

COMPARATIVE ANALYSIS BETWEEN FINANCIAL LEASE AND LONG TERM DEBT IN PROCUREMENT OF FIXED ASSETS

**(Case Study at PT. Karya Jati Sejati Manufature of Wood Products,
Jombang)**

UNDERGRADUATE THESIS

Submitted as Prerequisite of the Bachelor Degree of Business Administration Faculty of
Administrative Science Brawijaya University

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MOTTO

"Each morning when I open my eyes I say to myself: I, not events, have the power to make me happy or unhappy today. I can choose which it shall be. Yesterday is dead, tomorrow hasn't arrived yet. I have just one day, today, and I'm going to be happy in it."

UNDERGRADUATE THESIS APPROVAL

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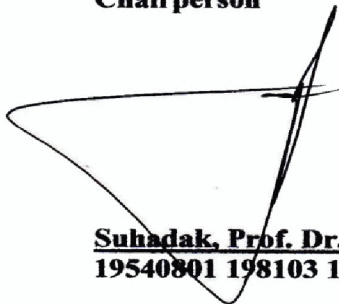
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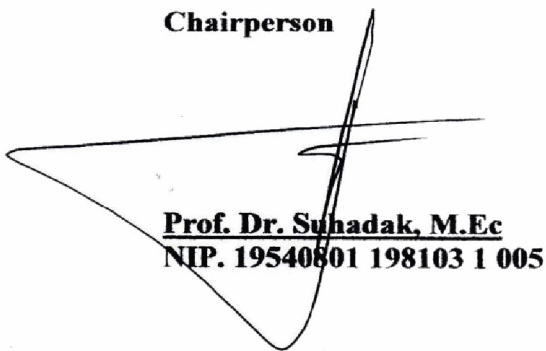
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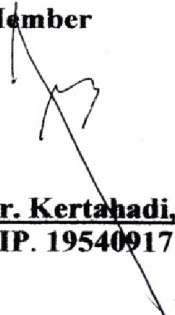
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Originality Statement

I declare in good faith that the best of my knowledge, in the text of this thesis there is no scientific papers that have been asked by others to get work or opinion ever written or issued to others, except in writing cited in this manuscript and called in the source citations and bibliography.

If it is found in the text of this thesis can be proven there are elements of this thesis are willing jiplakansaya aborted and academic degrees which have been acquired (S-1) is canceled, and processed in accordance with laws and regulations applicable (Law no. 20 of 2003, Article 25 Paragraph 2 and Article 70)

Malang, January 2011



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SUMMARY

Rahma, Ona. 2012. Comparative Analysis Between Financing Lease and Long Term Debt in Procurement of Fixed Asset. (Case Study at PT.Karya Jati Manufacture of Wood Products. Jombang) Prof. Dr.Suhadak, M.Ec, Drs. R. Rustam Hidayat, M. Si., 80 Halaman + x

The purpose of a firm is to maximize company value for the owner or to the stockholders. To achieve these purpose the company must have a production factor in the number and the right type. Production factor here is the wealth of natural resources, human resources, skills, capital and production factors. Many different ways to cover the market needs, one of them with the expansion and development efforts through the facilities and infrastructure that directly or indirectly support the business process itself.

The company's expansion and business development can be done through the addition of fixed assets. Each company always require fixed assets in running its operations and to achieve can use different ways. Procurement of fixed assets is usually caused increased demand for capacity production equipment owned by the company is not sufficient that it needs the procurement of new tools. The decision of the procurement of fixed assets is always associated with the funds needed and customarily in an amount large enough so that companies need to consider alternative funding appropriately on the most favorable for the survival of companies in the future.

Procurement of fixed assets can be meet from two alternative sources of funding that is internal and external sources. Capital from internal sources of capital or funds created and produced his own in the company of retained earnings and depreciation.

Capital from external sources of capital or funds are coming from outside the company are creditors and owners, participants in the external company that is leasing. A company can also provide a source of external funds if it is not possible if financed with internal funding sources, in this case is in the form of leasing and financing long-term debt.

The purpose of this study was to determine which alternative financing is the cheapest (lowest cost) and profitable for the company. The method used for determining the parameters of the second lowest cost alternative source of funding is the net present value. With this method, it will be known accurately alternative financing is most advantageous for the company.

This thesis is included in this type of descriptive research. Based on the analysis of data obtained from the PT.Karya Jati Sejati Manufacture of Wood Products in Jombang can be seen that the company plans to replace three new molding machines. Based on net present value analysis, companies are advised to use long-term sources of debt financing. Because long-term debt is a source of funding is more expensive than leasing.

PREFACE

Assalamu `allaikum. Wr. Wb

Thank God that the grace prayed to Allah Almighty who has given the blessing and grace to always provide health and ease in carrying out all duties and obligations. An abundance of gifts also pray to the Prophet Muhammad SAW who have provided the path of light to his people in the world all to always be grateful to Allah SWT. With an abundance of blessings and graces it with say Alhamdulillah, has completed a thesis entitled "Comparative Analysis Between Financing Lease and Long Term Debt in Procurement of Fixed Asset. (Case Study at PT.Karya Jati Sejati Manufacture of Wood Products, Jombang). This thesis is the final project proposed to meet the requirements in obtaining a Bachelor of Business Administration at the Faculty of Administrative of Sciences Brawijaya University.

It is well known that in the preparation of this thesis can not be separated from the help and support from various parties. Therefore, on this occasion of gratitude addressed to:

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3. Dr. Kusdi Rahardjo, DEA, as the Head of Business Administration Department (S1) of Faculty of Administrative Sciences Brawijaya University Malang
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6. Mr. and Mrs. teaching experience as well as all the staff of UB's Faculty of Administrative Sciences.
7. Mr. Hangki Setyo N as the Ka Personnel. PT.Karya Jati Sejati Manufacture of Wood Products in Jombang that has been allowed to do research at PT.Karya Jati Sejati, Jombang.
8. My father (Sugeng Hariyanto) and mother (Susilowati), and Nanie old sister, and my special friend Miftah who always provide motivation and compassion.
9. Friends of International Business Administration 2008 especially Yossita and Yunita. Thank you for taking our time together during college. Hopefully what we are doing all this can benefit us all later. Amin.

The author realizes that there are imperfections in this thesis, because it's suggestions and constructive criticism is expected. Hopefully this essay useful and contributed significantly to the needy.

Wassalamu `allaikum. Wr. Wb.

