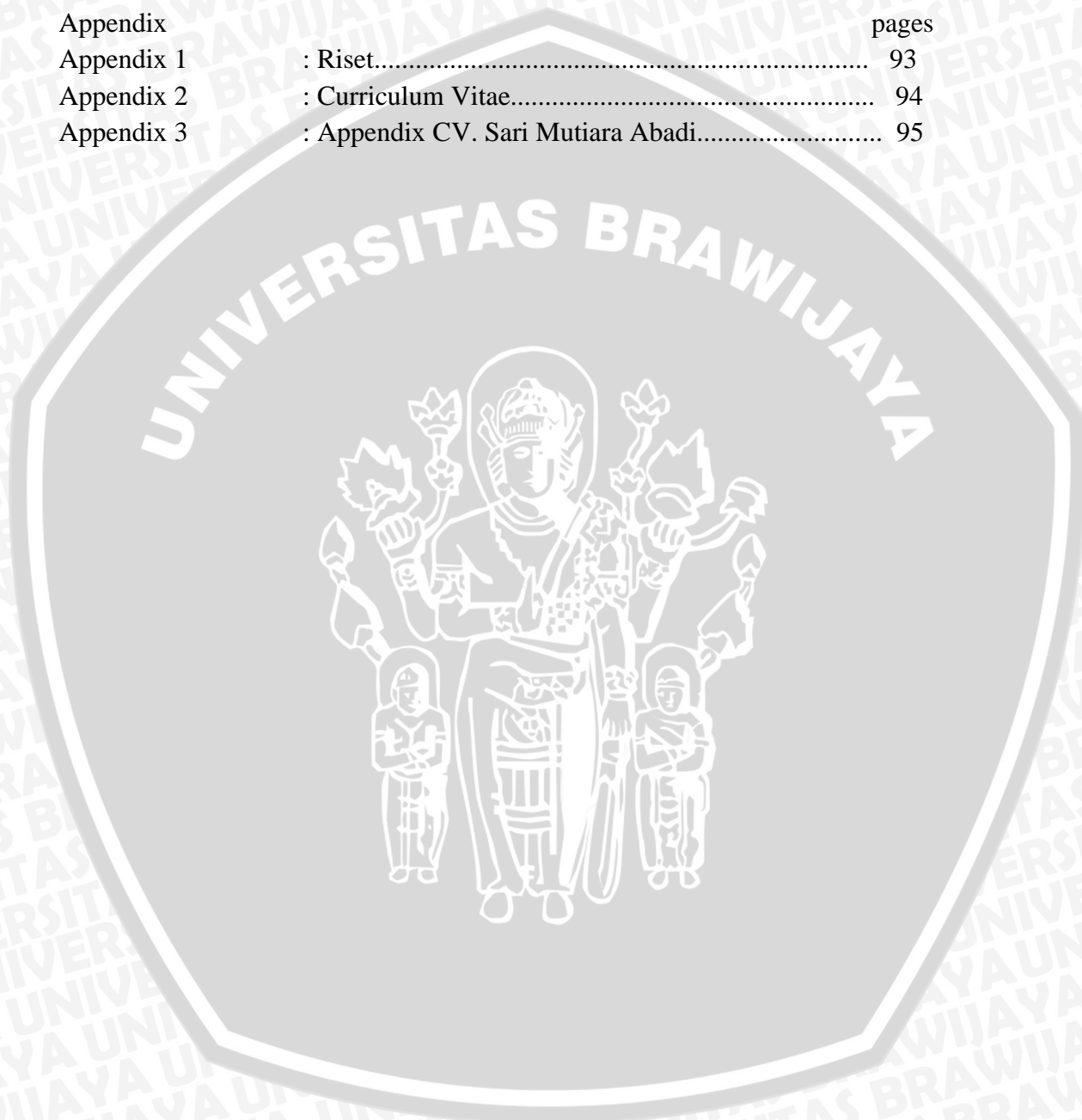
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CHAPTER I

INTRODUCTION

A. Background

Any company can achieve its goals if it has a good system, because the system is a framework of an enterprise, as expressed by Cole that quoted by Baridwan (2002, p.03) “The system is a framework of interconnected procedures developed according fly to an integrated scheme to perform major activity of business.

All activities of the company is expected to be well directed when grouped into subsystems, which in turn form the system as a whole. These are interconnected and mutually support the achievement of objectives of a company. One of the most important support of a good system is the placement of appropriate human resources in the right place, so there is no abuse that would ultimately harm the company itself. However well a system owned by the company without the support of a good resources the company’s goals will not be achieved with satisfactory results, otherwise company will fail in achieving its goals.

One of systems owned by the company is accounting system. Accounting system is organizing and functioning formally present information related to attempts to discuss financial activities. Financial information on a company is required by the various parties, namely the external and internal parties of the company itself. External parties require

financial information for consideration to assess overall corporate finance and corporate performance. For enterprise themselves, the financial information is needed to determine the company's financial position as a basis for decision making in carry out corporate activities.

Accounting system of salaries and wages is one system that must be implemented effectively and efficiently, because the salaries and wages is an activity that is essential in order to maintain the viability of firms and related personnel executive who is always trying constantly to advance the company. So a company need a good and appropriate mechanism of company's goals. In this case, a company requires a good management to implement an accounting system of salaries and wages.

Accounting system of salaries and wages was instrumental in the company's internal control, with accounting system, a company able to prevent corruption, errors, and carelessness in the implementation of salaries procedures and employee wages. Accounting system of salaries and wages used to improve the accuracy of wages the validity of accounting data, promote and enforce policy adhered to the enterprise and improve the effectiveness and efficiency. So that internal control can be accomplished effectively.

An internal control system is adequate if it is supported by the implementation of the system, then expected goals can be achieved. The objective of internal control is to secure all assets owned by the company, ensure efficiency in operations, the report is valid in accordance with

applicable procedures or system. So in this case a company required a control system that includes organizational structure, system and procedures to safeguard company's assets, check accuracy and validity of accounting data, promote efficiency and compliance with management policies.

CV. Sari Mutiara Abadi is a company that manages the seaweed species *gracillaria* SP to be used as gelatin powder with a production capacity of 8 tons per month. The process is still using a very simple machine. CV. Sari Mutiara Abadi had been supplying the gelatin powder as raw material for industrial manufactured of candy, ice cream, and jelly. The company has already hired 100 workers with different levels and the system of salaries and wages is still using the manual system. Therefore this company needs adequate attention from the management of the company regarding the provisison of salaries and wages in order to increase the internal control.

Based on this background the author feel complied to focus on the discussion and took the title **“SYSTEM AND PROCEDURES OF SALARIES AND WAGES IN ORDER TO INCREASE THE EFFECTIVES OF INTERNAL CONTROL”**.

B. Formulation of Problems

1. How is the implementation of salaries and wages accounting system applied by CV. Sari Mutiara Abadi?
2. How is the implementataion of salaraies and wages accounting system in supporting the internal control of CV. Sari Mutiara Abadi?
3. How are the solutions to solve the existence of problems related with the salaries and wages accounting system at CV. Sari Mutiara Abadi?

C. Research Objectives

1. To describe the implemenetation of salaries and wages accounting system applied by CV. Sari Mutiara Abadi.
2. To describe the implementation of salaries and wages accounting system at CV. Sari Mutiara Abadi as to whether it support the internal control or not.
3. To give solutions in order to solve the existence of problems related to salaries and wages accounting system at CV. Sari Mutiara Abadi

D. Research Contributions

From the result of this research, it is expected that the contribution as follow:

1. Practical Aspects

Provide input for the company regarding implementation of the accounting system of salaries and wages that can later be used as a

material consideration in setting the policy implementation of the accounting system of salaries and wages that is better in the future.

2. Theoretical Aspect

a. For Author

Can understand and expand the knowledge of accounting system of salaries and wages employed by the company so as to compare between theory and practice.

b. For Other Parties

Can be used as a reference and comparative material for further research, can contribute to interested parties on the salaries and wages and can add to knowledge in the field of accounting system.

E. Systematic Implementation

Systematic of the discussion in this study is as follows:

CHAPTER I : INTRODUCTION

This chapter describes about the research background, problem formulation, research objectives, research contributions, and systematic implementation.

CHAPTER II : REVIEW OF RELATED LITERATURES

This chapter is a description of the theoretical studies used to support the discussion of accounting system and procedures, salaries and

wages system, form in accounting system, internal control in accounting system of salaries and wages.

CHAPTER III : RESEARCH METHOD

This chapter describes the types of research focus, the location of the company, data sources, data collection techniques, research instruments and data analysis.

CHAPTER IV : RESULT AND DISCUSSION

This chapter contains an outline of the presentation of data obtained from the company, and the data analysis of existing problems and provide recommendation.

CHAPTER V : CONCLUSION

This chapter suggests the conclusion of the discussion and the advice deemed necessary.

CHAPTER II

REVIEW OF RELATED LITERATURES

A. Accounting System and Procedures

1. Defintion of System and Procedures

To meet the information needs of both internal and external parties, it is necessary to plan a system so that result can meet the desires of those whoo need. Before explain further description about accounting system, the following will explain terms of procedures and system.

According to McLeod & Schell (2001, p.09), "System is a group of elements that are integrated with the common purpose of achieving an objectives".

According to Post & Anderson (2003, p.05&602), "Procedure are instructions that help people use the system. They include items such as manuals, documentation, and procedures use to ensure that backups are made regularly. System is a collection of interrelated objets that work to ward some goals".

Meanwhile to O'Brien & Marakas (2008, p.602-605), the definition of procedures and system are:

"Procedure is sets of instructions used by people to complete a task. System are:

- a. A group of interrelated of interacting elemets forming a unified whole.
- b. A group of interrelated components working together toward a common goal by accepting inputs and producing output in an organized transformation process.
- c. An assembly of methods, procedures, or techniques unified by regulated interaction to form an organized whole.
- d. An organized collection of people, mechnes, and methods required to accomplish a set of specific function.

According to Romney & Steinbart (2000, p.02) "a system is a set of two or more interrelated components that interact to achieve a goal. System are almost always composed of smaller subsystem, each performing a specific function important to and supportive of the larger system of which it is a part".

From the definition noted above, it can be concluded that a system is a network of procedure associated with each other to form a unity. While the procedure is a sequence of activities that includes the processes and operation of a system.

2. Definition Accounting System

Many definition of accounting systems that have been raised by expert include:

According to Boynton Johnson & Kell (2001, p.334) "accounting system consists of the methods and records established to identify, essemble, analyze, classify, record, and report entity transaction (as well as events and conditions) and to maintain accountability for the related assets and liabilities".

Bodnar and Hopwood (2000, p.181) also define "accounting system as an organization composed of methods and records are made to identify, collect, analyze, record, and report transactions and conduct organizational accountability for assets and related liabilities".

According to Reeve, Warren & Duchac (2008, p.204) "an accounting system is the methods and procedures for collecting,

classifying, summarizing, and reporting a business's financial and operating information'.

From the definition above it can be concluded that the accounting system is the organization of form, records and other tools that coordinate each other in order to get the information needed by management to manage their business.

3. The importance of Accounting System

According to Post & Anderson (2003, p.183), there are several importance of accounting system:

- a. Accounting system are important because they extend throughout the company and because they focus on money.
- b. They are used to collect data and evaluate performance.
- c. Accounting systems also enable managers to combine the many divisions into an integrated picture of the entire company.
- d. Accounting systems also provide controls over the data to ensure accuracy and to prevent fraud.
- e. The primary purpose of accounting is to collect the financial data of the firm, ensure taht it is accurate, and create standard reports. It is hard to capture all of th elements of an accounting system in one ilustration.

4. Processing Methods

According to Reeve, Warren & Duchac (2008, p. 205-219), processing methods are the means by which the system collects, summarizes, and reports accounting information. These methods may be either manual or computerized.

a. Manual accounting System

Understanding a manual accounting system assists in recognizing reports. Such manual accounting systems are simple to use and easy to understand. Manually kept records may serve a business reasonably well when the amount of data collected, stored, and used is relatively small. For large business, such manual processing is too costly and time consuming. General ledger, subsidiary ledger, journals and special journals are used in manual accounting system.

b. Computerized Accounting System

Computerized accounting system have become more widely used as the cost of hardware and software has declined. In addition, somputerized accounting systems have three main advantages over manual systems. First, cmputerized systems simplify the record-keeping process. Transactions are recorded in electronic form and, at the same time, posted electronically to general and subsidiary ledger accounts. Second, computerized systems are generally more accurate than manual systems. Third, computerized systems provide management current account balance information to support decision making, since account balance are posted as the transaction occur.

5. Preparation Steps of the Accounting System

According to Reeve, Warren, & Duchac (2008, p.204-205), accounting systems evolve through a three-step process as a business grows and changes:

a. The first step in this process is analysis.

Which is consists of :

- 1) Identifying the needs of those who use the business's financial information.
- 2) Determining how the system should provide this information

b. In the second step, the system is designed so that it will meet the users needs.

This system included a chart of accounts, a two column journal, and general ledger.

c. Finally the system is implemented and used.

B. Salaries and Wages System

1. Definition of Payroll and Wages

Salaries and wages is very sensitive and complicated for a company, so company must be careful in doing salaries and wages because in concern to the welfare of employees and labor.

According to Reeve, Warren, & Duchac (2008, p.484-485) “payroll refers to the amount paid to employees for the services they provide during a periode. Wages paid to employees are an employer’s labor expenses, the term wages usually refers to payment for manual labor, both skilled and unskilled”.

Meanwhile according Hongren, Horrison, & bamber (2002, p.439) “ payroll is also called employee compensation, is a major expense. Payroll expense for salaries or wages usually causes an accured liability at year-end”.

Some of definitions above show that salary and wages have the some purpose, which salary is payment for service provided in the form of money at regular intervals and do not depend on the length of working hours, commonly salary is generally given to the skill working. Meanwhile the term of wages is given to compensation based on working days, working hours, or number of units of product produced, commonly given to unskilled working. In the other side, wages intended as economic needs and work productivity. The succes of an organization is a balance between input output provided by the worker.

2. Payroll Deduction

According to Horngren, Harrison, & Bamber (2002, p.443), “payroll deduction fall into two categories:

- a. Required deduction, such as employee income tax and social security tax.
- b. Optional deduction, including union dues, insurance premiums, charitable contribution, and other amount withheld at the employee’s request”.

3. Paying the Payroll

According to Horngren, Harrison, & Bamber (2002, p.448) “most employers must record at least three cash payment for salary:

- a. Net pay to employees.
- b. Payroll taxes and other payroll deduction.
- c. Employee benefit”.

4. Accounting System for Payroll

According to Reeve, Warren, & Duchac (2008, p.490) “payroll system must be designed to pay employees on a timely basis. Payroll systems should also be designed to provide useful data for management decision making needs. Such needs might include setting employee grievances and negotiating retirement or other benefits with employees. Although payroll systems differ among businesses, the major common to most payroll system are the payroll register, employee’s earning record, and payroll checks”.

5. Employee’s Fringe Benefit

According to Reeve, Warren, & Duchac (2008, p.494) “many companies provide their employees a variety of benefits in addition to salary and wages earned. Such fringe benefits may take many forms, including vacations, medical, and postretirement benefits, such as pension plans.

- a. Vacation Pay
Vacation pay becomes the employer’s liability as the employee earns vacation rights.
- b. Pensions.
A pension represents a cash payment to retired employees. Rights to pension payments are earned by employees during their working years, based on the pension plan established by the employer”.

6. Document Flow Chart Salary System

Bellow is a flow chart of the system of salary according to Mulyadi (2001, p.392), for more details, here is the description of the salary system in company.

a. Recording Time Function

At the recording starts with the process of recording hours of attendance of employees then generate Attendance Time Card (ATC) and make a list of employee attendance. It will produce two documents namely Employee Attendance List (EAL) and ATC are subsequently submitted to the salary and wages function.

b. Salary and Wages Function

Receive EAL and ATC are by date and then make a list of salary and wages recapitulation Payroll List (PL) 2 copies, Payroll Recapitulation (PR) 2 copies and Payroll Statement (PS). After that record into Employee Earning Statement (EES), PL (copies 1,2), PR (copies 1,2) PS and EES submitted to the debt function.

c. Debt Function

Receive PL (copies 1,2), PR (copies 1,2), PS and EES then makes Cash Disbursement Form (CDF) which will result in CDF 3 copies, 2 copies PL, 2 copies PR, PS and EES recorded in cash disbursement form. After recorded CDF (copies 1,3), PL (copies 1,2), PR (copies 2), PS and EES to the cash function. For CDF (copies 2), PR (copies 1) be submitted to the journal function.

d. Cash Function

Receive CDF (copies 1,3), PL (copies 1,2), PR (copies 2), PS and EES then prepare check and ask signature, cash a check to the bank and put money into the pay envelope, pay to the employees and ask signature of employee earnings card, affix a stamp off the evidence and supporting documents, after that CDF (copies 1), PL (copies 1) and PR (copies 2) submitted to the salary and wages function. PS pay envelope with the salary.

e. Debt Function

Receive CDF (copies 1), PL (copies 1) and PR (copies 2) and then record the check number on the register cash disbursement. After the recorded register CDF (copies 1), PL (copies 1) and PR (copies 2) submitted to the journal function.

f. Salary and Wages Function

Receive CDF (copies 3), PL (copies 2) and EES, then the CDF (copies 1), PL (copies 2) filed according to date while EES filed based on alphabetical.

- g. Journal Function
Receive CDF (copies 2) and PR (copies 1) and then make Memorial Document (MD) which resulted in MD (copies 1) and CDF (copies 2) and then recorded to the cost card function.
- h. Cost Card Function
MD (copies 1), PR (copies 1) and CDF (copies 2) recorded on the Cost Card (CC) then filed based on serial number.
- i. Journal Function
CDF (copies 1), PL (copies 1) and PR (copies 2) recorded in the register check and then three documents namely CDF (copies 1), PL (copies 1) and PR (copies 2) filed based on serial number.

7. Document Flow Chart Wages System

Bellow is a flow chart of the system of wage according to Mulyadi (2001, p.397-399). For more details, here is the description of the wages system in company.

- a. Recording Time Function
At the time the recording starts with process of recording employee attendance time and Attendance Time Card (ATC) and make list of employee attendance will produce two documents namely Employee Attendance List (EAL) and ATC, subsequently submitted to the salary and wages function.
- b. Under the Production Function
Starting with a record work time which then Working Time Card (WTC) and make List Working Time (LWT) and WTC then brought to the salary and wages function.
- c. Salary and Wages Function
Receive ATC and EAL and WTC and LWT then compared between the attendance list and list working time. After making the Wage List (WL), Recapitulation Wages List (RWL) and the Wage Statement (WS). From here the result of WL (copies 1,2), RWL (copies 1,2) an WS all recorded in the Employee Earning Statement (EES), then WL (copies 1,2) RWL (copies 1,2), WS and EES submitted to the debt function.
- d. Debt Function
Receive WL (copies 1,2), RWL (copies 1,2), WS and EES then make CDF. CDF (copies 1,2,3) RW (copies 1,2) WS and EES all recorded on the register CDF. After that CDF (copies 1,2,3), WL (copies 1,2), WS and EES submitted to the cash function, while the RWL (copies 1) and CDF (copies 2) submitted to the journal function.

e. Cash Function

Receive CDF (copies 1,3) WL (copies 1,2), RWL (copies 2), WS and EES, prepare check and ask for signatures, cash a check to the bank and put money into an envelope, pay wages to employees and signatures asking for EES and paid stamp on the evidence and supporting documents. CDF (copies 1), WL (copies 1), RW (copies 2) submitted to the debt. CDF (copies 3), WL (copies 2) and EES brought to the salary and wages while the WS is inserted into the pay envelope with the money wages income.

f. Debt Function

Receive CDF (copies 1), WL (copies 1) and RW (copies 2) record the check number the register. After that register CDF, CDF (copies 1), WL (copies 1) and RWL (copies 2) brought to the journal function.

g. Salary and Wages Function

Receive CDF (copies 3), WL (copies 1) and RWL (copies 2) record the check number the register. After the register CDF, CDF (copies 1), WL (copies 2) filed according to date while EES filed based on alphabetically.

h. Journal Function

Receive RWL (copies 1) and CDF (copies 2) of the debt then MD. PR (copies 1), CDF (copies 1) then make General Journal (GJ) and the three document is MD, PR (copies 1), CDF (copies 1) submitted to the Cost Card function (CC).

i. Cost Card Function

Receive MD, PR (copies 1), CDF (copies 2) which then produce the cost card and cost of goods product. Then all of documents are filled based on serial number.

j. Journal Function

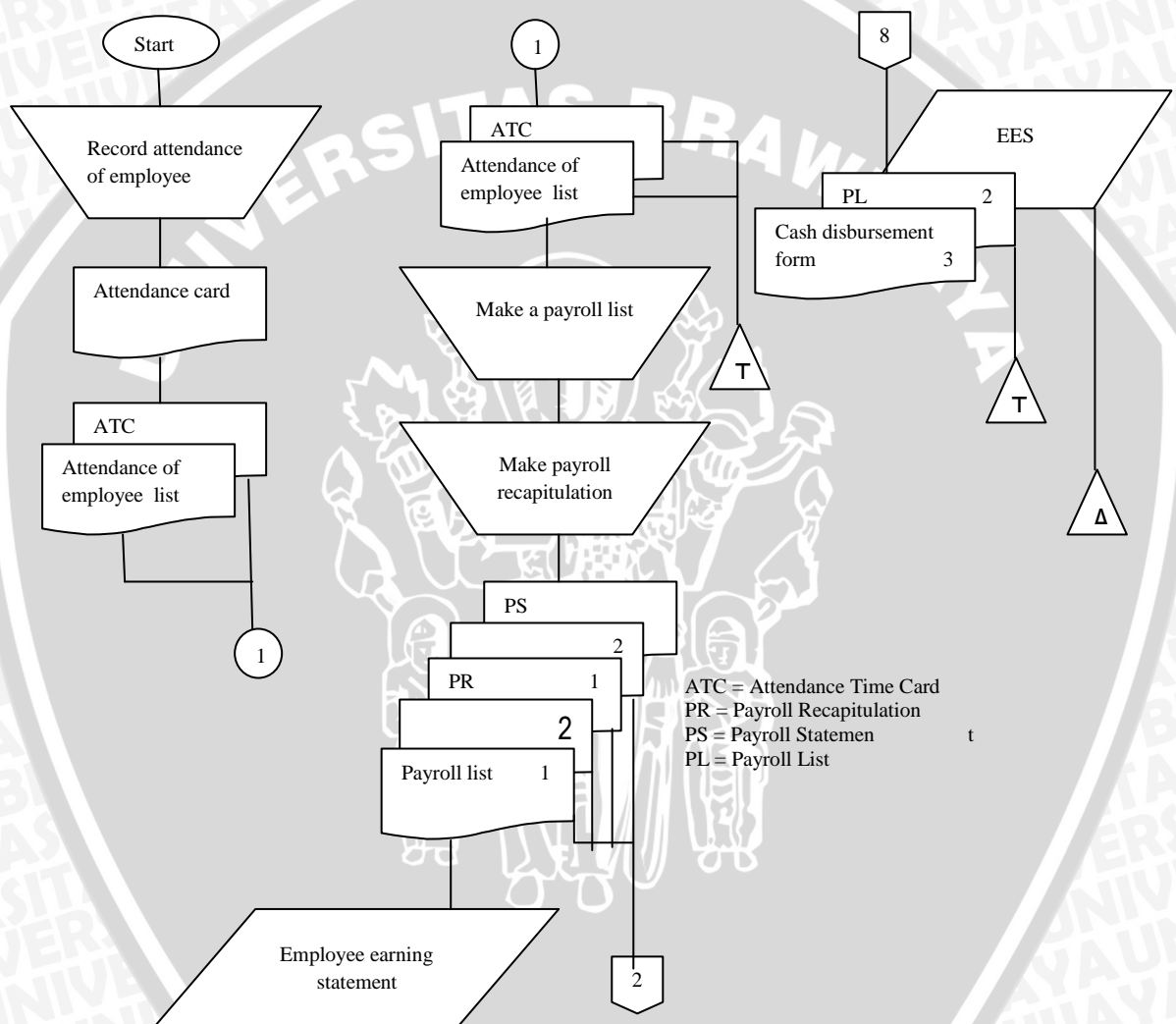
Receive CDF (copies 1), PL (copies 1) and RW (copies 2) then record on check register then the three document is CDF (copies 1), PL (copies 1) and RW (copies 2) filed based on serial number.

Picture I

Flowchart of Payroll System

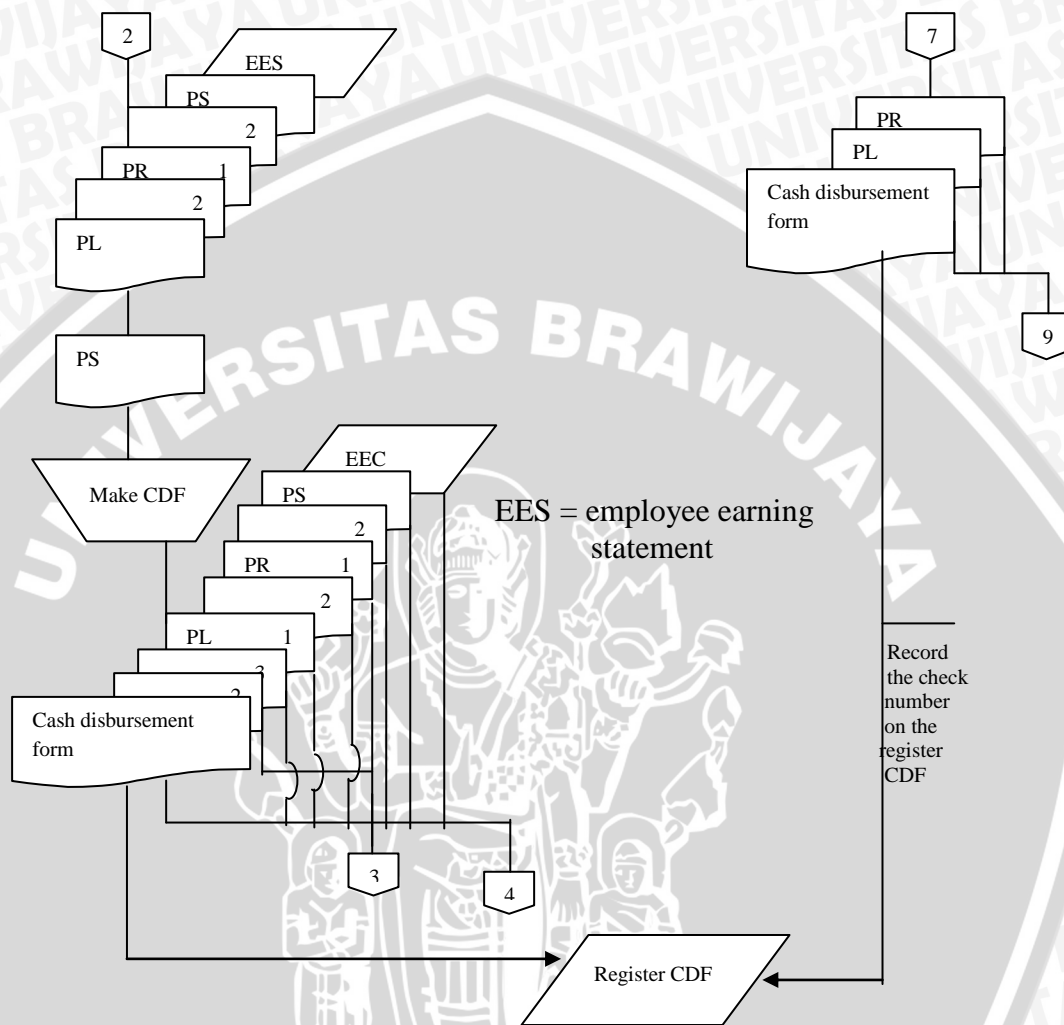
Recording Time Function

Salary and Wages Function

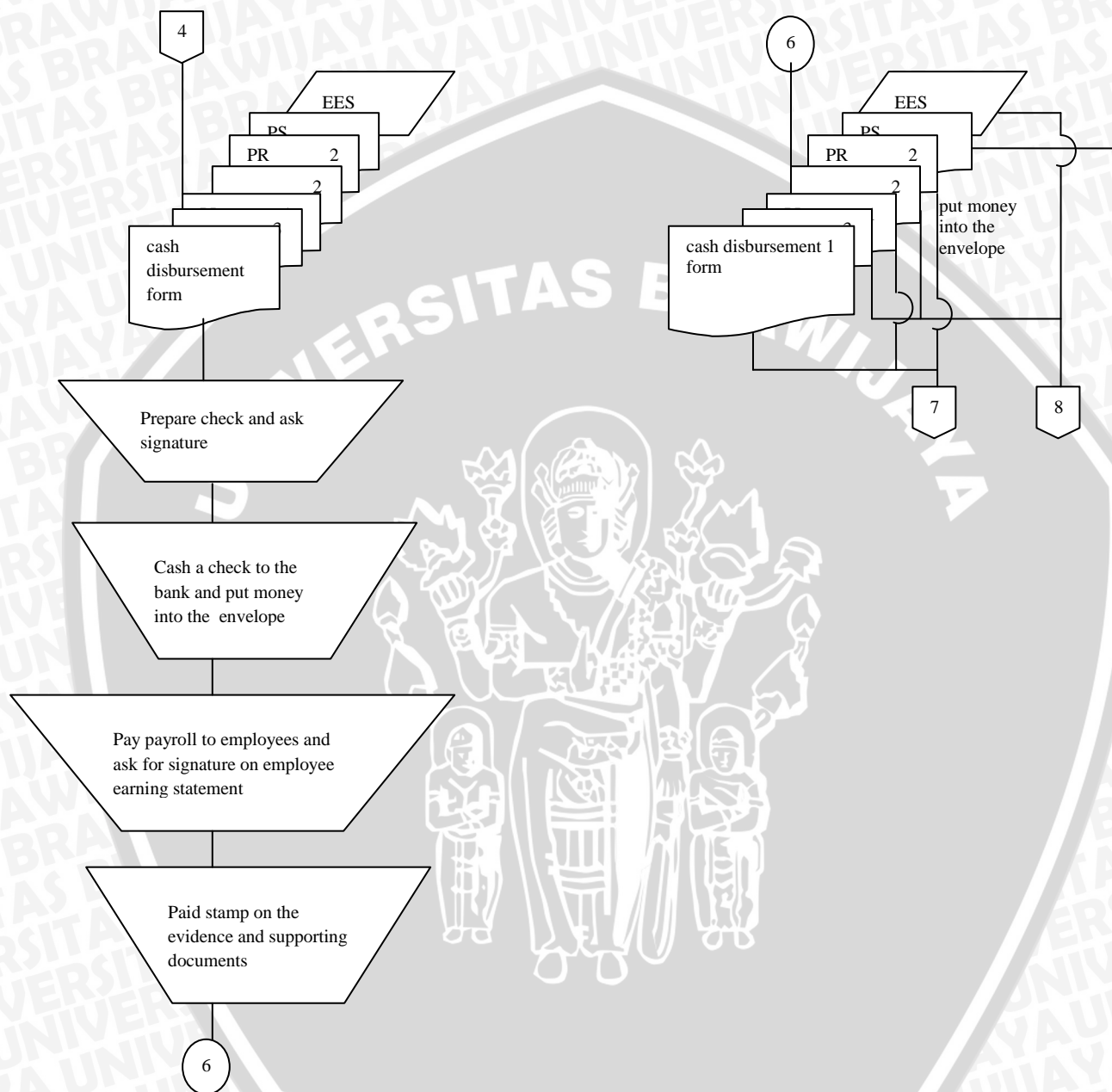


Sources : Mulyadi (2001, p.392)