Malang, January 2012

Author

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CHAPTER I

INTRODUCTION

A. Background

The purpose of a firm is to maximize company value for the owner or to the stockholders. To achieve these objectives the company must have a production factor in the number and the right type. Production factor here is the wealth of natural resources, human resources, skills, capital and production factors. In terms capital of company are often exposed to a limitation, to the company make capital acquisitions from outside the company. Many different ways to cover the market needs, one of them with the expansion and development efforts through the facilities and infrastructure that directly or indirectly support the business process itself.

The company's expansion and business development can be done through the addition of fixed assets. Each company always require fixed assets in running its operations and to achieve can use different ways. One of the easiest ways is to buy it. Acquisition of fixed assets by buying cause a variety of advantages and disadvantages for the company and require a lot of consideration. Fixed asset owned by the company is consist of two, tangible fixed asset and intangible fixed asset. According to Needles (2007:465) fixed assets are long term assets that have physical substance. The term relatively permanent exhibit where the asset can be used within a relatively long time. Examples of tangible fixed assets is plant machinery, vehicles, land, and

buildings, while the intangible fixed assets is technical expertise, trade brands, and patents.

Companies need to consider whether there are sufficient funds to buy fixed asset or companies need a loan, and other risks such as outdated that it has no economic value if used again, and the possibility of maintenance costs are too high. Fixed assets have an important role in affecting the smooth running of company. This is due to fixed assets as an important part of the wealth owned by the company, because fixed assets have the largest proportion of such property.

Procurement of fixed assets is usually caused increased demand for capacity production equipment owned by the company is not sufficient that it needs the procurement of new tools. The decision of the procurement of fixed assets is always associated with the funds needed and customarily in an amount large enough so that companies need to consider alternative funding appropriately on the most favorable for the survival of companies in the future. A form of financing the capital goods is how to regulate appropriately in accordance with the capital goods needed and can contribute to the achievement of corporate objectives, in the sense that the investment must be precise. Too much invested capital will effect to the inefficiency because if the company has too much capital of investment, it can decrease the profit and if the company with insufficient or slow in investing can lead to difficulties in activities of daily operations, can even lead to the company's activities cease to operate.

Based on the feasibility study that has been done by investment committee, it shows that procurement of fixed asset has positive Net Present Value (NPV), and the

next task of financial manager determine source of funds. Source of funds can be obtained from the sale of securities, bonds issued, and apply for credit in financial institutions such as banks, leasing and from owner of the company. Procurement of fixed assets can be meet from two alternative sources of funding that is internal and external sources. Capital from internal sources of capital or funds created and produced his own in the company of retained earnings and depreciation. Capital from external sources of capital or funds are coming from outside the company are creditors and owners, participants in the external company that is leasing. A company can also provide a source of external funds if it is not possible if financed with internal funding sources, in this case is in the form of leasing and financing long-term debt.

The last few years, especially in large cities, has grown many leasing companies. According to Subramansyam and Wild (2009:142), lease is a contractual agreement, between a lessor (owner) and a lessee (user). It gives a lessee the right to use an asset, owned by the lessor, for the term of the lease. Leasing business has been a new way to finance additional new investment of fixed assets. Through leasing companies can acquire capital goods by means lease purchase to be used directly for the production process. For a company whose capital is less, the lease agreement will provide an opportunity to carry out business activities. Companies that immediately require certain capital goods for the production process but do not have enough funds, may enter into lease agreements to resolve it. Lessee and the lessor in the lease

agreement may enter into negotiations in determining the amount of lease installments in accordance with ability.

Long-term debt is different from other commercial loans. According to Donald (2002:263) long-term debt is debt with maturities of more than 1 year, and payment is used to finance fixed assets of the company. Temporary nature of this debt, because it is foreign capital that comes from outside the company. Long-term debt has characteristics of long-term loans have maturity of more than three years and the loan granted by a formal agreement. Using a source of funds with long-term debt is very flexible, because the loan can be adjusted to the needs of debtor through negotiations with creditors.. The company require all comparative analysis of long-term debt and leasing as an funding alternative which is more profitable. Decisions will be taken from these alternatives require careful consideration because they contain the cost of each source of funds used.

PT.Karya Jati Sejati Manufacture of wood products is the only one factory engaged in the manufacture whare was in Jombang. Almost entire manufacture of wood products is derived from PT. Karya Jati Sejati. The marketing is not only in Jombang, but also has been marketed to Bali, Bandung and Jakarta. There is no competitors in Jombang and consumer demand increased every year, so this is a challenge for PT. Karya Jati Sejati to meet those needs. Another challenge encountered by company is the level of demand for the industry is not matched with the realization of production because the machines are owned by the company have

been working in full capacity. In order to need PT. Karya Jati Sejati requires machines with a good condition, so PT. Karya Jati Sejati able to produce it.

Table 1
Demand and Realization of Production
PT. Karya Jati Sejati 2008-2010
in unit

Year	Demand	Realization of production	Difference	%
2008	1550	1300	-250	-1,19%
2009	1800	1450	-350	-1,24%
2010	2000	1500	-500	-1,3%

Source : processed data

Table 1 in present the demand and realization of production conducted by PT. Karya Jati Sejati manufacture products in the year 2008-2010. Even in 2010 production machinery owned by the company has worked at maximum capacity. The compay need demand the next years continues increase while the existing machine has the work maximum. Challenge and an oppportunity to answer PT. Karya Jati Sejati through the addition of 1 unit machine, more modern and capable of producing double the production of the old machines and also produce products that have good quality. It was done for increase production capacity to meet growing market needs and expected increasing the profitability company.

Based on the background described above, the researcher are interested in conducting research "**Comparative analysis between financing leases and long term debt in procurement of fixed assets (Case study in PT. Karya Jati Sejati Manufacture of Wood Products in Jombang)**".

B. Problems Review

1. How does PT. Karya Jati Sejati policy in determining the source of fund?
2. Which one is more favorable financing of fixed assets between long-term debt source or lease financing?

C. Research Objectives

1. To find out PT. Karya Jati Sejati policy in determining the source of fund.
2. To find out and explain the most favorable financing of fixed assets, by using alternative long-term debt or lease financing.

D. Research Contributions

1. Theoretical

Research is expected to expand knowledge for researcher about the sources and uses of working capital. Moreover, it can be a source of information, references and a review of research and writing in the same field.

2. Practical Benefits

For company, the results of this study is expected to provide information that can be used as consideration in making decisions about the management of working capital.