Debt Function

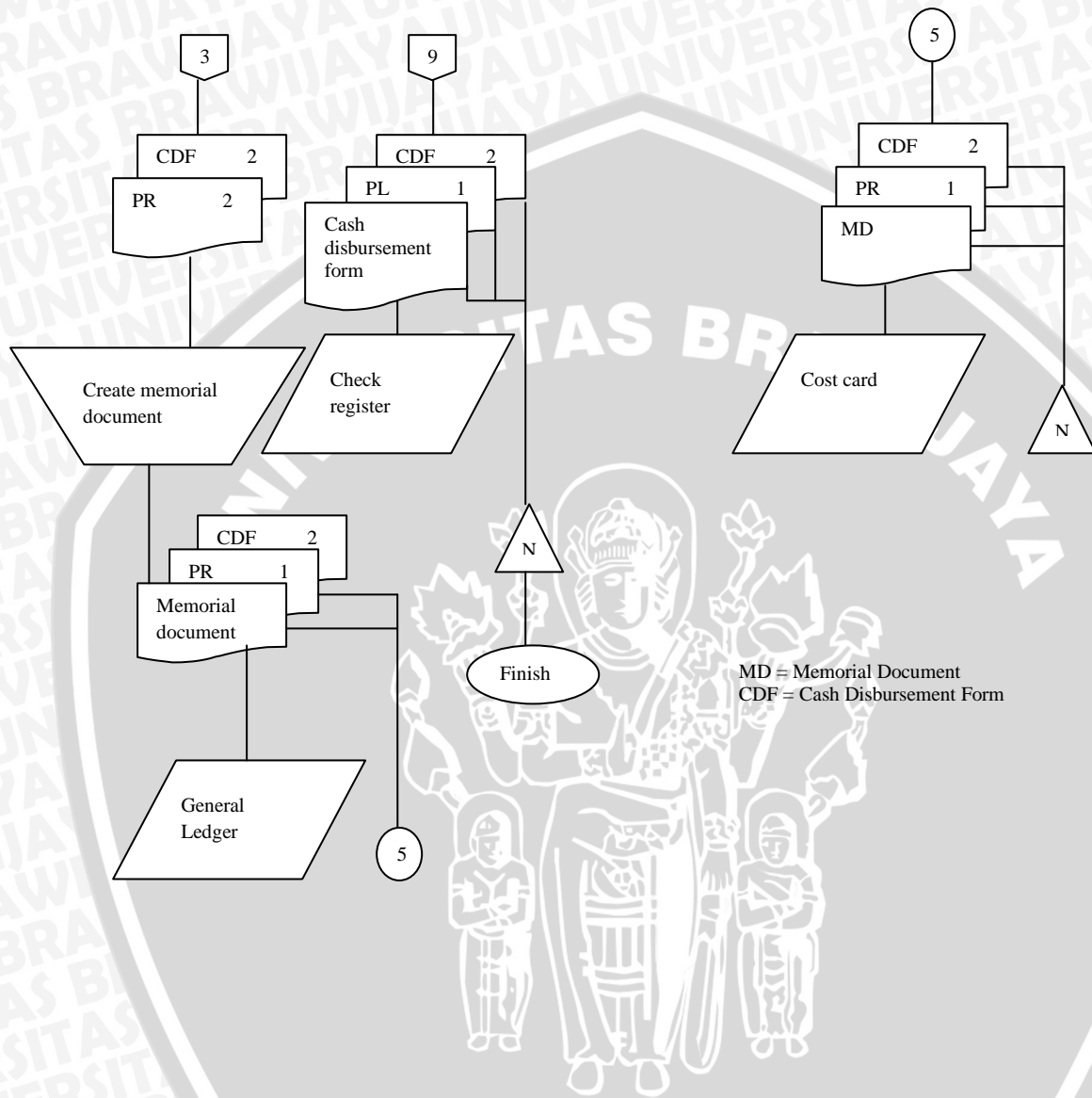


Cash Function



Journal Function

Cost Card Function

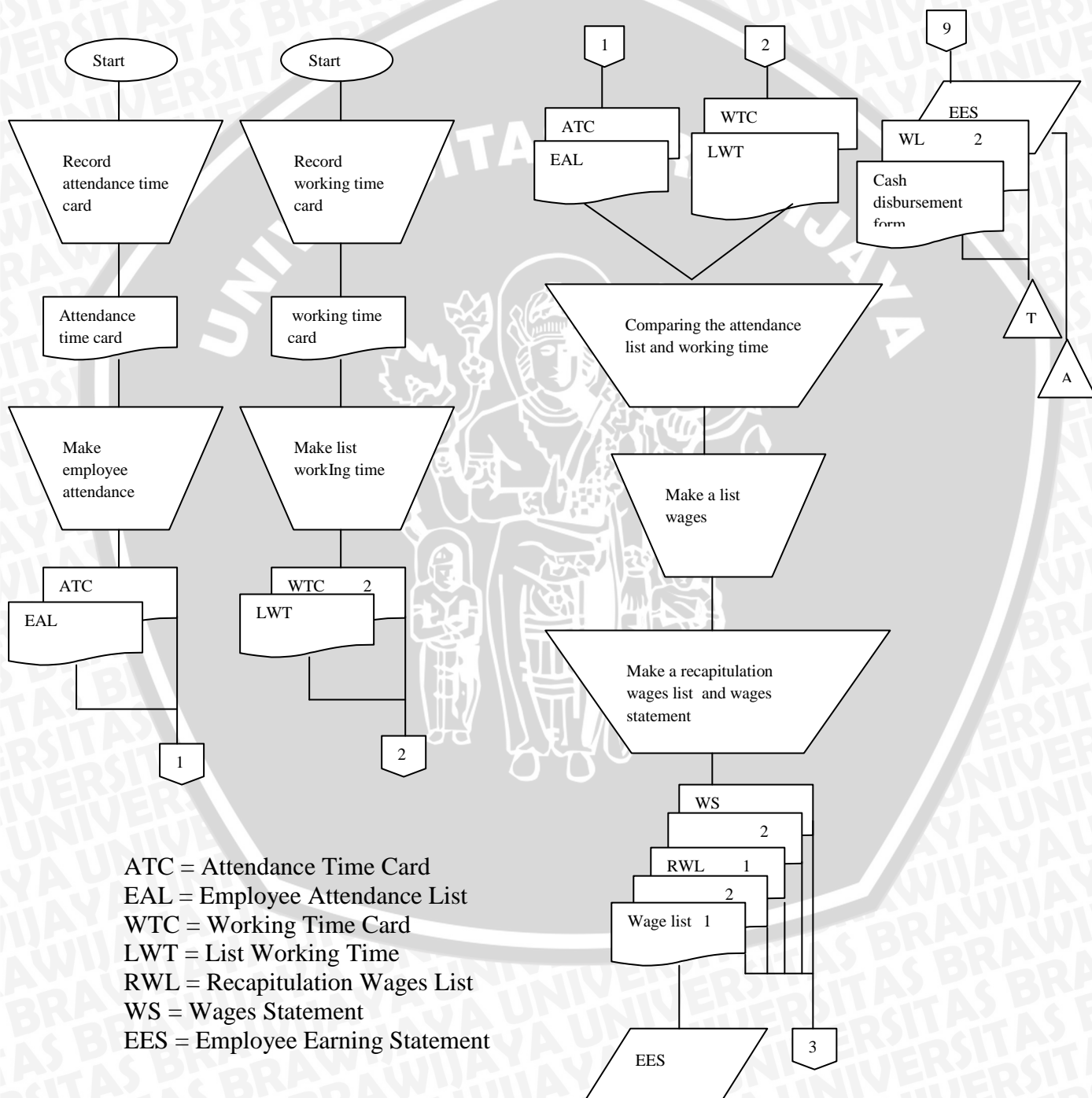


Picture 2

Flowchart Wages System

Time keeping function under the production function

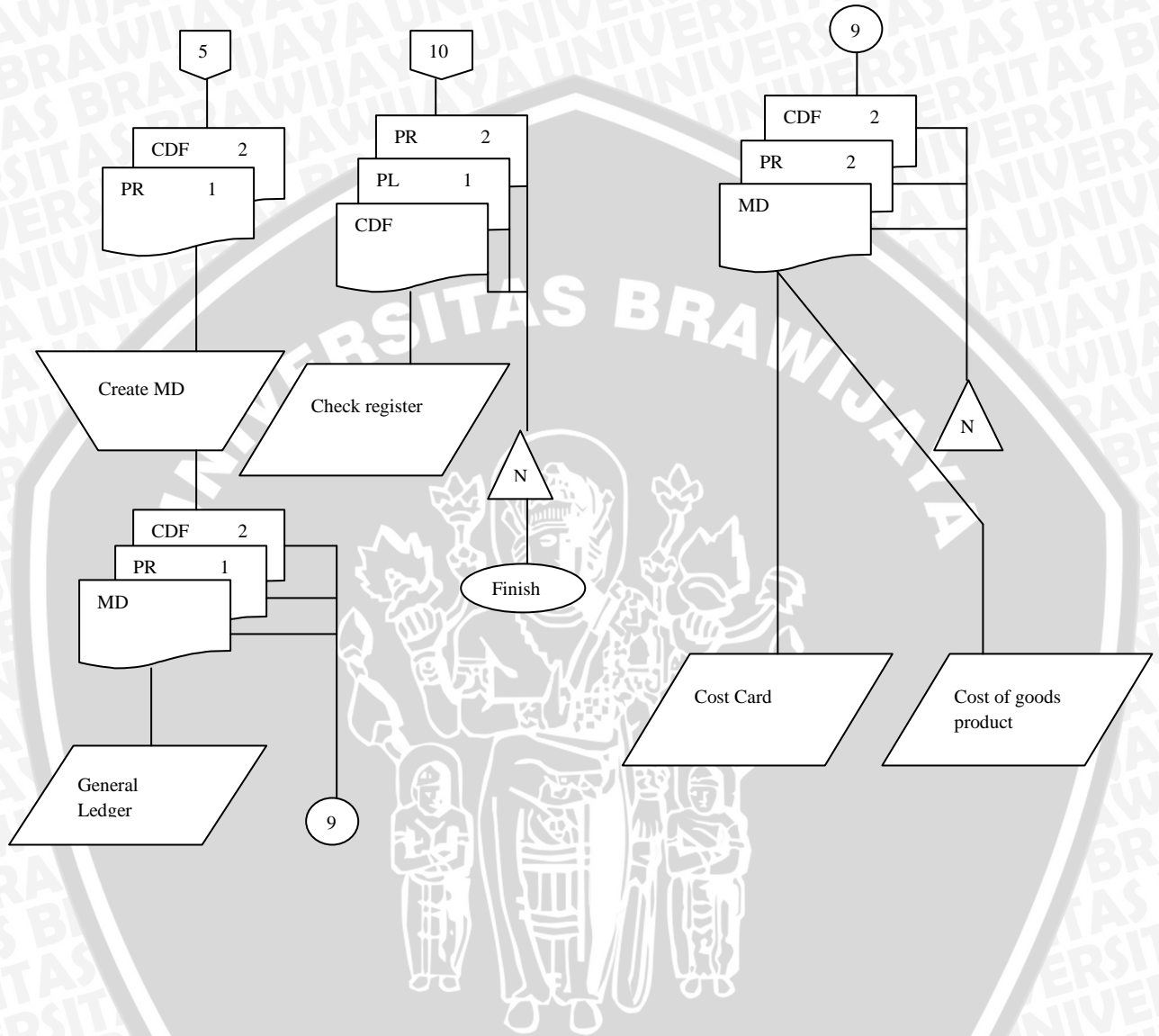
Salary and wages Function





Journal function

Cost Card Function



C. Internal Control in Accounting System of Salary and Wages

One role of the accounting system is to provide financial information and will be used in order to make appropriate decision planning. Internal control system is not attended to all possibility of error and fraud within the limits of cost margin and it can be known and handled as soon as possible.

1. Definition Internal Control

There are several definitions of internal control according to several expert.

According to Romney & Steinbart (2000, p.253) “internal control is the plan of organization and the methods a business uses to safeguard assets, provide accurate and reliable information, promote and improve operational efficiency, and encourage adherence to prescribed managerial policies”.

According to Horngren, Horrison, & Bamber (2002, p267) “internal control is organizational plan and all the related measures adopted by an entity to safeguard assets, encourage adherence and reability accounting records”.

Meanwhile according to Wild, Bernstein, & Subramanyam (2001, p.130) “ an internal control system consists of all procedures and method designed to safeguard a company’s assets and ensure that all relevant economic events are accurately reflected in the financial statements”.

According to Reeve, Warren, & Duchac (2008, p.205) “ internal controls are the policies and prosedures that protect assets from misuse, ensure that business information is accurate, and ensure laws and regulations are being followed”.

According to McWatters, Morse, & Zimmermen (2001, p.184) “an internal control system is a system of checks and balances to verify that transactions are recorded and implemented correctly. An internal control system dissuades employees from committing fraud againts the organization by establishing a trail of documents and by using the separation of duties so that employees monitor each other. Internal control systems work well unless employees collude to commit fraud.

The committee of Sponsoring Organization (COSO) Report that cited by Boynton, Johnson, & Kell (2001, p.325) also emphasize that the following fundamental concept are embodied in the foregoing definition:

- a. Internal control is a process. It is a means to an end, not an end to itself. It consists of a series of actions that are pervasive and integrated with, not added into, an entity’s infrastructure.
- b. Internal control is effected by people. It is not merely a policy manual and forms, but people at every level of an organization, including the board of directors, management, and other personnel.
- c. Internal control can be expected to provide only reasonable assurance, not absolute assurance, to an entity’s management and board because of limitations inherent in all internal control systems and the need to consider the relative costs and benefits of establishing controls.
- d. Internal control is geared to the achievement of objectives in the overlapping categories of financial reporting, compliance, and operations.

The study, titled Internal Control-Integrated Framework cited by Whittington & Pany (2001, p.241), defines internal control as:

A process, effected by the entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives of reability of financial

reporting; effectiveness and efficiency of operations; and compliance with applicable laws and regulations.

Base on some definition by expert, so it can be concluded that internal control system is a planning organization to coordinate the methods or ways of control with the standards established to safeguard corporate assets, increasing reliance and accuracy of effective and efficient accounting data, and policy compliance.

2. Objectives Internal Control System

According Horngren, Horrison, & Bamber (2002, p.324) “internal control is the organizational plan and all the related measures that an entity adopts to accomplish four objectives:

- a. Safeguard Assets.
A company must safeguard its assets; otherwise it's throwing away resources.
- b. Encourage employees to follow company policy.
Everyone in an organization needs to work toward the same goals.
- c. Promote operational efficiency.
Companies cannot afford to waste resources.

According Williams, Raymond, & Walter (2001, p.325) “internal control is a process, effected by an entity's board of directors management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- a. Reability of fiancial reporting.
- b. Compliance with applicable laws and regulations.
- c. Effectiveness and efficiency of operations”.

According Reeve, Warren, & Duchac (2008, p.350-351) “the objectives of internal control are to provide reasonable assurance that:

- a. Assets safeguarded and used for business purposes
Internal control can safeguard assets by preventing theft, fraud, misuse, or misplacement. One of the most serious breaches of internal control is employee fraud. Employee fraud is the intentional act of deceiving an employer for personal gain.
- b. Business information is accurate
Accurate information is necessary for operating a business successfully. The safeguarding of assets and accurate information often go hand-in-hand. The reason is that employees attempting to defraud a business will also need to adjust the accounting records in order to hide the fraud.
- c. Employees comply with laws and regulations
Businesses must comply with applicable laws, regulations and financial reporting standards. Example of such standards and laws include environmental regulations, contract terms, safety regulations, and Generally Accepted Accounting Principles (GAAP)".

3. An Effective Internal Control

According to Horngren, Horison, & bamber (2002, p.267-271), the characteristics of effective internal control are:

- a. Competent, reliable, and ethical personnel
Employees should be competent and ethical. Paying top salaries to attract top quality employees, training them to do their job well and supervising their work all help a company build a competent staff.
- b. Assignment of responsibilities
In a business with a good internal control system, no important duty is overlooked. Each employee is assignment of responsibilities appears in the corporate organizational chart. Notice that the company has a vice president of finance and accounting. Two other officers, the treasurer and the controller, report to that vice president. The treasurer is responsible for cash management. The controller is the chief accounting officer.
- c. Proper authorization
An organization generally has written rules to outline its procedures. Any deviation from policy requires proper authorization.

d. Separation of duties

Smart management divides responsibility for transactions between two or more people or department. Separation of duties limits the chances for fraud and promoted the accuracy of the accounting record. This crucial component of the internal control system can be divided into four parts:

- 1) Separation of operations fro accounting
- 2) Separation of the custody of assets fro accounting
- 3) Separation of authorization of transaction from custody of related assets
- 4) Separation of duties within the accounting function

e. Internal and external audits

To guarantee the accuracy of their accounting records, most companies undergo periodic audits. An audit is an examination on the comapny's financial statements and the accounting system. It is not economically feasible for auditors to examine all transactions, so they must rely on the accounting system to produce accurate record. To evaluate the company's accounting system, auditors examine its system of internal controls. Auditors often spot weaknesses in the system because they are objective in their outlook. The company's managers, on the other hand, are immersed in day to day operations and may overlook their own weaknesses.

Audit can be internal or external. Internal auditors as employees of the business. Through out the year, the internal auditors examine various segment of the organization to ensure that employees are following comapany policies and that operations are running efficiently.

External auditors are entirely independent of the business. They are hired to determine that the company's financial statements are prepared in accordance with generally accepted accounting principles. Both internal and external auditors are independent of the operations they examine, and both suggets improvements that help the business run efficiently.

f. Document an records

Business documents and records vary from involves and purchase orders to special journals and subsidiary ledgers. Documents should be pre-numbered. A gap the numbered sequence draws attention.

Pre-numbering sale receipt discourages theft by cashiers because the copies retained by the chasiars list the amount of the sale. If the receipt are not pre-numbered, a chasier can destroy the sale receipt and pocket the cash received.

g. Electronic devices and computer controls

Accounting systems are relying less and less on documents and more and more on digital storage devices. Computers shift the

internal controls to the people who write the programs. Programmers then become the focus of internal controls because they can write programs that transfer company assets to themselves

4. Internal Control Purpose

According Romney, & Steibart (2000, p.253) “these internal control purposes are sometimes at odds with each other. For example, many people are pushing for radical business process reengineering so they can have better and faster information and improve operational efficiency. Others resist those changes because they impede the safeguarding of company assets and require significant changes in managerial policies”.

5. Importance of Internal Control

According to The national Commission on Fraudulent Financial Reporting (treadway Commission) cited by Boynton, Johnson, & Kell (2001, p.324) reemphasized the importance of internal control in reducing the incidence of fraudulent financial reporting. The commission’s final report, issued in October 1987, included the following;

- a. Of overriding importance in preventing fraudulent financial reporting is the “tone set by top management” that influences the corporate environment within which financial reporting occurs.
- b. All public companies should maintain internal control that will provide reasonable assurance that fraudulent financial reporting will be prevented or subject to early detection.
- c. The organizations sponsoring the Commission (including the Auditing Standards Board) ASB should cooperate in developing additional guidance on internal control system.

According to A 1947 publication by the AICPA entitled internal control cited by Boynton, Johnson, & Kell (2001, p.323) the following factors as contributing to the expanding recognition of the significance of internal control:

- a. The scope and size of the business entity has become so complex and widespread that management must rely on numerous reports and analyses to effectively control operations.
- b. The check and review inherent in a good system of internal control affords protection against human weaknesses and reduces the possibility that errors or irregularities will occur.
- c. It is impracticable for auditors to make audits of most companies within economic the limitations without relying on the client's system of internal control.

6. Internal Control Classification

The concepts of internal control and management control are broad in scope, aimed at describing entire control system. According to Romney & Steinbart (2000, p.254) "the specific control procedures used in these systems may be classified using the following four internal control classification:

- a. Preventive, Detective, and Corrective
Preventive control deter problems before they arise. Detective control are needed to discover control problems as soon as they arise. Corrective control remedy discovered with detective control.
- b. General and Application
General controls are designed to ensure that an organization's control environment is stable and well managed to enhance the effectiveness of application controls. Application controls are used to prevent, detect, and correct errors and irregularities in transactions as they are processed.
- c. Administrative and Accounting
Administrative controls help ensure operational efficiency and adherence to managerial policies. In contrast, accounting controls help safeguard assets and ensure the reliability of financial record.
- d. Input, Processing, and Output
Input control are designed to ensure that only accurate, valid, and authorized data are entered into the system. Processing control are designed to ensure that all transactions are processed accurately and completely and that all files and records are properly updated. Output controls are designed to ensure that system output is properly controlled".

7. Element of Internal Control

According to Reeve, Warren, & Duchac (2008, p.351-355) the elements of internal controls are:

a. The control environment

A business's control environment is the overall attitude of management and employees about the importance of controls. One of the factors that influence the control environment is management's philosophy and operating style. A management that over emphasizes operating goals and deviated from control policies may indirectly encourage employees to ignore controls. On the other hand, a management that emphasises the importance of controls and encourages adherence to control policies will create an effective internal control environment.

Personnel policies also effect the control environment. Personnel policies involve the hiring, training, evaluation, compensation, and promotion of ethics, and conflict-of-interest policies are part of the personnel policies. Such policies can enhance the internal control environment if they provide reasonable assurance that only competent, honest employees are hired and retained.

b. Risk assessment

All organizations face risk. Examples of risk include changes in customer requirements, competitive threats, regulatory changes, changes in economic factors such as interest rates, and employee violations of company policies and procedures. Management should assess these risks and take necessary actions to control them, so that the objectives of internal control can be achieved. Once risks are identified, they can be analyzed to estimate their significance to assess their likelihood of occurring, and to determine actions that will minimize them.

c. Control procedures

Control procedures are established to provide reasonable assurance that business goals will be achieved, including the prevention of fraud. The control procedures that can be integrated throughout the accounting system:

1) Competent personnel, rotating duties, and mandatory vacations

The successful operation of an accounting system requires procedures to ensure that people are able to perform the duties to which they are assigned. Hence, it is necessary that all accounting employees be adequately trained and supervised in performing their jobs. It may also be advisable to rotate duties of clerical personnel and mandate vacations for non clerical personnel. These policies encourage employees to adhere to prescribed procedures. In addition, existing errors or fraud may be detected.

2) Separating responsibilities for related operations

To decrease the possibility of inefficiency, errors, and fraud, the responsibility for related operations should be divided among two or more people. If the same person orders supplies, verifies the receipt of the supplies, and pays the supplier, the following abuses are possible:

- a) Orders may be placed in the basis of friendship with a supplier, rather than on price, quality, and other objective factors.
- b) The quantity and quality of supplies received may not be verified, thus causing payment for supplies not received or poor-quality supplies.
- c) Supplies may be stolen by the employee.
- d) The validity and accuracy of invoices may be verified carelessly, thus causing the payment of false or inaccurate invoices.

The checks and balances provides by dividing responsibilities among various department requires no duplication of effort. The business documents prepared by one department are designed to coordinate with and support those prepared by other departments.

3) Separating operations, custody of assets, and accounting

The accounting records serve as an independent check on the individuals who have custody of the assets and who engage in the business operations. Likewise, if those engaged in operating activities also record the result of operations, they could distort the accounting records to show favorable result.

4) Proof and security measures

Proof and security measures should be used to safeguard assets and ensure reliable accounting data. This control produce applies to many different techniques, such as authorization, approval, and reconciliation procedures. The example of control procedures includes the use of bank accounts and other measures to ensure the safety of cash and valuable documents. A cash register that displays the amount recorded for each sale and provides the customer a printed receipt can be an effective part of internal control structure.

d. Monitoring

Monitoring the internal control system improves control effectiveness. The internal control system can be monitored through either on going efforts by management or by separate evaluations. Ongoing monitoring efforts may include observing both employee behavior and warning signs from the accounting system. In large businesses, internal auditors who are independent of operations normally are responsible for monitoring the internal control system.

Internal auditors can report issues and concern to an audit committee, of the board of directors, who are independent of management. In addition, external auditors also evaluate internal control as a normal part of their annual financial statement audit.

e. Information and communication

Information about the control environment, risk assessment, control procedures, and monitoring is needed by management to guide operations and ensure compliance with reporting, legal, and regulatory requirements, management can also use external information to assess events and conditions that impact decision making and external reporting. For example, management uses information from the Indonesian Financial Accounting Standard Board (SAK) to assess the impact of possible changes in reporting standards.

8. Accounting System as Internal Control

The accounting system is one element of the internal control structure in addition to the control environment and control procedure.

Bodnar and Hopwood (2000, p.181) states that “organization consisting of methods, notes, calendar notes are made to identify, collect, analyze, record, and report transaction and organizational accountability for assets and related liabilities”.

From the understanding above effective accounting system should fulfill the objective as an information system that is used for business management and as an internal control system of accountability in the administration of assets and associated liabilities.

For small companies with active involvement of owners, each manual accounting is simple with a competent accountant can provide an adequate accounting system, but in larger companies require a complex system so as to cover liability carefully and written procedures

9. Warning Sign of Internal Control Problems

According to Bragg (2012, p.172), indicators of fraud are:

a. Invoicing discrepancies

A common type of fraud is to intercept incoming checks and hide the theft by constantly modifying customer invoices with adjustments of various kinds to make them match a smaller amount of customer payment. A large number of invoice adjustment is a sign of this problem.

b. Lack of supervision

Some employees, for whatever reason have not been subjected to close management for a long time, which gives them an opportunity to devise fraudulent activities in the absence of any oversight.

c. Large personal expenditures

Some employees spend their fraudulently acquired funds in a very public manner; seeing an employee arrive in a new and expensive car is an indicator of this, especially when combined with a change of home address which may indicate the purchase of a more expensive home.

d. No competitive bidding

A number of contracts are being awarded without any competitive bidding, which indicated that suppliers may be paying purchasing personnel to do this. However, this is increasing difficult to prove, because just in time manufacturing principles dictate that sole sourcing is a better purchasing technique than using competitive bidding.

e. No payment from the sale of assets

When a controller notices that there are fewer assets, either from sale documents or a fixed assets audit, it is useful to see if cash was received as part of the transaction. If there does not appear to be any compensation for transferring the asset to the recipient, the controller should suspect that funds were pocketed and investigated further.

f. No vacations

Key staff people somehow never manage to take any vacation time for years on end, which may indicate that they are afraid of having their activities detected in their absence.

g. Supplier addresses match employee addresses

A virtually certain indicator of fraud is when an employee sends an invoice from a fictitious company and the payments sent to his or her home address. Though it can be difficult to compare the list of employee addresses to the same information for suppliers, it may be worth the effort if a controller suspects that there are problems with supplier payments.

According to Reeve, Warren, & Duchac (2008, p.356), the warning sign of internal control problems are:

TABLE 1
WARNING SIGNS OF INTERNAL CONTROL PROBLEMS

Warning signs with regard to people	Warning signs from the accounting system
1. Abrupt change in lifestyle (without winning the lottery)	1. Missing documents or gaps in transaction numbers (could mean documents are being used for fraudulent transaction)
2. Close social relationships with suppliers	2. An unusual increase in customer refunds (refunds may be phony)
3. Refusing to take a vacation	3. Differences between daily cash receipt and bank deposit (could mean receipt are being pocketed before being deposited)
4. Frequent borrowing from other employees	4. Sudden increase in slow payments (employee may be pocketing the payment)
5. Excessive use of alcohol or drugs	5. Backlog in recording transactions (possibly an attempt to delay detection of fraud)

Source : Reeve, Warren, & Duchac (2008, p.356)

10. Related Functions of Internal Control

According to the COSO Report that cited by Boynton, Johnson, & Kell (2001, p.328-329) concludes that everyone in an organization has

some responsibility for and is actually a part of the organization's internal control. Several responsible parties and their roles are as follow:

a. Management

It is management's responsibility to establish effective internal control. In particular, the chief executive officer should set the "tone at the top" for control consciousness throughout the organization, and see that all the components of internal control are in place as discussed further in the next section. An effective internal control environment may reduce the probability of errors or fraud in an entity. Senior management in charge of organizational units (division, etc) should be accountable for controlling the activities of their units.

b. Board of directors and audit committee.

Board members, as part of their general governance and oversight responsibilities, should determine that management meets its responsibilities for establishing and maintaining internal control. The audit committee (or in its absence, the board itself) should be vigilant to identify instances of management override of controls or fraudulent financial reporting and to take appropriate action to constrain improper conduct by management.

c. Internal auditors.

Internal auditors should periodically examine and evaluate the adequacy of an entity's internal control and make recommendations for improvements, but they do not have primary responsibility for establishing and maintaining internal control.

d. Other entity personnel.

The roles and responsibilities of all personnel who provide information to, or use information provided by, systems that include internal control, should understand they have a responsibility to communicate any problems with noncompliance with controls or illegal acts of which they become aware to a higher level in the organization.

e. Independent auditors.