E. Systematic Implementation

Systematic implementation of the study are as follows:

CHAPTER I INTRODUCTION

This chapter consists of background, problems review, research objectives, research contributions and systematic implementation of the research conducted

CHAPTER II THEORETICAL REVIEW

Theoretical review presented in this research intends to explain at once explained the theory such as definition source of funding, fixed asset, lease, long term debt, and funding analysis that the researcher will use in research. With the objective to assist the researcher in the research explored through a discussion.

CHAPTER III RESEARCH METHOD

In this research method the researcher discuss the types of research conducted, the location of research, the focus of

research, data sources, data collection techniques, and data analysis.

CHAPTER IV RESULTS AND DISCUSSION

This chapter is a discussion on research by the researcher. The research discuss about the overview of the company, organization structure, company activities, type of fixed asset, the policy undertaken by PT. Karya Jati Sejati and the must owned by PT. Karya Jati Sejati favorable financing of fixed assets method applied by company.

CHAPTER V CONCLUSION

This chapter contains the conclusion and suggestions that the researcher give the results of the discussion of the research that has been done.

CHAPTER II

THEORETICAL REVIEW

A. The Sources of Fund

1. Definition of fund

Fund plays an important role in the sustainability of a business. Fund is the unity of fiscal and accounting entity with a single stand-alone devices that mutually balanced account, to record cash and other resources with the debts, obligations, reserves, and property which will be allocated for the purpose of carrying out certain activities or achievements specific purposes in accordance with the regulations, provisions, or restrictions that exist. Funds in the narrow sense is a form of cash, because cash (money) is the form most easily demonstrate the economic value and can be used as goods or services. In every transaction a company associated with the cash absolutely nothing to do with money. Absolute money into all sources of corporate activities in carrying out their daily activities. The company's activities usually involve cash transactions such as payment of wages, purchase of machinery, receipts from the sale of merchandise and the opposite.

According to Van Home (2002:171) fund are cash. Defining funds as cash is somewhat limiting. A flow of funds analysis in which funds are defined strictly as cash would fail to consider transactions that did not directly affect “cash”, and these transactions could be critical to a complete evaluation of a business. From definition

above can be concluded that the funds can be either cash or net working capital that both are needed by the company to be able to perform company activities every day such as paying bills, buying cash or financial activities of companies that deal with cash or working capital. This fund is the main thing that must be met by the company, that company's activities are not inhibited or stopped which will make a loss for the company.

2. Source of fund

The sources of funds can be distinguished in the sources of internal funds and external funds.

a. Internal funding

According to Kim and H.Kim (2006:346), Internal sources of funds are those funds generated within a parent–affiliate network. They include capital contributions from the parent, loans with parent-company guarantees, funds provided by operations from retained earnings and depreciation, and intersubsidiary funds transfers. Sources of internal funds, is the source of the funds generated or acquired by the company (McLaney and Atrill, 2006:406). Source of funds derived from internal funds can be divided into two, namely:

1) Accumulated depreciation

Every company has fixed assets is always shrinking. In this case the depreciation is not issued in cash, so long as the accumulated depreciation has not been used as a source of funding. The size of accumulated depreciation depending on the depreciation method used by the company.

2) Retained Profit

Retained profit is the major source of finance for most business. By retaining profit within the business rather than distributing them to shareholders in the form of dividends, the funds of the business are increased. In the end of each

accounting period, the company can be known whether the experience gains or losses. If the company does not use all the profits to be distributed to shareholders as dividends then accrued, may be retained and used for operational activities for the next period. Retained earnings which is the one source of funding for companies in carrying out further activities. The size of retained earnings is dependent on the dividend policy of each company. The greater the funding source that comes from retained earnings it will strengthen the company's financial position in future (Mclaney and Atrill, 2006:406).

b. External funds

According to Mclaney and Atrill (2006:411-428) sources of external funding is meeting the needs of the funds with funds derived from outside the company, the funds derived from the company owner, or from the sale of stock (equity financing) or from the sale of bonds, credit from suppliers, credit from banks or insurance companies, and debt financing. According to Kim and H.Kim (2006:346), Such external sources of funds include joint business ventures with local owners and/or borrowings from financial institutions in the parent country, the host country, or any third country

According to Mclaney and Atrill (2006:411-428) the sources of external funding will be further described as follows:

- 1) Source of funds derived from the owner or from its own capital
These funding sources can be obtained by issuing shares to be sold, either to the owner or to the capital markets.
- 2) Sources of funds derived from loans.
Originating source of this credit can take the form of short-term loans and long term.

Given that the fixed asset describing a considerable amount of spending in the corporate industry, then there needs to be given special attention in connection with

decisions to be taken. The problems faced by companies is the lack of capital, then obviously not possible for the company itself regarding the plans for the procurement of fixed assets. Alternative is possible and can be used by the company is to do a loan, either in the form of short-term debt and long term.

Therefore in planning investment of fixed assets, the company adopted a policy for the procurement of fixed assets with long-term debt, where the return period of more than one year and lower interest costs of short-term debt. In the procurement of fixed assets the company can take another alternative besides alternative long-term debt that is leasing, finance leasing alternatives where nearly equal to the long-term debt financing, which both have a cash flow that is an annuity.

B. Fixed Assets

1. Definition of fixed assets

According to Needles (2007:20), assets are the economic resources of a company that are expected to benefit the company's future operations. Certain kinds of assets for example, cash and money that customers to the company (also called account receivable), and inventories (goods held for sale), land, building, equipment.

According to McInaney and Atrill (2006: 40), fixed asset (also called non-current asset) are assets that do not meet the above criteria. They are held for long term operations of the business. Essentially, they are the tools of the business and are held with the objective of generating wealth.

2. Grouping of fixed assets

Fixed assets can be grouped into two, namely:

a. Tangible fixed assets

According to Needles (2007:465) tangible fixed assets are long term assets that have physical substance. The term relatively permanent exhibit where the asset can be used within a relatively long time.

For accounting purposes, the usage period is limited to "more than one accounting period". So tangible fixed assets are generally more than one accounting period are classified as tangible fixed assets. Fixed assets are not limited, so it can be used continuously then the amount may not require the allocation of cost, because it is considered at any time until the asset value is not reduced. This is in contrast with the limited assets of its age, so that at one time the assets will be damaged or worn then the acquisition price should be allocated. The existence of the asset allocation is the longer it will be reduced in accordance with the assumption that the longer the asset is used more and more obsolete, so its value is also decreased. Allocation of acquisition price is called depreciation. Fixed assets that can be replaced with similar assets depreciation is called depreciation, while the depreciation of natural resources called the depletion.

b. Intangible fixed assets

According to Needles (2007:465) intangible fixed assets are long term assets that have no physical substance but have a value based on right or advantages

accruing to the owner. Intangible assets lack physical substance and arise from a right granted by the government or another company. Intangibles may be acquired or developed internally. In PSAK 19 (Revision 2000) stated that, Intangible fixed assets are identifiable non-monetary assets and has no physical form and held for use in produce or deliver goods or services, rented to other parties, or for administrative purposes.