As a result of procedures in an audit of financial statement, an external auditor may discover deficiencies in internal control that he or she communicates to management, the audit committee, or the board together with the recommendations for improvements. This applies primarily to financial reporting controls. But because the auditor's study of a client's system of internal control in a financial statement audit is performed primarily to enable the auditor properly plan the audit, neither does it result in the expression of an opinion of the effectiveness of internal control, nor can it be relied upon to identify all necessarily even most significant weaknesses in internal control. This is especially the case for areas of the audit

where the auditor has adopted a primary substantive approach as the preliminary audit strategy.

f. Other external parties.

Legislators and regulators establish minimum statutory and regulatory requirements for the establishment of internal control by certain entities.

Other description about the related function in internal control according to Bragg (2012, p.159-161), the various positions within a company that are responsible for internal controls include:

a. Board of directors

This group is ultimately responsible for a company's control systems, as it responsible for total company performance. It can alleviate this problem by forming an audit committee to which the internal audit department report; this allows the Board to closely monitor all review of the control system, which allows it to mandate changes that are deemed necessary by the internal audit staff.

b. Senior management

Senior management must:

- 1) Assume responsibility to shareholders for the accuracy of financial reporting.
- 2) Create and maintain a properly documented internal control system.
- 3) Create and maintain the proper environment to enforce the necessary controls. This may require the use of policies, procedures and statements of ethical standards to enforce.
- 4) Identify the risks inherent in the business and the potential for errors and irregularities in various parts of the transaction processing system.

c. Financial management

The financial management team must:

- 1) Know the technical requirements of a sound financial control system and how to create such a system based on the nuance of the existing business.
- 2) Verify that a sufficient number of controls are installed and that they operate in a satisfactory manner.
- 3) Enforce conformance to all controls, as noted in policies and procedures.
- 4) Assume direct responsibility for the accuracy of the information contained in periodic financial statement and accompanying notes.

d. Internal audit staff

It is responsible for reviewing the existence and effectiveness of control systems in a variety of areas, and reports to management on the adequacy of those controls, as well as any deficiencies. However, the audit program followed by this group is usually approved by the internal audit committee, which is a subset of the board of directors. If this program is inadequate, the internal audit staff will not conduct a sufficient number of reviews to ensure the adequacy of internal control systems. Also this group is not empowered to change any control systems; instead, it only on problems. Thiys limits the effitiveness of the internal audit staff in forcing necessary chanhes to control system.

e. Independent auditor

As part of an outside auditor's audit of a company's financial statements, it is customary to determine the strenght of the underlying control systems that support those statements. If weaknesses in the control system are discovered, the auditor is in a unique position to report this information to senior management as well as the board of directors as part of a management report that frequently accompanies the audited financial statement.

11. The Limitations of Internal Control

According to the consideration of internal control in a financial statement audit cited by Boynton, Johnson, & Kell (2001, p.327), the following inherent limitations that explain why internal control, no matter how well designed and operated, can provide only reasonable assurance regarding achievement of an entity's control objectives:

- a. Mistakes in judgment. Occasionally, management and other personnel may exercise poor judgment in making business decision or in performing routine duties because of inadequate information, time constraints, or other procedures.
- b. Breakdowns. Breakdowns in established control may occur when personnel misunderstand instructions or make errors due to carelessness, distractions, or fatigue. Temporary or permanent changes in personnel or in systems or procedures may also contribute to breakdowns.
- c. Collusion. Individuals acting together, such as an employee who performs an important control acting with another employee, customer, or supplier, may be able to perpetrate and conceal fraud so as to prevent its detection by internal control

(e.g., collusion among three employees from personnel, manufacturing, and payroll departments to initiate payment to fictitious employees, or kickback schemes between an employee in the purchasing department and customer)

- d. Management override. Management can overrule prescribed policies or procedures for illegitimate purposes such as personal gain or enhance presentation of an entity's financial condition or compliance statues (e.g., inflating reported earnings to increase a bonus payout or the market value of the entity's stock, or to hide violations of debt covenant agreements or noncompliance with laws and regulations). Override practices include making deliberate misrepresentations to auditors and other such as by issuing false documents to support the recording of fictitious sales transactions.
- e. Cost versus benefits. The cost of an entity's internal control should not exceed the benefits that are expected to ensue. Because precise measurements of both quantitative and qualitative estimates and judgments in evaluating the cost benefit relationship.

In the preparation of a good system, it can not be separated from elements of limitations. Although a perfect internal control is very difficult to achieve, but at least a satisfactory internal control can be achieved with adequate support by the completeness of the elements that exist in internal control.

12. Element of Internal Control Over Salary and Wages Systems

Element of internal control in the accounting system of salary according to Mulyadi (2001, p.386) include:

- a. Organization
 - 1) The function of making payroll list must be separate from the financial function.
 - 2) The function of recording attendance time should be separated from the operating functions.
- b. Authorization System
 - 1) Any person whose name is listed on payroll list must have a letter of appointment as a company employee, signed by the director.

- 2) Each employee's salary changes due to changes in rank, pay scale changes, additional families should be based on finance director.
- 3) Each salary of employees other than income taxes should be based employee salary deduction letter authorized by the personnel function.
- 4) Attendance Time Card must be authorized by a timer function.
- 5) Command overtime must be authorized by the relevant head of department employees.
- 6) Payroll list must be authorized by the personnel function.
- 7) Pay cash disbursement for salary must be authorized by the accounting function.
- c. Recording Procedures
 - 1) Changes in employee earnings record reconciled with payroll list.
 - 2) Rates of wages are included in working time card of precision is verified by the accounting function.
- d. Good Practice
 - 1) Attendance time card should be compared with working time card to the last card is used as the basis for the distribution of direct labor costs.
 - 2) The entry attendance time card into the machine at present timekeeper must be supervised by a timer function.
 - 3) Preparation of payroll list must be verifiable truth and accuracy of calculations by the accounting function before making payment.
 - 4) Calculation of income tax is reconciled with employee earnings statement.
 - 5) Employee earnings record kept by the manufacture's payroll list function.

Explanation of the internal control elements according to Mulyadi (2001, p387) as follow:

- a. Organization
 - 1) Maker function salary and wages must be separated from the function of payment salary and wages. In the salary and wages accounting system, the personnel finction is responsible for the availability of a variety of operating informatiaon such as employee number, rank,number of dependents, wage rate, and various employee welfare rates. This informasiaon is used as the basis for generating accounting information in a list of salary and wages, which in turn is used for payment of basic salary and wages, which in turn is used for payment basic salary and wages to employees. With the separation of two functions, the results of calculation of salary and wages are checked by the accuracy and reability of financial function, before salary and wages paid to employees.

b. System of authorization and Recording Procedures

- 1) Any person whose name is listed in the list of salary and wages must have a letter of appointment as a company employee, signed by the chief executive. Because the payment of salary and wages based on payroll list documents, it is necessary to supervise the names of employees who are included in the payroll list. To avoid paid to salary and wages of employees who are entitled as electronegative as any inclusion of names of employees on payroll list must be authorized by the authorities.
- 2) Any changes to salary and wages of employees due to changes in rank, slary and wages rate changes, additional families have base on the finance director's decision letter. To ensure data reliability salary and wages of employees, as the change element is used as the basis for calculating the income of employees must be authorized by the authorities. Thus any changes in salary and wgaes rate changes, as well as additional families should be based on a decree finance director.
- 3) Each piece of salary and wages of employee other than tax. Employee income must be based on letters cut salary and wages of personnel authorized by the function. Any data that is used as the basis for the additional of employees salary and wages must be authorized by the authorities (chief executive and finance director) to the data and the payroll listed on the salary and wages reliable. In addition, any reduction in the salary of the employees must also receive authorization from authorities.
- 4) Attendance time card authorized by a timer function
Because attendance time card is one of the bases for the determination of employee income, then the data is present each time an employee must be authorized by a timer function so as valid as the basis for calculating salary and wages and for other purpose.
- 5) Command overtime must be authorized bybthe department head of the function of those employees. Overtime wages paid to employees working outside regular working hours, with higher wages rates and wages rates for regular hours. To ensure that work overtime is required by the company, then any overtime must be authorized by the relevant head of department employees.
- 6) Payroll list must be authorized by the personnel function. Payroll list must be authorized by the function which shows that:
 - a) Employees who are listed in payroll list is employees who are appointed by the decree authorized official.
 - b) Salary and wages rates are used as the basis for calculation of salary and wages is the rate applicable in accordance with the decree authorized official.

- c) The data used as the basis for calculation of salary and wages of employees have been authorized by the authorities.
 - d) Multiplication and addition are listed in the list of salary and wages have been checked for accuracy.
- 7) Cash disbursement for salary and wages must be authorized by the accounting function. Cash disbursement and order to the finance function to spend some money, to date, and for the purposes as stated in the document. This document is completed by the accounting function after this function verify the information contained in the list of salary and wages. Cash disbursement authorized by the chief financial or accounting department of higher officials.
- c. Recording Procedures
- 1) Changes in employee earning records reconciled with payroll list. The document is a source of income into the cards is a list of salary and wages. Therefore, to check the accuracy of information contained in employee earning statement, internal control system requires reconciliation between changes in the data included in the employee wages card with payroll list.
 - 2) Rates of wages are included into the card working hours of precision is verified by the accounting function. Cost accounting function is responsible for the distribution of wages directly into the cost of the card order product using direct labor is concerned. Direct wages distribution is performed based on data collected in working time card, before wages are listed in working time card are used as bases of wages directly into the card cost of the product concerned, the data rates of wages which is used as a digger in the calculation salary and wages varified by cost accounting function.
- d. Good practice
- 1) Attendance time card should be compared with working time card to the last card is used as the basis for the distribution of direct labor costs. Attendance time card recording the number of hours each employee in the company, while the card detailing the use attendance time each employee. In other words working time card are used to account for the use of attendance time. Working time card are the basis for distribution of direct labor costs.
 - 2) Inclusion of attendance time card comes into the machine timers should be supervised by a timer function. With the recorded at present employees supervised by a timer function can be avoided recording hours of attendance by employees who are not acctually present in the company.
 - 3) Making payroll list must be verifiable truth and careful approach to the calculation by the accounting function before making payment. Before cash disbursement as command for

making a check payment salary and wages, accounting functions must verify the truth and accuracy of calculation of salary and wages made by the maker function salary and wages.

- 4) Calculation of income tax is reconciled with employee earnings statement. In the system of collecting income tax on payroll and wages of employees, the company appointed by the government as income tax collection shall be the obligation of employees, known as the income tax article 21.
- 5) Employee earnings record kept by the manufacturer's salary function. Employee earnings statement in addition to function as a record of income received by the employee during the year, also serves as a signal has been received by the salary and wages of eligible employees.



CHAPTER III

RESEARCH METHOD

A. Types of Research

Referring to the background, formulation of the problems and the theories that have been described previously, so the type of research used in this research is qualitative research. According to Biber, Sharlene & Leavy (2004, p.01) stated that “qualitative research is a distinct field of inquiry that encompasses both micro-and macro analysis drawing on historical, comparative, structural, observational and theoretical ways of knowing”.

The author use the type of descriptive research, because of the purpose of this research is to provide an overview of system and procedure of salaries and wages. “if the research is concerned with finding out who, what, where, when, or how much, then the study is descriptive” (Cooper & Schindler, 2001, p.136).

According to Cooper & Schindler “descriptive study is attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and the tabulation of the frequencies on the research variables or theirinteraction; the study reveals who, what, when, where, or how much; the study concerns a uni-variate question or hypothesis in which the research asks about or states something about the size, form, distribution or existence of a variable

From some definitions above then it can be concluded that the descriptive research is research that examines, review, and describe the empirical social phenomena theoretically. The research of this type provides only a

certain overview associated in a systematic, factual and accurate overview of the actual situation. According to O'sullivan (2003, p.484) "case study is a type of study in which a person, program, agency, or some other unit is analysis examined in detailed". The purpose of the case studies here is to provide a detailed description of the background, characteristic and distinctive characters used as a case of a general nature of CV. Sari Mutiara Abadi.

B. Research Focus

In this case the focus of research has a function to limit the study in research carried out in particular against the object of research carried out so as not to be too broad. So that with the focus of research it will be able to provide the information required in accordance with the issue that have been formulated. The focus of this research are as follows:

1. Organizational Structure

By looking at organizational structure, it will be known about the division of task and authority, as well as parts in a function responsible for enterprise organizations. With the system of organization it will be known in detail the job description of each section.

2. Salaries and Wages Network Procedures

With the salaries and wages procedures, employees will be able to know how the implementation of salaries and wages on CV. Sari Mutiara Abadi.

3. Form and Documents

In this research, which will also be of concern regarding with the use of forms and documents related to the procedures salaries and wages at CV. Sari Mutiara Abadi.

4. Internal control over salaries and wages accounting system.

C. Company Location

CV. Sari Mutiara Abadi is located in Dsn Krajan, Ds Srigading, Kec. Lawang, Kab. Malang. The author is interested in choosing that sites with the following considerations:

1. The author would like to deepen knowledge of accounting system of salaries and wages for employee.
2. The author would like to know whether the implementation of accounting system of salaries and wages has been supporting the internal control in CV. Sari Mutiara Abadi.

D. Data Sources

In a rsearch sources of data are grouped according to the sources come from. Sources of data used in this research are two fold, namely the primary data sources and secondary dadat sources.

1. Primary data

“Primary data is original research where the data being collected are designated specifically to answer the reserach question” (Cooper & Schindler, 2001, p.769).

According to Bordens & Abbootts (2005, p.61):

A primary sources is containing the full research report, including all details necessary to duplicated the study. A primary sources includes descriptions of the rationale of the study. A primary sources includes descriptions of the rationable of the study, its subjects, apparatus, procedure, result, and references.

2. Secondary Data

“Secondary data is studies done by others and for different purpose than for which the data are being reviewed. Secondary sources are interpretations of primary data generally without new research” (Cooper & Schindler, 2001, p.772). according to Bordens & Abboott (2005, p.61):

A secondary sources is one that summarized information from primary sources (such as presenting the basic findings). Secondary sources of research include review papers and theoritical articles that briefly describe studies and results, as well as descriptions of research found in textbooks, popular magazines, newspaper articles, television programs, films, or lectures.

E. Data Collection Technique

1. Interview

Interview technique is a conversation with a specific intent by two parties, namely the interviewer as complainants or ask the questions and the interviewee as provider of answers to that questions.

2. Observation

Observation is the full range of monitoring behavioral and non behavioral activities and conditions (including record analysis, physical condition analysis, physical process analysis, nonverbal analysis, linguistic analysis, extra-linguistic analysis, and spatial analysis) (Cooper & Schindler, 2001, p.768).

3. Documentation

Documentation technique is a way of collecting data that obtain important records related to the problem under study, so it will obtain complete data, legitimate and not based on estimated and are used to collect data that is already available in document records. In this document are shown in the collection of documents, reports and company records relating to the data need to be further investigated.

F. Research Instrument

Research instrument is intended to be systematic and activities easier. In accordance with the technique of data collection are:

1. To interview an interview guide used in the form of a list of questions in outline, namely:
 - a. How is the form of organizational structure of the company and its duties and responsibilities of each part that exist in the organizational structure?
 - b. What parts are involved in accounting system of salaries and wages?
 - c. What forms are used in accounting systems of salaries and wages?
2. For the documentation is a list that contains the standards or guidelines in tracing a documentation. The author use official documents from related companies in accordance with issues under research.