In general, intangible assets are rights which are owned and can be used more than one year. Such assets have value because it is expected to contribute to profits. Fixed asset that included intangible fixed assets are patents, goodwill, copyrights, trademarks, franchises, and others.

3. Depreciation

Over time, fixed asset, with the exception of land, lose their ability to provide services. Thus, the cost of fixed assets such as equipment and buildings should be recorded as an expenses over their useful life. This periodic recording of the cost of fixed assets as a expense is called depreciation (Warren, 2009 : 409). Depreciation is the periodic allocation of the cost of tangible asset (other than land and natural resources) over the asset's estimated useful life (Needles. 2007:474).

According to Patankar (2008 : 2-4) depreciation is a measure of wearing out, consumption or other loss of value of a depreciable asset arising from use, obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of depreciable amount in each accounting period during

the expected useful life of the asset. Depreciation includes amortization of assets whose useful life is predetermined.

According to the definition above can be explained that the definition of depreciation is not the same as in the economic definition that the company stressed that it is the depreciation reserve for the purchase of new fixed assets after the old fixed assets can not be used again. In accounting we could hold a reserve for a particular purpose, including for the purchase of fixed assets. The problem that occurs is not a depreciation problem but a problem reserve. Discussed here is only a matter of depreciation.

a. Factors of depreciation

According to Warren (2009:409), which causes the depreciation can be grouped into two categories, namely:

- 1) Physical factors
Physical depreciation factor include wear and tear during use or from exposure to weather.
- 2) Functional factor
Functional depreciation factor include obsolescence and changes in customers needs that cause the asset to no longer to provide services for which it was intended. For example, equipment may become obsolete due to changing technology.

b. Factors in Determining Cost of Depreciation

According to Warren (2009:409), there are three factors determine the depreciation expense for a fixed asset. These three factor are as follows:

- 1) The asset's initial cost
Cost is all costs to acquire the asset until the asset is ready for use.
- 2) The asset's expected useful life

Estimated salvage value (residual) is the estimated sale value of the asset if the asset has expired use.

- 3) The asset's estimated residual value
Estimated period of usefulness or life of the asset is estimated how long it can be used economically.

c. Depreciation method

According to Warren (2009:452), there are several methods that can be used to calculate periodic depreciation expense. To be able to choose one method should be considered the circumstances that affect the assets. These methods are:

- 1) straight-line method
- 2) service-hours method
- 3) productive-output method
- 4) reducing-charge method
 - a) sum of years'-digits method
 - b) declining balance method
 - c) double declining balance method
 - d) declining rate on cost method.

The following will be given an explanation about the use of each method.

1) Straight-line method

Straight-line method is a cost allocation method that bases allocations on time usage, in this method of depreciation expense from the same of big in time to another time. This method is a method of depreciation is the simplest and widely used. To find the amount of depreciation in one year, can be searched by the formula:

$$\text{Depreciation} = \frac{\text{HP} - \text{NS}}{\text{n}}$$

Where :

HP : cost

NS : residu

n : estimated useful life

Straight line depreciation calculation is based on the following assumptions:

1. Economic usefulness of an asset will decline in proportion to each period.
2. Cost of repair and maintenance of each period is relatively fixed in number.
3. Economic usefulness is reduced because of the passage of time.
4. The use of (capacity) assets each period is relatively fixed.

Straight-line method should be used to calculate the depreciation of buildings, furniture, and office equipment. Depreciation costs are calculated in this way fixed amount each period, regardless of activity in that period.

2) Service-hour method

This method is based on the assumption that the assets (mainly machinery) will be more easily damaged when used fully (full time) compared with the use that is not fully (part time). In this way depreciation is calculated on the basis of units of hours services. Periodic depreciation amount will greatly depend on the hours of service in use (used). To find the amount of depreciation can use the formula:

$$\text{Depreciation} = \frac{\text{HP} - \text{NS}}{\text{n}}$$

Where:

HP : Cost

NS : Residu

n : Estimated hour

Depreciation basis is the number of hours used, then this method is most appropriate when used for vehicles. Assuming that the car was more damaged due to wear, as compared with the old because of the time.

3) Productive-output method

These methods production estimated useful life of assets in units of number of units produced. Depreciation is calculated on the basis of production units, so the depreciation each period will fluctuate in accordance with fluctuations in production. Basic theory used is that of an asset is held to produce the product, so the depreciation is also based on the number of products that can be generated. Calculation of the amount of depreciation can be calculated by the formula:

$$\text{Depreciation/units} = \frac{\text{HP} - \text{NS}}{\text{n}}$$

Where :

HP : Cost

NS : Residu

n : Estimated production (units)

4) Reducing-charge methods

In this method loads the first years depreciation will be greater than the depreciation expense in the following years. This method is based on the theory that the new assets that will be used more efficiently than older assets. So also the cost of repairs and maintenance. Customarily new assets that will require repairs and maintenance are much less compared with the old assets. If this method is used then the expected amount of depreciation expense and cost of repair and maintenance from year to year will be relatively stable, because the depreciation of the cost of minor repairs and maintenance (in the first year), and vice versa in the last year, while a small depreciation and repair costs major maintenance.

There are four ways to calculate depreciation expense, which declined from year to year, namely:

a) Sum of year's digits method

Depreciation is calculated by reducing fractions of each year always decreases with the cost less residual value. Part of this deduction is calculated as follows:

Numerator = weight (weight for that year)

Denominator = total number of years during the life of the assets or the
number of digits weight (weight).