3. For observation of tool use senses of sight and hearing of the objects researched by direct observation of the object researched by recording the observation. The tools used are stationary.

G. Data Analysis

Basically the data analysis means classify, sort, summarize the data, for answers to the research. While the goal is to simplify data analysis of data in a form that can be understood and interpreted so that the relations of research problems can be studied and tasted.

In this study the data analysis method used is non-statistical methods of analysis. This method is suitable for use on the type of qualitative descriptive research aimed to describe a phenomena by describing the research focus of the investigation.

The steps of data analysis in this research are:

1. Describe the form of organizational structure relating to the job description whether the organization structure has been well implemented in the company concerned.
2. Describe forms and documents

Used in accounting system of salaries and wages are ready qualified in the manufacture of good form.

3. Describe the implementation of salaries procedures and wages of employeea is already fulfilling the elements of internal control.
4. Describe the problems that exist and explen the alternative solutions that good and useful for the company.

CHAPTER IV

RESULTS AND DISCUSSION

A. General Overview of Company

1. History and Development of Company

CV. Sari Mutiara was founded in 2007 precisely on July 7, 2007 and received permission from Indonesia Department of Health. SP: 00711/13.6/86, which is this company was originally a small company or a home industry that producing gelatine flour as a raw material for making jelly.

Its founder is Mr. Christianto Imanuel and as the company's leader. This company is not a first company that produce the raw material of jelly, because earlier the product is produced by CV. Sari Mutiara Abadi, therefore this company establish the market share that consist of the middle to lower class.

In line with the development of food industry diversification, the company faces many competitors. Under these conditions the company is trying to make other types of food, so that in 2009 the company tried to produce candy, fortunately, the produce is still favoured by people, so the company decided to produce this food even though there are other companies that produce these foods in learger numbers.

CV. Sari Mutiara Abadi located in Dsn Karajan Desa Srigading Kec. Lawang Kab. Malang. CV Sari Mutiara Abadi has cooperation with other

supplier. This cooperation is among the companies that supply the raw material for CV. Sari Mutiara Abadi.

a. Vision: Become the gelatin industrial company than can always meet the needs of both local and global markets along with the development of science and technology.

b. Mission:

1. Generate reasonable profit to support the development of the company,
2. Maintain and improve product quality through the development of new innovations in the production process,
3. Giving awards to employees through the provision of adequate welfare, provision of a safe work environment, healthy and comfortable, providing the opportunity for career development and innovation,
4. Eastablish collaborative partnership with suppliers and distributors of mutual benefit.
5. Provide genuine concern to the community through opening job field, social development and environmental support.

c. The Motto : Quality can be trusted.

2. Company's Location

Along with the development and determine where the location of a business entity or office of a company required careful consideration, because the office is the venue for all kinds of activities both internal activities and the

activities associated with outsiders. Besides the selection of the right location can provide great benefits and is one of the deciding factors that influence the achievement of company goals effectively and efficiently. Selection of the proper place to determine the capabilities in serving customers or contacts.

Factory of CV. Sari Mutiara Abadi located in Dsn krajan, Desa Sri Gading, Kec lawang, kab malang. Locations were chosen based on the following considerations:

- a. The place is comfortable and far from human settlements.
- b. Can take advantage of labor in the village though poorly educated and only worked as a farmer.

3. **Organizational Structure of CV. Sari Mutiara Abadi.**

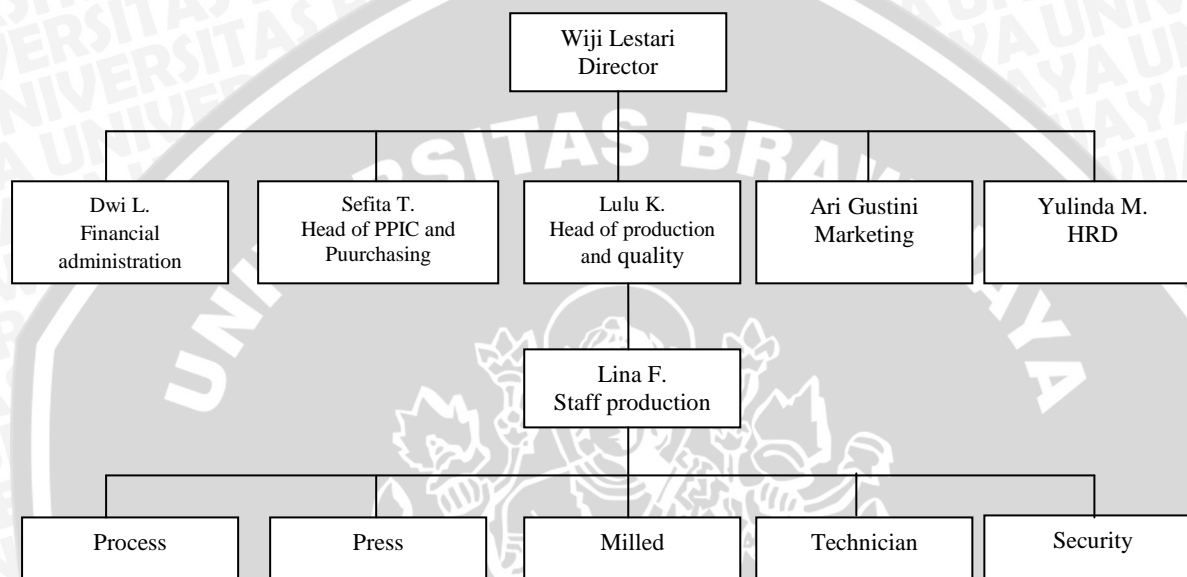
The organizational structure is a very important element in a company, because with the existing organizational structure the division of responsibilities and tasks are clear between each section. So it can ensure the smooth running of company's activities. In the organizational structure is expected there are any diversification of tasks that appropriate with the ability and expertise of each, so that each the company's activity runs effectively and efficiently.

The organizational structure of CV. Sari Mutiara Abadi is line structure where each subordinate is accountable to the superior. So that every worker in the organizational structure only know one leader that directly control. Thus the command and discipline of company is more secure. Here is the organizational structure of CV. Sari Mutiara Abadi.

Picture 3

Organizational Structure

CV. Sari Mutiara Abadi



Sources : CV. Sari Mutiara Abadi, December 5, 2011

In carrying out operational activities of company, it is necessary to make division of responsibility and authority on each function, so it will be expected that every division can running their responsibilities properly. The duties and authority on each functions are as follows:

a. Director

- 1) Determining the amount of production and material.
- 2) Determining the needs of employees of the company strategy.
- 3) Establish the needs of corporate employees.
- 4) Responsible for the quality of corporate employees.

b. Head of PPIC (Planning Production Inventory Control)

- 1) Plan and control the production process in accordance with work order.
- 2) Plan, control of raw materials and auxiliary materials according to production plan.
- 3) Creating a production schedule.
- 4) Responsible for the determination of materials and part suppliers are potential.
- 5) Responsible for planning the purchase of materials and spare part production.
- 6) Responsible for time of arrival of material and spare parts from suppliers.

c. Head of Production

- 1) Controlling production activities.

- 2) Supervise production runs.
- 3) Responsible for new materials, production process and finished goods.
- 4) Provide information on the result of finished products PPIC and marketing.
- 5) Receive a copy of the production plan and inventory of the PPIC.
- 6) Convey information about the production and raw material in the PPIC.

d. Quality Control

- 1) Conduct inspections and recording of quality raw materials, auxiliary materials, production process and finished good.
- 2) Perform quality inspection of product produced.
- 3) Conducting an analysis of examination results.
- 4) Responsible for quality control of material, quality control process, and quality of goods produced.

e. Financial administration

- 1) Filing of documents and list salary loan installment.
- 2) Withdrawing money in an envelope based on the salary.
- 3) Document filing salary.
- 4) Checking the remaining debt with the payroll based on list of employees installment debt and salary made by personnel.

- 5) Publish the memo if there is a mismatch correction advance of a list the remaining debt with salary.
- 6) Recording of employee cost.
- 7) The provision of information in order to employee cost.
- 8) Taking money in the bank according to the amount of salary required.

f. Marketing

- 1) Responsible for customer demand.
- 2) Implement receipt of orders and deliveries of goods.

g. HRD

- 1) Make a list of employees installment payable, payroll, payroll slip, and recap absent.
- 2) Entering paycheck in an envelope to be submitted to the finance department.
- 3) Handed directly to the employees salary after payroll slip along with money inserted into the envelope. And also recap the employee's absence.
- 4) Conduct recruitment and selection.
- 5) Provide training and selection.

h. Staff production

- 1) Supervising any cooking process, stamping, milling.
- 2) Control the cooking process activities, pressed, milled.

i. Process

- 1) Carry out production activities.
- 2) Responsible for the maintenance of working tools.
- 3) Responsible for production staff.

j. Press

- 1) Conducting press.
- 2) Responsible for production staff.

k. Milled

- 1) Conducting groud process.
- 2) Responsible for production staff.

l. Technician

- 1) Carry out activities of production equipment maintenance.
- 2) Improvement of production equipment.
- 3) Responsible for production staff.

m. Security

- 1) Keeping the plant safety.
- 2) Control the conditions around the plant.

4. Operational Activities of CV. Sari Mutiara Abadi

a. Classification of employees

Employee of CV. Sari Mutiara Abadi is divided into 2 groups, namely the morning shift and the night shift employees.

1. Morning Shif Employee

Morning shift employee's activity is processing seaweed into flrour and has a scheduke of working hours: 06:00 to 18:00

2. Night Shift Employees

Night shift employees activity is processing seaweed into flour and has a schedule of working hours: 18:00 pm to 06:00 am

Table 2

**Total Employees
CV. Sari Mutiara Abadi**

Employee	Total	Working Hours
Morning	74	12 hours
Night	35	12 Hours

Sources: CV. Sari Mutiara Abadi, Desember 5, 2011

b. Employees Qualification

The detail of employee education level of CV. Sari Mutiara Abadi. There are 30 employees from elementary school, 25 employees from Junior High School, and 54 employees from senior high school.

Table 3

Level of Employee Education

CV. Sari Mutiara Abadi

Number	Education Level	Total
1.	Elementary School	30
2.	Junior High School	25
3.	Senior High School	54

Sources : CV. Sari Mutiara Abadi, December 5, 2011

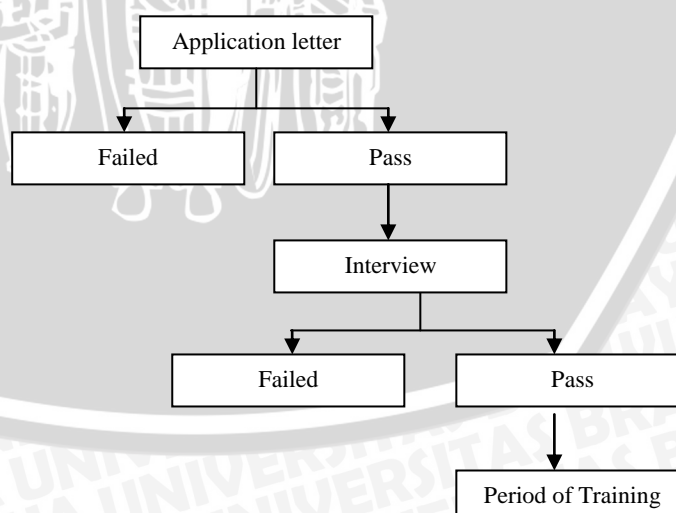
c. Employees' Recruitment

Recruitment of employees is one of the company's activities that is very important because through the recruitment, the company will have a prospective human resources that will control the company's operations. So this employees' recruitment must be considered not to make the company being loss. In CV. Sari Mutiara Abadi, recruitment of new employees will be carried out if the company needs additional employees. The human resources department will issue a job vacancies to the society.

Picture 4

Employees' Recruitment Steps

CV. Sari Mutiara Abadi



Sources : CV. Sari Mutiara Abadi, December 5, 2011

From explanation of employee recruitment of CV. Sari Mutiara Abadi above, it can be explained as follow:

a. Application Letter

That statement is officially and in writing about one's desire to meet a company's job vacancies.

b. Selection

Is the process of selection toward application letters that go to companies based on standards that have been determined by the company.

c. Interview

That follow – up of the selection process. In this interview, the company can deal directly with prospective employees and conduct question and answer with him. The interview process was conducted by the HRD.

d. Period of Training

The period in which the prospectives employee learning the working procedures that will be undertaken.

5. Types of Company Products

Several types of products that produced and managed by CV. Sari Mutiara Abadi are:

a. Gelatine powder

b. Jelly

c. Candy

B. Data Presentation

1. Form and Document Used In The Salary and Wages Payment

Procedures at CV. Sari Mutiara Abadi

Form and document are very necessary to track the transaction. Form used in the salary system at CV. Sari Mutiara Abadi.

a. Attendance Time Card

It is a document in record the attendance of the employee in work hour. The next page shows the attendance list of CV. Sari Mutiara Abadi

Picture 5

Attendance Time Card

CV. Sari Mutiara Abadi

	PAGI		SIANG		LEMBUR	
	MASUK	KELUAR	MASUK	KELUAR	MASUK	KELUAR
16	08:46				18:08	
17	08:44				18:19	
18	08:38				18:12	
19	08:42		15:07			
20						
21	08:43				18:07	
22	08:50				18:09	
23	08:55				18:05	
24	08:46				18:04	
25	08:47				18:12	
26	08:58				18:08	
27						
28	08:54				18:11	
29	08:51				18:09	
30	08:47				18:09	
31						

Made for SEIKO TANDA TANGAN

Sources : CV. Sari Mutiara Abadi, December 5, 2011

b. Payroll Slip

This form the income rate or the detail of payroll accepted by employee during payment. Therefore, employee understands the detail of salary accepted.

Picture 6
Payroll Slip

CV. Sari Mutiara Abadi

CV. Sari Mutiara Abadi Dsn. Krajan Ds. Srigading Lawang			
GAJI KARYAWAN			
Nama :	M. YUSUF	Bulan : DESEMBER I Tahun : 2011	Dicetak di : Lawang Tanggal : 12/5/2011 15:40
Penerimaan :			<u>Penerima</u>
Gaji Pokok	Rp 35,920	Rp. 0	
Upah Lembur	Rp 6,228	Rp. 0	
Insentif hari besar		Rp.	
Insentif Minggu		Rp.	
GP ½ hari		: Rp. ,-	<u>HRD</u>
		Rp. 0 ,-	
Potongan :			
Jamsostek		: Rp. 5,388 ,-	
		Rp. 5,388 ,-	
TOTAL		Rp. -5,388 ,-	

Sources : CV. Sari Mutiara Abadi, May 12, 2011

c. Payroll List

The document is used to calculate the result of payroll and benefit if any accepted.