If the asset's economic life long, then the denominator (total number of years) can be calculated by the following formula:

$$\text{Total number of years} = n \left(\frac{(n+1)}{2} \right)$$

n = useful life

b) Declining balance method

In this way the periodic depreciation expense is calculated by diverting a fixed rate with a book value of assets. The book value of these assets each year is always decreasing, the depreciation expense each year is always decreasing. These rates are calculated using the following formula:

$$T = 1 - \sqrt[n]{\frac{NS}{HP}}$$

Where :

T = Rate

n = Useful life

NS = Residu

HP = Cost

c) Double declining balance method

In this method, depreciation expense decreased each year. To be able to calculate the depreciation expense that is always decreasing, the basis used is the percentage by way of a straight line. The percentage is multiplied by two and multiplied each year on the book value of fixed assets. The book value is always decreasing the burden of depreciation is also always declined.

d) Declining rate on cost method

In addition to the methods described in advance, sometimes found ways to calculate depreciation using the decline (%) is always decreasing. Tariff (%) of each period is multiplied by the price of the acquisition. Decline in tariff (%) of each period without using a sure foundation, but is determined based on company policy leaders, because tariffs (%) of each period always decreases the burden of the depreciation is also always declined.

C. Lease

1. Definition of lease

According to Van Horne (2002:467) leasing is an important source of equipment financing. A lease is a contract whereby the owner of an asset (the lessor) grants to another party (the lessee) the exclusive right to use the asset in return for the payment of rent. According to Wild, Bernstein and Subramanyam (2009:142), lease is a contractual agreement, between a lessor (owner) and a lessee (user). It gives a lessee the right to use an asset, owned by the lessor, for the term of the lease. Another definition of leasing is a contractual agreement between a lessor and a lessee that gives the lessee the right to use specific property, owned by the lessor, during a certain period which is usually periodic (Kieso, Weygardt and Warfield, 2002:91).

According to Kumar (2004:263), leasing is a contract giving the right of possession and use of an asset for an specific period of time in exchange for a flow of payments that cover the asset redemption, financial costs, and taxes plus the lessor's return. When a lease is terminated, the leased asset reverts to the lessor, but the lease agreement can give the lessee the option to purchase

the asset or take on a new lease based on the residual value of the asset. Leased assets can include real estate, vehicles, machinery, equipment, and generally any asset able to generate returns.

According to Arnold (2005:393), Leasing is similar to HP in that an equipment owner (the lessor) conveys the right to use the equipment in return for regular rental payments by the equipment user (the lessee) over an agreed period of time.

According to some definition, so lease is a contract between two parties (lessee and the lessor), within a certain period, in the use of an assets in exchange for a cash paid in accordance with the agreement in the contract. Assets used either assets, capital, and others. So the company can minimize operating costs and the expected profit of the company.

2. Types of lease

Lease transactions involve two parties: the lessor, who owns the property and the lessee, who obtains use of the property in exchange for one or more lease, or rental, payment. Leasing take several different forms, the most important being:

a. Capital lease

According to Arnold (2005:395), Under a finance lease (also called a capital lease or a full payout lease) the finance provider expects to recover the full cost (or almost the full cost) of the equipment, plus interest, over the period of the lease. With this type of lease the lessee usually has no right of cancelation or termination.

Capital lease is the lease with option rights. In this type of transaction that requires the lessee to determine its own type of goods and specifications of the required items. Lessee also entered into direct negotiations with suppliers on

price, maintenance requirements and other matters relating to the operation of these goods. The lessor will then issue the funds to pay for the goods to the supplier and after that the goods are handed over to the lessee. In return for services the lessee's use of the goods will pay periodically to the lessor a sum of money for a certain period that has been agreed. At the end of the lease, the lessee has the right to choose to buy goods for the rest, return the item to the lessor or the leasing agreement also entered again separately the second phase of the same goods (Brigham, 2004 : 740)

According to Nedlees (2007: 518) capital lease when it meets the following condition 1) it cannot be canceled 2) its duration is about the same as the useful life of the assets 3) its stipulates that the lessee has the option to buy the asset at nominal price at the end of the lease. According to Kumar (2004:263), capital lease is designed for the use of a lessee-specified asset for a long period of time.

According to Brigham, (2004 : 715-716) capital leases can be categorized into two, namely:

1) Direct capital lease

This transaction occurs when Lessee had not previously had the goods which become the object of lease. Basically this type of leasing transaction equals capital lease transactions.

2) Sale and leaseback

Under a sale and leaseback arrangement, a firm that owns land, building, or equipment sells the property to another firm and simultaneously executes an agreement to lease the property back for a stated period under specific terms. In this lease transaction to sell goods already owned to the lessor. Over the same goods are then carried out a leasing contract between the lessor and lessee. In this transaction the lessee in advance to sell capital goods already owned to the lessor and the goods and then do the same capital lease contract between the lessee to the lessor. Sale and leaseback arrangements are almost the same as financial leases, the major difference being that the leased equipment used, not now, and the lessor buys it from the user lessee instead of a manufacturer or a distributor. A sale and leaseback is thus a special type of financial lease.

b. Operating lease

According to Kumar (2004:263), operational lease is designed for the use of an existing asset for a short period of time. Operational leasing has two components (1) the financing of the asset and (2) the provision of services (for example, maintenance of the equipment, technical assistance, insurance). In this type of transaction, the lessor purchases the goods and then leases it to the lessee for a specified period. In practice the lessee pays an amount of money at regular intervals as a whole does not include the price of goods and the costs already incurred by the lessor.

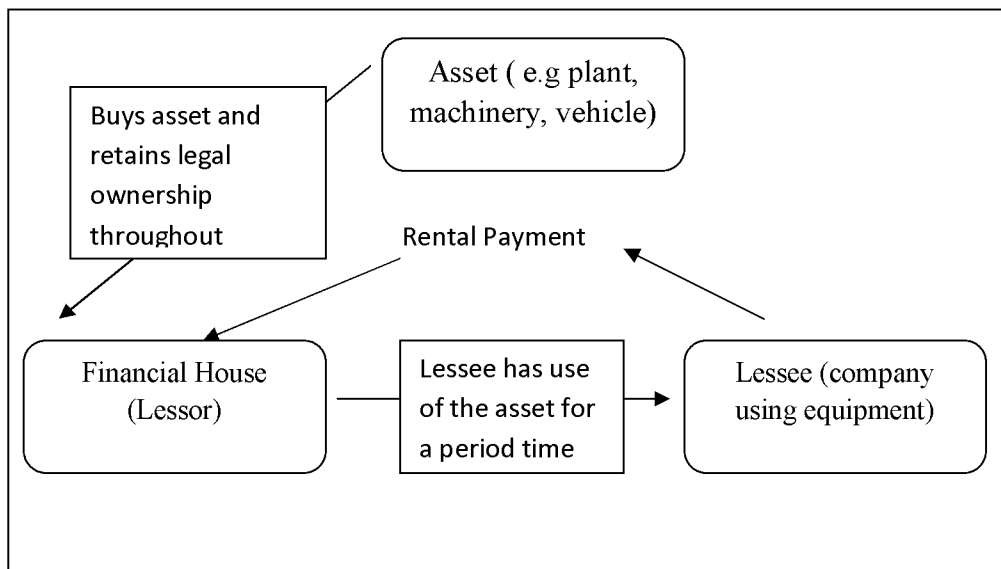
According to Arnold (2005:395), Operating leases are also useful if the business involves a short-term project requiring the use of an asset for a limited period. For example construction companies often use equipment supplied under an operating lease (sometimes called plant hire). Operating leases are not confined to small items of equipment. According to Brigham, (2004 : 715), another important characteristic of operating lease is the fact that they are not fully amortized. Operating lease is clearly not determined the existence of residual value and the right option for the lessee.