Picture 7

Payroll List
CV. Sari Mutiara Abadi

Rekap Gaji Karyawan 3 Desember 2011

NO	NAMA KARY	GJ.POKOK	LEMBUR	INS. MINGGU	INS.HR.BSR	GP 1/2 HR	INSENTIF	TUNJANGAN	POT.TLMB	TKD.CHEKLOCK	JAMS	JUMLAH
1	Agus	35,920	6,228	-							5,388	(5,388)
2	A. Hamid	27,500	4,768	-							4,125	(4,125)
3	A. Tuwaji	35,920	6,228	-							5,388	(5,388)
4	Arif Efendi	35,920	6,228	-							5,388	(5,388)
5	Arif K	36,920	6,402	-				20,000			5,538	14,462
6	Arma Mukti	27,500	4,768	-							4,125	(4,125)
7	Danang	35,920	6,228	-							5,388	(5,388)
8	Didik	35,920	6,228	-							5,388	(5,388)
9	Edi	35,920	6,228	-							5,388	(5,388)
10	Hariadi	35,920	6,228	-							5,388	(5,388)
11	Imroni	35,920	6,228	-							5,388	(5,388)
12	Irwanto	30,000	5,202	-							4,500	(4,500)
13	Isman	35,920	6,228	-							5,388	(5,388)
14	Joko. S	35,920	6,228	-							5,388	(5,388)
15	Khusaeri	35,920	6,228	-			11,000				5,388	5,612
16	M. Ashar	35,920	6,228	-							5,388	(5,388)
17	M. Ghufon	27,500	4,768	-							4,125	(4,125)
18	M. Shodiq	25,000	3,500	-								-
19	M. Sueb	35,920	6,228	-							5,388	(5,388)
20	M. Yakim	35,920	6,228	-			11,000				5,388	5,612
21	Mustofa	35,920	6,228	-							5,388	(5,388)
22	Nanang	35,920	6,228	-							5,388	(5,388)

Sources : CV. Sari Mutiara Abadi, December 3, 2011

d. Cash Disbursement

This document represents the cash expense given by the accounting division base on the information in the payroll list and accepted by personnel division.

Picture 8

Cash disbursement
CV. Sari Mutiara Abadi

Dibayarkan kepada :		BUKTI KAS KELUAR		Nomor :
				Tanggal :
	Perkiraan	U R A I A N	Jumlah	
Terbilang :				TOTAL :
CATATAN :	Pembukuan	Mengetahui	K a s i r	Penerima

Sources : CV. Sari Mutiara Abadi. December 5, 2011

2. The Function Related to the Procedure of Payroll in CV. Sari Mutiara Abadi

Functions related to the payroll accounting system at CV. Sari Mutiara Abadi are as follow:

a. Human Resources Development (HRD)

This function is responsible to hire new employee, to prepare payroll list, to prepare absence recapitulation, and to write the letter of decree for employee termination. It needs the acknowledgement from the Director of CV. Sari Mutiara Abadi

b. Finance

This function is examining the payment of payroll and wages through the acknowledgement of the function related to salary and wages. At CV. Sari Mutiara Abadi. The finance function also works as cashier. It is so because the cashier post is still vacant. Finance also takes responsibility for the money flow.

3. The Salary and Wages Accounting System at CV. Sari Mutiara Abadi

The payroll system at CV. Sari Mutiara Abadi is fixed payroll system with variations where the employee obtains payroll in the fixed rate. The employee with overtime will get additional income. Payroll properties include:

a. Main Payroll

It represents the actual payroll accepted by employee based on the standard (regional minimum wages) or mentioned as Upah Minimum Regional (UMR).

b. Overtime Wage

It is a wages beyond main salary, which is accepted by the employee for the additional work hour outside company schedule.

c. Food Benefit

It is benefit by company but the rate is different for each employee.

d. Structural Benefit (Rank)

It is a benefit on the work period.

The properties of deduction are as follows:

a. The percentage included in the Jamsostek deduction are:

1) Premium of guaranteed old days is 5,70% by conditions that:

- a) 3,70 % of monthly payroll is bear by company.
- b) 2,00 % of monthly payroll is bear by employee.

2) Premium of guaranteed death is 0,30% per month is bear by company.

b. Food Benefit

4. The Accounting Record Used in The Company are:

a. Journal

In the payroll accounting system, the journal types used to record the payroll cost are general journal and each expense journal.

The general journal is recording all transactions in the company, including payroll. Cash expense journal records each expense transaction, including employee payroll.

b. Ledger

Ledger types involve cash ledger and payroll ledger.

5. The procedure Network Composes the Salary And Wages Accounting System at CV. Sari Mutiara Abadi

The procedure network underlying the accounting system of salary and wages for the employee at CV. Sari Mutiara Abadi includes attendance time card procedure, employee salary payment procedure, and employee wages payment procedure.

1. Attendance Time Card Procedure

The attendance time card procedure is used to track down the attendance of employee as the base to calculate the wages accepted by employee. The time card procedure is also used to calculate the salary and wages paid to the employee.

2. Payment of Employee's Payroll Procedure

The order of the starts from Personnel Division preparing installment list, payroll list. Preparing payroll sheet and absence recap in the envelope. Extending directly the payroll to the employee after submit installment list, payroll list, payroll sheet, absence recap. Finance division receive installment list, payroll list, payroll sheet, absence recap from personnel division.

Archiving payroll sheet and absence recap. Examining the debt remnant in the payroll list based on employee's debt installment list and payroll sheet (if it is incompatibility finance deviation will relasing memo of correction and turn back personnel devision in order to be check and if compatible preparing check and take money from the bank). Installment list and payroll list archieved and payroll sheet is given to employee. At last employee accepting payroll sheet and money, accepting absence recap for a month.

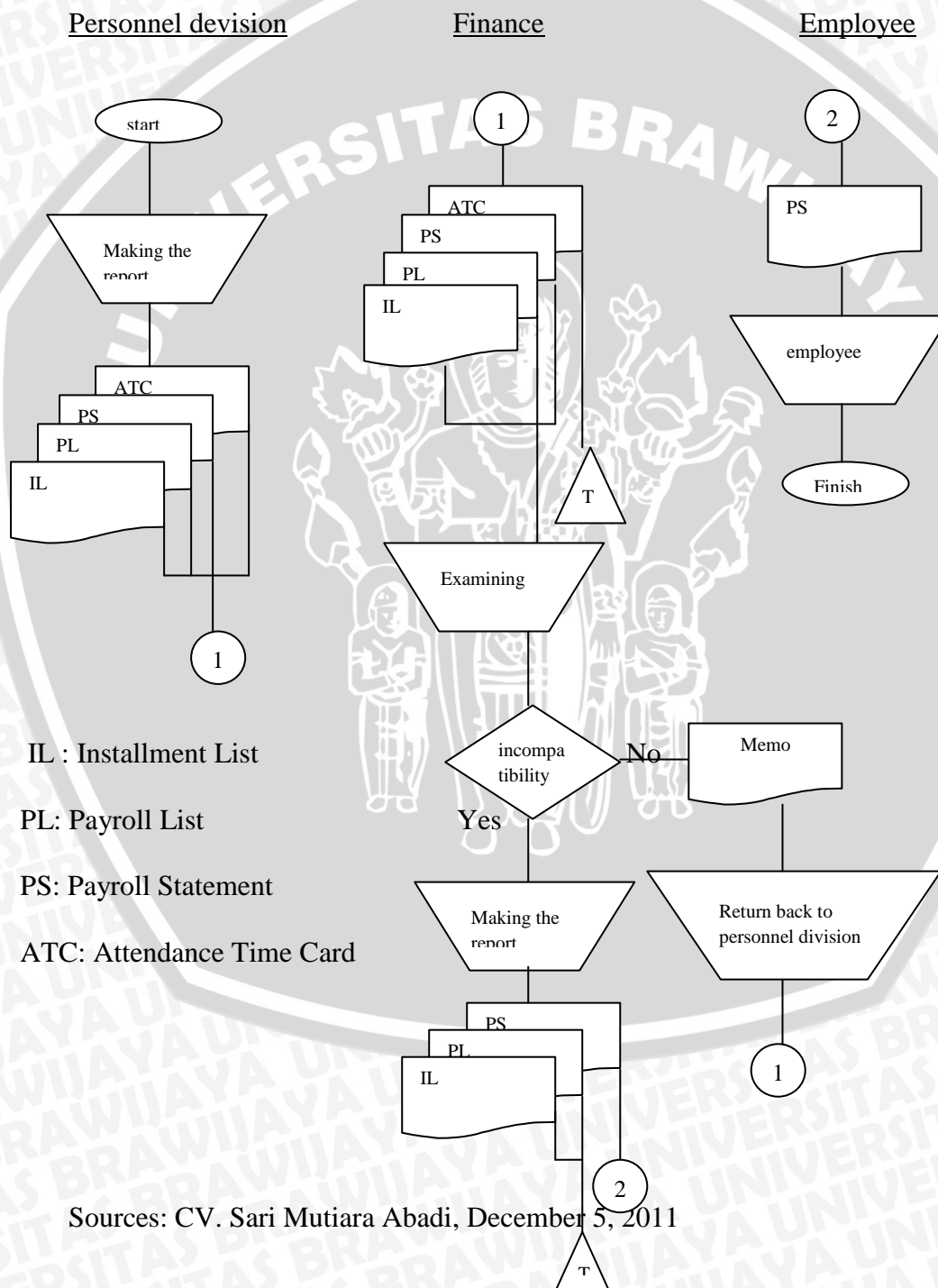
The detail of employee payroll payment procedure is shown in the flowchart.



Picture 9

Flowchart Cash Disbursement

CV. Sari Mutiara Abadi



Next is the functions related to employee payroll payment procedure at CV. Sari Mutiara Abadi.

a. Personnel Division

- 1) Preparing installment list, payroll list
- 2) Preparing payroll sheet and attendance time card in the envelope
- 3) Extending directly the payroll to the employee after submit installment list, payroll list, payroll sheet, attendance time card.

b. Finance

- 1) Receive installment list, payroll list, payroll sheet, absence recap from personnel division.
- 2) Archiving payroll sheet and attendance time card.
- 3) Examining the debt remnant in the payroll list based on employee's debt installment list and payroll sheet.
- 4) a) if it is incompatibility finance deviation will relasing memo of correction and turn back personnel deviation in order to be check.
b) if compatible preparing check and take money from the bank.
- 5) Installment list and payroll list archived and payroll sheet is given to employee.

c. Employee

- 1) Accepting payroll sheet and money
- 2) Accepting attendance time card for a month.

6. Internal Control Over the Salary and Wages Accounting System

Internal control is a mandatory action for every organizational action, including salary and wages accounting system. It is designed to control and supervise for effective and efficient implementation so that any mislead can be avoided.

The application of internal control at CV. Sari Mutiara Abadi involves all elements of the salary and wages accounting system such as document, accounting record, related function, and procedure network underlying the salary and wages accounting system. Internal control againsts the salary and wages accounting system involves many substances such as:

a. Organizational Structure

- 1) The function of preparing salary and wages list is outside the finance division.
- 2) The function of preparing salary and wages list remains in the personnel division, while the finance function acts as function of payment.
- 3) The function of finance is responsible to verify the salary and wages documents based on the report made by personnel division, and to liquidate the fund needed for paying

employee's salary and wages through withdrawing the money from the bank. This function to pay the employee's salary and wages is personnel division.

b. Authorization System and Recording Procedure

- 1) Change in the salary is made with the change of UMR.
- 2) Attendance report of employee is released by personnel division.

c. Good Practice

- 1) Salary and wages list is automatically verified for the precision and accuracy by the computer before payment.
- 2) Employee's income document is stored by the finance division.
- 3) Job moving may increase the skill and new idea source in the company.
- 4) Inter evaluation culture between department must be cultivated. The marketing division may check how far the product is made by production plant. The finance division examines the sell and purchase. It help the director to examine the internal condition of finance and operation, control, management and implementation and improvement advice.

C. Research Result Analysis and Discussion

1. The implementation of Salary and Wages Accounting System

Applied by CV. Sari Mutiara Abadi

Based on data obtained through observation, documentation and interview, then further discussion of data is given through data evaluation.

The author evaluates organizational structure in relation with job description of the employee of CV. Sari Mutiara Abadi. The organizational structure of CV. Sari Mutiara Abadi is semi matrix. The subordinate may regard the superior or principal as sources of authority with order or instruction ready to be given. The subordinate only acts as the agent cannot directly determine the achievement of main goal of company. Therefore, semi matrix only recognizes the substance of principal and agent.

Fast and accurate information system depends on the form used because forms are document used to record any transaction. To ensure that the forms achieve the target, therefore good planning, design and distribution of the forms are needed. Mainly, the production of form at CV. Sari Mutiara Abadi is already good and compatible for its use in the employee's salaries and wages accounting system.

Accounting record has been favorable. Personnel and finance divisions accept monthly payroll list, and debt installment list. Based on these documents, general ledger cash book is made to entry in journal and posted in the ledger.

The functions related to the payroll accounting system are already worked well. However, these functions are operated by only one rank (covering two or more works). For instance, in addition to the time recording function, personnel division also works for EDP function and also for payment function when acting to cashier to give directly the money to the employee. Beyond these overlapped functions, other functions are already well operated. The finance division is to cash money from bank through expended cash voucher given by accounting division. Finance division has filed any documents related to salaries and wages of company.

2. The Implementation of Salaries and Wages Accounting System at CV. Sari Mutiara Abadi as so Whether is Support the Internal Control or Not.

The accounting system is very supportive to internal control of company, especially in the salaries and wages payment to avoid mislead and abuse. Internal control at CV. Sari Mutiara Abadi is already good. The indications for good internal control are:

a. Organizational Structure

The function of preparing employee's salaries and wages list must be separated from the finance function. The function of preparing employee's salaries and wages list is given responsibility to inform the salaries and wages accounting as the base of paying employee's salaries and wages. To produce good internal control,

the salaries list preparing function must be separated from the finance division because this division already handles the payment function. Therefore, data manipulation causing loss for employee and company can be avoided. Finance division is liquidating the money through bank, but the payment to employee is operated by personnel division. All problems related to the employee's salaries and wages become the main duty of personnel, finance, and accounting division to handle it.

b. Authorization System and Recording Procedure

- 1) Every employee accepts salaries and wages, and also attendance time card, and therefore, the detail of salaries and wages and the data of absence are acknowledge.
- 2) All documents must be authorized by the charged division because the possible error in the document is usually found in the authorization at signature column.

c. Good Practice

- 1) The salaries and wages list is verified for the precision and accuracy by the finance division before the payment is given.
- 2) The recording of employee income is stored by personnel division.

d. The Employee with Compatible Quality to Responsibility

- 1) All employees have worked based on target set by CV. Sari Mutiara Abadi.

3. Solution in Order to Solve the Existance of Problems Related to Salaries and Wages Accounting System at CV. Sari Mutiara Abadi

a. Evaluation on organizational structure

However weaknesses are found in this organizational structure:

- 1) Payroll payment is not under taken by finance, but by personnel division.
- 2) The responsibility of recording employee cost and the provision of information in order to employee cost not under taken by accounting but by finance.