After the lease expires, the lessor negotiating the possibility of a new lease contract with the same lessee or lessor is also looking for prospective new lessee. In operating this lease the lessor usually responsible for the care of the goods. Goods that are often used in operating lease is usually the items that have a high value such as cars, heavy equipment, machinery, and so on. On operating lease usually can be canceled before the expiration of the lease, but the lessee (tenant) to pay penalties for cancellation. Another importance characteristic of operating lease is the fact that they are not fully amortized.

According to H.Mark, E.Robbins, and Fernandez (2005:89), The benefits of an operating lease include the reduced risk of asset obsolescence (for technology equipment) and off-balance-sheet financing, allowing a company to effectively borrow additional long-term capital without negatively impacting its debt-to-equity ratio. Another benefits of an operating lease according to Gapenski and H.Pink (2007:262):

Operating leases is that they frequently contain a cancellation clause that gives the lessee the right to cancel the lease and to return the equipment before the expiration of the basic lease agreement. This is an important consideration to the lessee because it means that the equipment can be returned if it is rendered obsolete by technological advances or if it is no longer needed because of a decline in the lessee's business.

Figure 1
A Leasing Transaction



Source : Arnold, 2005:394

3. Essential Element of leasing

According to Khan & Jain (:25-27) the essential element of leasing are the following :

a. Parties to the contract

The are essentially two parties to a contract of lease financing, namely, the owner and the user, called the lessor and the lessee. Lessor as well as lessees, may be individual, partnerships, joint stock companies, corporations or financial institutions.

b. Assets

The assets, property or equipment to be leased is the subject matter of lease financing contract. The asset may be an automobile, plant and machinery, equipment, land and building, factory, a running business, an aircraft and so on. The asset must, however, be of the lessee's choice, suitable for his business needs.

c. Term of lease

The term of lease is the period for which agreement of lease remains in operation. Every lease should have a definite period, otherwise it will be legally inoperative. The lease period may sometimes stretch over the entire economic life of the asset (financial lease) or a period shorter than the useful life of the asset (operating lease). The lease may be perpetual, that is with an option at the end of the lease period to renew the lease for the further specific period.

4. Advantages and Disadvantages of Leasing

a. Advantages

According to Kieso, Weygardt and Warfield (2002:92-93) there are several advantages of leasing are:

- 1) Reduce capital. Utilization of the leasing system allows the lessee to save working capital, due to start a business, the lessee does not have to provide large amounts of money to buy the machines. That money can then be used to meet other needs.
- 2) Leasing to reduce the risk of obsolescence, because the lessee can pass the goods that have been leased after use.

- 3) Leasing does not increase the debt on the balance sheet and does not affect the leverage ratio.
- 4) Tax incentives.
- 5) There is no risk of diversion of funds. In leasing, direct funds used to purchase equipment without even through the hands of the lease. This prevents the risk of which the lessee can use those funds for purposes that are not agreed in advance. It also avoids the risk that the lease will be using credit to pay for loans from other financial institutions.

b. Disadvantages

According to Kieso, Weygardt and Warfield (2002:92-93) there are several advantages of leasing are:

- 1) Cost of equipment rental business is very large.
- 2) Lack of ownership is also responsible for increasing the overall cost of business equipment.
- 3) The financial lease is less appropriate where only done in the short term, because if it is canceled will lead to considerable cost.
- 4) Because of the leased items are not recorded as assets, then it can not be used as loan collateral in banks.
- 5) The right to use an intangible asset lease of goods that can not be presented in the balance sheet as fixed assets.

D. Long Term Debt

1. Definition of Long Term Debt

According to Gapenski and H.Pink (2007: 153), debt is by maturity, or the length of the loan. In general, debt is categorized as long term or short term. Although the definitions of “long” and “short” depend somewhat on the type of debt under discussion, in most situations short-term debt is defined as having a maturity of one year or less, while long-term debt has maturities greater than one year. Debt is usually associated with a the amount of obligations that can be either object or service to be paid by the company to creditors. Defintion of long-term debt are financial liabilities

where repayment will be made within more than one accounting period or one year (Kusnadi et al, 2004:11). Another definition of long-term debt is by Kieso, Weygardt and Warfield (2002:263) are obligations that are not reasonably expected to be in liquidation in the normal operating cycle, but will be paid at a date outside specified time. Based on some notion of long-term debt on top of it can be concluded that long-term debt is debt with maturities of more than 1 year, and payment is used to finance fixed assets of the company. Temporary nature of this debt, because it is foreign capital that comes from outside the company.

2. Types of Long Term Debt

Long-term debt is a liability to be paid within more than one year. While short-term debt is an obligation that is expected to be repaid within one year or one company's normal operating cycle. If the criteria for long-term debt is debt that is more than one year, then the intermediate-term debt included in long-term debt.

According Needles (2007 : 517), types of long term debt consist of:

a. Bond payable

Long term bonds are the most common type of long term debt. They can have many different characteristic, including the amount of interest, whether the company can elect to repay them before their maturity date, and whether they can be converted to common stock. That is loans for long period of time by issuing letters of recognition of debt which has a certain nominal value. Repayment or payment of bonds can be drawn from the company's profits and depreciation of fixed assets are spent with a particular bond.

b. Mortgage payable

A mortgage is a long term debt secured by real property. It is usually paid in equal monthly installment. Each monthly payment includes interest on the debt and reduction in the debt. Mortgage payable is a form of long-term loans, where the giver of money (creditors) are given the right mortgage to an item does not move, so that when the debtor to meet its obligations, items can be sold so the proceeds from the sale are used to cover the bills.

c. Notes payable

Long term notes payable, those that come due in more than one year, are also very common. They differ from bonds mainly in the way the contract with the creditor is structured. A long term note is a promissory note that represent a loan from a bank or other creditor, whereas a bond is a more complex financial instrument that usually involves debt to many creditor.

d. Pension liability

Most employees of medium and large companies are covered by pension plan, a contract that requires a company to pay benefits to its employees after they retire. Some companies pay the full cost of the pension plan, but in many companies, employees share the cost by contributing part of their salaries or wages. The contribution from employer and employees are usually paid into a pension fund, which is invested on behalf of the employees and from which benefit are paid to retirees.