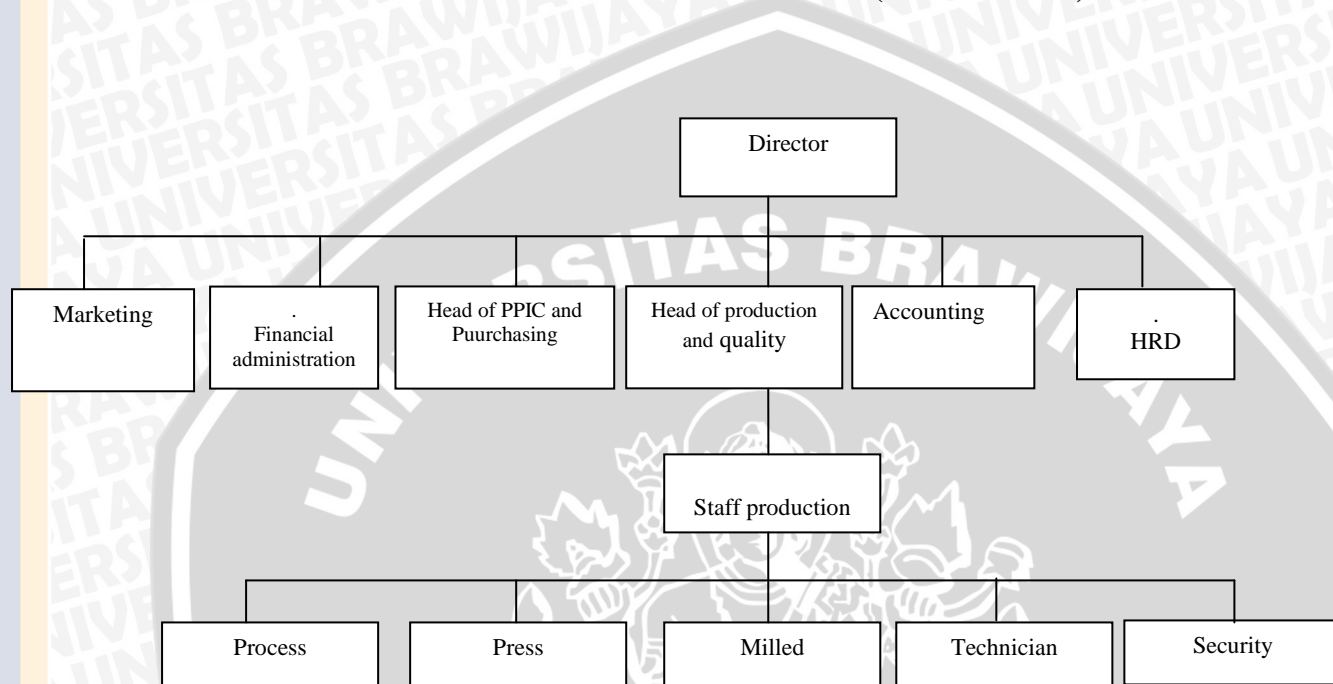
The solution recommended by the author to the organizational structure problem at CV. Sari Mutiara abadi are as follow:

- 1) The responsibility of payroll payment must be under taken by finance.
- 2) Hiring worker for accounting position. It is aimed to prevent the risk of misleading by finance.

Picture 10

Organizational structure

CV. Sari Mutiara Abadi (recommended)



Sources : December 5, 2011

The duties and authority on each functions are as follows:

a. Director

- 1) Determining the amount of production and material.
- 2) Determining the needs of employees of the company strategy.
- 3) Establish the needs of corporate employees.
- 4) Responsible for the quality of corporate employees.

b. Head of PPIC (Planning Production Inventory Control)

- 1) Plan and control the production process in accordance with work order.
- 2) Plan, control of raw materials and auxiliary materials according to production plan.
- 3) Creating a production schedule.
- 4) Responsible for the determination of materials and part suppliers are potential.
- 5) Responsible for planning the purchase of materials and spare part production.
- 6) Responsible for time of arrival of material and spare parts from suppliers.

c. Head of Production

- 1) Controlling production activities.
- 2) Supervise production runs.
- 3) Responsible for new materials, production process and finished goods.

- 4) Provide information on the result of finished products PPIC and marketing.
- 5) Receive a copy of the production plan and inventory of the PPIC.
- 6) Convey information about the production and raw material in the PPIC.

d. Quality Control

- 1) Conduct inspections and recording of quality raw materials, auxiliary materials, production process and finished good.
- 2) Perform quality inspection of product produced.
- 3) Conducting an analysis of examination results.
- 4) Responsible for quality control of material, quality control process, and quality of goods produced.

e. Financial administration

- 1) Filing of documents and list salary loan installment.
- 2) Withdrawing money in an envelope based on the salary.
- 3) Payment salary and wages

f. Accounting

- 1) Recording of employee cost.
- 2) The provision of information in order to employee cost.

g. Marketing

- 1) Responsible for customer demand.
- 2) Implement receipt of orders and deliveries of goods.

h. HRD

- 1) Make a list of employees installment payable, payroll, payroll slip, and absent recap.
- 2) Entering paycheck in an envelope to be submitted to the finance department.
- 3) Handed directly to the employees salary after payroll slip along with money inserted into the envelope. And also recap the employee's absence.
- 4) Conduct recruitment and selection.
- 5) Provide training and selection.

i. Staff production

- 1) Supervising any cooking process, stamping, milling.
- 2) Control the cooking process activities, pressed, milled.

j. Process

- 1) Carry out production activities.
- 2) Responsible for the maintenance of working tools.
- 3) Responsible for production staff.

k. Press

- 1) Conducting press.
- 2) Responsible for production staff.
- 3) Milled
- 4) Conducting group process.
- 5) Responsible for production staff.

1. Technician

- 1) Carry out activities of production equipment maintenance.
- 2) Improvement of production equipment.
- 3) Responsible for production staff.

m. Security

- 1) Keeping the plant safety.
- 2) Control the conditions around the plant.

b. Evaluation on Document or From

Some weaknesses however, are found in this document:

- 1) In the payroll list, there is no space or column for signature.
- 2) In the cash disbursement there are not number.

The problem solutions advised by the author for the document use in CV. Sari Mutiara Abadi are as follow:

- 1) Adding the signature column to acknowledge the personnel division as the preparer of salaries list.
- 2) In cash disbursement should have number that has been printed so can minimize fraud.

Picture 11

Payroll List

CV. Sari Mutiara Abadi (recommended)

NO	NAMA KARY	GJ.POKOK	LEMBUR	INS MINGGU	INS.HL BSR	GPI/2 HARI	INSENTIF	TUNJANGAN	POT	JAM	JUMLAH	TTD

Sources : December 3, 2011

c. Evaluation on Accounting Record

Accounting record has been favorable. Personnel and finance divisions accept monthly payroll list, and debt installment list. Based on these documents, general ledger is made to entry in journal and posted in the ledger.

d. Evaluation Againsts Procedure Network Underlying Salaries and Wages Payment System.

These procedures are well operated but some weaknesses are found:

- 1) In attendance recording procedure, the absence card is still used.
- 2) In the salaries payment procedure, the function of paying salaries and wages is conducted by personnel division.

The solution given to the functional problem at CV. Sari Mutiara Abadi are as follow:

- 1) Time clock should be installed to support the attendance recording to replace the absence card.
- 2) There is a new worker to fill into accounting position under the finance division in the organizational structure. It is important to support the efficiency of duty and discretion.

The personnel division is positioned for away from paying employee salaries and wages because personnel division

also prepares the salaries and wages report. It is useful to avoid mislead by personnel division.



BAB V

CONCLUSION AND RECOMMENDED

A. Conclusion

1. The implementation of Salary and Wages Accounting System

Applied by CV. Sari Mutiara Abadi

Based on data obtained through observation, documentation and interview, then further discussion of data is given through data evaluation. The author evaluates organizational structure in relation with job description of the employee of CV. Sari Mutiara Abadi. The organizational structure of CV. Sari Mutiara Abadi is semi matrix. The subordinate may regard the superior or principal as sources of authority with order or instruction ready to be given. The subordinate only acts as the agent cannot directly determine the achievement of main goal of company. Therefore, semi matrix only recognizes the substance of principal and agent.

2. The Implementation of Salaries and Wages Accounting System at CV. Sari Mutiara Abadi as so Whether is Support the Internal Control or Not.

The accounting system is very supportive to internal control of company, especially in the salaries and wages payment to avoid mislead and abuse. Internal control at CV. Sari Mutiara Abadi is already good. The indications for good internal control are:

a. Organizational Structure

The function of preparing employee's salaries and wages list must be separated from the finance function. The function of preparing employee's salaries and wages list is given responsibility to inform the salaries and wages accounting as the base of paying employee's salaries and wages. To produce good internal control, the salaries list preparing function must be separated from the finance division because this division already handles the payment function. Therefore, data manipulation causing loss for employee and company can be avoided. Finance division is liquidating the money through bank, but the payment to employee is operated by personnel division. All problems related to the employee's salaries and wages become the main duty of personnel, finance, and accounting division to handle it.

b. Authorization System and Recording Procedure

- 1) Every employee accepts salaries and wages, and also absence recap, and therefore, the detail of salaries and wages and the data of absence are acknowledge.
- 2) All documents must be authorized by the charged division because the possible error in the document is usually found in the authorization at signature column.

c. Good Practice

- 1) The salaries and wages list is verified for the precision and accuracy by the finance division before the payment is given.
- 2) The recording of employee income is stored by personnel division.

d. The Employee with Compatible Quality to Responsibility

- 1) All employees have worked based on target set by CV. Sari Mutiara Abadi.

3. Solution in Order to Solve the Existence of Problems Related to Salaries and Wages Accounting System at CV. Sari Mutiara Abadi

a. Evaluation on organizational structure

However weaknesses are found in this organizational structure:

- 1) Payroll payment is not undertaken by finance, but by personnel division.
- 2) The responsibility of recording employee cost and the provision of information in order to employee cost not undertaken by accounting but by finance.

The solution recommended by the author to the organizational structure problem at CV. Sari Mutiara Abadi are as follow:

- 1) The responsibility of payroll payment must be under taken by finance.
- 2) Hiring worker for accounting position. It is aimed to prevent the risk of misleading by finance.

b. Evaluation on Document or Form

Some weaknesses however, are found in this document:

- 1) In the payroll list, there is no space or column for signature.
- 2) In the cash disbursement there are not number.

The problem solutions advised by the author for the document use in CV. Sari Mutiara Abadi are as follow:

- 1) Adding the signature column to acknowledge the personnel division as the preparer of salaries list.
- 2) In cash disbursement should have number that has been printed so can minimize fraud.

c. Evaluation on Accounting Record

Accounting record has been favorable. Personnel and finance divisions accept monthly payroll list, and debt installment list. Based on these documents, general ledger cash book is made to entry in journal and posted in the ledger.

d. Evaluation Againsts Procedure Network Underlying Salaries and Wages Payment System.

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The solution given to the functional problem at CV. Sari Mutiara Abadi are as follow:

- 1) Time clock should be installed to support the attendance recording to replace the absence card.
- 2) There is a new worker to fill into accounting position under the finance division in the organizational structure. It is important to support the efficiency of duty and discretion. The personnel division is positioned for away from paying employee salaries and wages because personnel division also prepares the salaries and wages report. It is useful to avoid mislead by personnel division.

B. Recommendations

1. It is better for CV. Sari Mutiara Abadi hiring worker for accounting position. It is important because the accounting position is conducting direct payment to the employee, not through personnel division. It is

aimed to prevent the risk of misleading by personnel division because this division also prepares the report of salaries and wages. Enclosing the accounting position in the finance division. It is important because it explain the discretion of who is responsible for salaries and wages.

2. For the document use in CV. Sari Mutiara Abadi are as follow adding the signature column in payroll list. In cash disbursement should have number that has been printed so can minimize fraud.
3. Separating each function based on the authorized rank. Personnel division prepares employee's salaries and wages report, while finance works as paying employee's salaries and wages.
4. Time clock should be installed to support the attendance recording to replace the absence card.
5. There is a new worker to fill into accounting position under the finance division in the organizational structure. It is important to support the efficiency of duty and discretion. The personnel division is positioned for away from paying employee salaries and wages because personnel division also prepares the salaries and wages report. It is useful to avoid mislead by personnel division.

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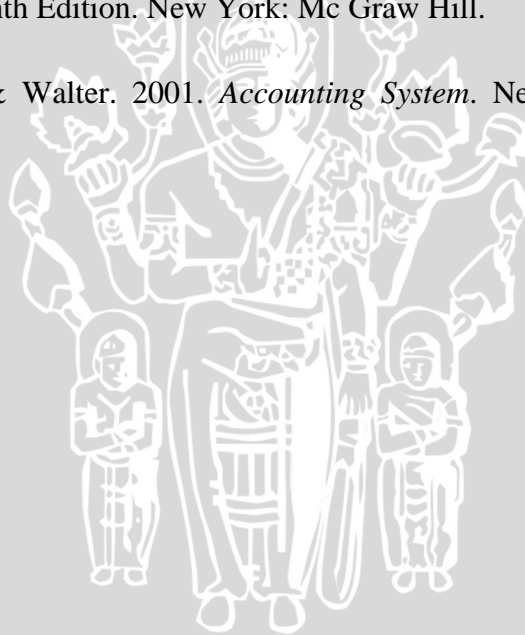
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CV. SARI MUTIARA ABADI

PRODUCTION OF AGAR POWDER

Dusun Krajan Desa Srigading Kec. Lawang
Kab. Malang - Jawa Timur

SURAT KETERANGAN

NO. 102/SK.SMA/I2.11

Yang bertandatangan di bawah ini Wiji Lestari selaku pimpinan CV. SARI MUTIARA ABADI yang berkedudukan di Dusun Krajan Desa Srigading Lawang menerangkan dengan sebenarnya bahwa:

Nama : Ria Jayantika
NIM : 0810323074
Fakultas : Ilmu Administrasi
Jurusan : Administrasi bisnis
Universitas : Brawijaya - Malang

Adalah benar yang bersangkutan telah melakukan riset (penelitian) di CV. SARI MUTIARA ABADI, dari tanggal 14 November 2011 sampai dengan 26 November 2011.

Demikian surat keterangan ini kami buat untuk dapat dipergunakan sebagaimana mestinya.

Lawang, 5 Desember 2011

(Wiji Lestari)

CURRICULUM VITAE

NAME : Ria Jayantika
 PLACE / DATE BIRTH : TG. Balai Karimun, March 15, 1990
 ADDRESS : Jl. Suruji 24 Kepanjen, Malang – East Java
 Indonesia 65163
 EMAIL : riajayantika@gmail.com
 Sex : Female

EDUCATION BACKGROUND

2008 – 2012 :Bachelor of Business Administration,
 Brawijaya University
 2005 – 2008 :Senior High School, SMAN 1 Kepanjen -
 Malang
 2002 – 2005 :Junior High School, SMPN 4 Kepanjen -
 Malang
 1996 – 2002 :Elementary School, SD NU Kepanjen –
 Malang

RESEARCH AND PUBLICATION

2011 Procedures of opening New Savings Account on Interiship
 BRI Britama Junio at PT BRI (Persero), Tbk KCP Report
 UB Malang
 2012 System and Procedures of Salaries and Wages in Undergraduate
 Order to Increase the Effectiveness of Internal Thesis on
 Control Bachelor
 Degree





LAPORAN KEUANGAN CV. SARI MUTIARA ABADI LAWANG
Bulan NOPEMBER 2011

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	SALDO AWAL	DROPING	DROPPING TUNAI	PENJUALAN	DISKON	BUNGA	Pengembalian	PIUTANG KARYAWAN	PEMBANGUN AN	PRIVE	EKSPEDISI PEMBELIAN	BIAYA GAJI PRODUKSI	BONUS/SENTRI TUNJANGAN
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