3. Advantages and Disadvantages of Long Term Debt

a. Advantages

According to Arnold (2005:374), there are several advantage of long term debt:

- 1) if interest rates fall the cost of the loan falls;
- 2) at the time of arrangement fixed rates are usually above floating rates (to allow for lenders' risk of misforecasting future interest rates);
- 3) returns on the firm's assets may go up at times of higher interest rates and fall at times of low interest rates, therefore the risk of higher rates is offset. For example, a bailiff firm may prosper in a high interest rate environment and can cope with higher interest charged to its business borrowing.

b. Disadvantages

According to Arnold (2005:374), there are several disadvantage of long term debt:

- 1) the firm may be caught out by a rise in interest rates if, as with most businesses, its profits do not rise when interest rates rise. Many have failed because of a rise in interest rates at an inopportune time;
- 2) there will be uncertainty about the precise cash outflow impact of the interest payable. Firms need to plan ahead; in particular, they need to estimate amounts of cash coming in and flowing out, not least so that they can pay

bills on time. If the firm has large amounts of floating rate debt it has an extra element of uncertainty in estimating cash flows and thus greater difficulty in managing the business efficiently.

E. Funding Analysis

In determining alternative funding will be used to meet the needs of their funds, then the company should conduct a proper evaluation and correct, so the decision taken regarding the funding of the selected alternative will not wrong. Company (lessee) must be able to determine whether the lease on the property is cheaper than buying in the financing, or buy the assets are cheaper than doing the leasing. The stages of analysis of each source of funding is as follows:

1. Funding analysis with long term debt

Analysis these steps the costs incurred from the user's long-term debt funding sources are as follows:

- a. Determining how the amount of funds needed to finance the assets.

The amount of funds needed by the company should be determined in advance, because it became one of the considerations that will be considered by the creditor. The amount of funds that will be issued by the creditors, one of which depends on the size of the company by analyzing financial statements of the company. The financial statements are the better or the liquid, then the funds needed will be greater or easily liquidated, otherwise if the financial statements that look less and less liquid then the company will experience some difficulties in the disbursement of funds.

b. Determine the amount of installment loans

In considering alternative uses which will be used by the company, it must be determined amount of funds needed for this funding, after which it shall calculate the amount of each installment period. How to calculate the amount of installment to be paid by the company if it will use this alternative are as follows:

$$PA_n = A \times (PVIFA_{i,n})$$

$$A = \frac{PA_n}{PVIFA_{i,n}}$$

Source: Van Horne, (2002:581)

Explanation :

PA_n = Present Value Anuitet

A = Anuitet

n = Period

i = Interest

c. Make loan repayment

Loan repayment can be seen in the example table below:

Table 2
Example of Loan Repayment

Last Years (1)	Credit Payment (2)	The amount of Principle payable of last years (3)	Interest years (4)	Total amount of Debt reduction (5)
1	\$20,000	\$5,276	\$2,000	\$3,276
2	16,724	5,276	1,672	\$3,064
3	13,120	5,276	1,312	\$3,964
4	9,154	5,276	916	\$4,360
5	4,796	5,276	480	\$4,796
Total		\$26,380	\$6,380	\$20,000

Source : Van Horne, (2002:583-584)

Description:

1. Column (1) is the period of payment of loan installment
2. Column (2) is the principal loan balance at the end of the year derived from previous year balance of the loan principal reduced by the amount of principal installments previous year
3. Column (3) is the installment loan per period of the loan principal installments plus interest on the loan principal balance.
4. Column (4) is of interest to be paid, which is obtained from multiplying the principal balance of the loan with interest that implied the Bank (i); $[1 \times (2)]$.
5. Column (5) is the principal loan installment per period obtained from the amount of principal debt plus interest minus the rate per year: $[(3) - (4)]$.

d. Calculation the loan with a present value analysis.

To calculate the cost of borrowing with a present value analysis per period can be seen in the table 3.

Table 3
Example of calculation of payment with Present Value Analysis

Last Years (1)	Payment of Years (2)	Interest Of years (3)	Depreciation (4)	Tax (5)	Cash flow after tax (6)	Present Value Factor (7)	PV from Cost (8)
1	\$5,276	\$2,000	\$4,000	\$2,400	\$2,876	0,9434	\$2,713
2	5,276	1,672	\$4,000	2,269	3,007	0,8900	2,676
3	5,276	1,312	\$4,000	2,125	3,151	0,8396	2,646
4	5,276	916	\$4,000	1,966	3,310	0,7921	2,622
5	5,276	480	\$4,000	1,792	3,484	0,7473	2,603
Total	\$26,380	\$6,380	\$20,000	\$10,552	\$15,828		\$13,260

Source: Van Horne, (2002:583-584)

Description:

- 1) Column (1) is the period of installment payments
- 2) Column (2) is the amount of installment loans
- 3) Column (3) is of interest to be paid, which is obtained from Table 1 in column (4).
- 4) Column (4) is the depreciation of fixed assets.

- 5) Column (5) is the tax savings derived from multiplying the tax rate with interest plus depreciation; $[T (3 +4)]$.
- 6) Column (6) is out after-tax cash flows generated from the reduction of loan installment payments with tax savings; $[(2) - (5)]$.
- 7) Column (7) is a factor present value of the relevant year with after-tax interest rate or $i (1-T)$.
- 8) Column (8) is to show the present value of costs (cash outflows) debt money obtained from cash flow after tax present value multiplied by the factor.

2. Funding Analysis with Lease

Using alternative sources of financing leasing is also greatly influenced by the amount of rent expense that is determined by each company in which funding is meant here is to use a leasing company or a non-bank financial institutions. The advantage of using this alternative is here lease companies use the system but the company was also given the power to choose the type of fixed assets in accordance with the company. The steps by company in calculating these alternative are as follows:

- a. Determine the amount of funds needed to finance the assets.
- b. Determining the amount of installment when using leasing funding sources.

To calculate the amount of the loan lease are as follows:

$$PAn = \text{Cost of Asset} - \text{PV Salvage Value (residual value of fixed assets)}$$

The next installment should be paid by the company will use an alternative if the lease is as follows:

$$PAn = A \times (PVIFA_{i,n})$$

$$A = \frac{PAn}{PVIFA_{i,n}}$$

Source : Van Horne, 2002:582

Explanation:

PAn = Present Value Annuity

A = Annuity

n = Period

i = Interest

Before calculating the costs incurred by users leasing funding sources, first determine the amount of funds required to finance the assets, after determining the amount of funds then calculate the amount of each lease payment period using the same formulation by determining the amount of installment loans.

c. Calculating the cost of leasing with present value analysis

To calculate the costs of leasing can be seen in the table 4.

Table 4
Example Cost of Lease

Last Years (1)	Payment of Lease (2)	After Tax (3)	Present value Factors (4)	Present value from cost (5)
1	\$5,246	\$3,147.60	0,9434	\$2,970
2	5,246	3,147.60	0,8900	2,802
3	5,246	3,147.60	0,8396	2,643
4	5,246	3,147.60	0,7921	2,493
5	5,246	3,147.60	0,7473	2,352
Total	\$26,230	\$15,738.00		\$13,260

Source : Van Horne, 2002:583-584

Description:

- 1) Indicates year lease
- 2) Indicate the annual lease payment
- 3) After-tax cost of leasing is obtained from column (2) multiplied by (1-T)
- 4) Is the present value derived from the interest rate after tax or $i(1-T)$
- 5) Shows the cost of leasing after tax each year to be obtained from column (3) multiplied by column (4).

d. Technique Feasibility Analysis Method with Net Present Value (NPV)

According Van Horne (2002:581-585), the notion NPV is the difference between the discounted cash inflow that at a minimum interest rate or cost of capital is reduced by an investment company. According to Dayananda, Irons, and Harrinson (2003:85), The net present value (NPV) of

a project is calculated by subtracting the present value of the capital outlays from the present value of the cash inflows. The definition above can be formed in a formula of NPV as follows:

$$\text{NPV} = \text{PRESENT CASH INFLOW} - \text{PRESENT VALUE INVESTASMENT}$$

Measurement of cash inflow and cash outflow based on the present value or present value can provide a more precise comparison of several projects that are being evaluated. If the project is assessed to have a conventional pattern of cash inflows (cash outflow followed by a series of cash in flow) then the present value of these investments have described the present value of capital invested. Conversely, if cash flow of a project has a pattern of non-conventional, it must first be calculated present value of total capital invested, and then subtracted from the total present value of cash flow.

The decision whether a project is acceptable or not, will depend on the calculation of net present value of the project. The proposed project would be acceptable if: $\text{NPV} > 0$

NPV greater than or equal to zero showing a state where the results obtained is greater than or equal to the minimum rate of return has been set. The project is NPV less than zero is unacceptable because the results obtained is smaller than the cost of capital or cost of capital that has been applied.

CHAPTER III

RESEARCH METHOD

A. Type 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; descriptive research methods with case study approach. According to Gravetter and Lori (2009:158), qualitative research is base on making observation that are summarized and interpreted in narrative report. According to Kothari (2008:2-3), descriptive research includes survey and fact finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. The main characteristic of this method is that the researcher has no control over the variable, he can only report what has happened or what is happening.

The approach used in this research is a case study approach, because researcher carrying out an investigation of a particular phenomenon so that it will obtain a detailed picture of the facts that is happening on the research project. The purpose of the research case study is to provide a detailed overview of the background characteristics and distinctive characters of the case, or of individuals, who then cash from the properties above will be a matter of a general nature (Nazir, 2005:6).

Case study approach is not intended to obtain a generalization of a particular phenomenon in the social reality in general, but it is more specific to the cases studied, and there may be differences with research for the same symptoms in different places. The research was conducted at a company that is PT Karya Jati Sejati, which in general this research technique is a way of collecting data from a number of units or individuals in time or in a different time period.

B. Research Focus

Research focus aims to provide direction and restrictions on research that examined the object which is not very extends, in order to obtain a clear picture of the stages focused. Thus ensuring the existence of solutions to a problem that has been previously defined. Focus of the research are:

1. The type and age of fixed assets.
2. Determination of amount of funding needs.
3. Company policy in determining the source of funding in the procurement of fixed assets.
4. Calculation of cash flow in the selection of alternative procurement of fixed assets through leasing or long-term debt.
5. Determination and selection of alternative procurement of fixed assets through leasing or long-term debt.

C. Location of Research

Location is the place where the research study conducted by research that includes the collection and retrieval of data and search for information related to the discussion topic both from interviews and existing scientific literature on the research site. Regarding with the background of the problems, the researcher took the place at PT. Karya Jati Sejati Manufacture of Wood Products located at Tirta Buana No.12 Keplaksari Jombang. The researcher interested in choosing that sites with the following consideration:

1. PT.Karya Jati Sejati Manufacture of wood products is the only factory engaged in the manufacture in Jombang.
2. The marketing is not only in Jombang, but also has been marketed to Bali, Bandung and Jakarta and there is no competitors in Jombang and consumer demand increased every year but not matched with the realization of production even the machines are owned by the company have been working in full capacity.

D. Data Sources

Source of data is the subject where the data is obtained. Data obtained from the source of data would gives an important role in the success of a research. Type of data used is secondary data that is the data obtained in the form of a ready-made form of publication. Secondary data can be obtained from the recording company documents. Secondary data in this study can be obtained from:

1. Literature.
2. Financial Statements.
3. Other sources outside the company.

E. Data Collection Techniques

In conducting research, data collection techniques an important role, because if researchers do wrong in the data collection techniques, research conducted apocryphal. Data collection techniques used in this study to obtain the necessary data is by using documentation. Documentation is a method of looking for data about things or variables in the form of transcripts of records, books, newspapers, magazines, inscriptions, meetings, agendas and so on, in this study researchers got data from company financial reports and documents relating to financial companies.

F. Data Analysis

In a research of data analysis is part of the research methods play an important role. Data analysis is an activity after the data from all respondents or other sources of data collected. In this research, researchers used descriptive statistical data analysis.

Scientists have only use one company to the description about the funding policy so to measure the data analysis the steps:

1. Step analysis
 - a. To estimate cash flow of long term debt
 - 1) Determining how the amount of funds needed to finance the assets.

- 2) Determining the amount of installment loans

$$PA_n = A \times (PVIFA_{i,n})$$

$$A = \frac{PA_n}{PVIFA_{i,n}}$$

- 3) Make loan repayment
- 4) Calculating the loan with a present value analysis

- b. To estimate cash flow of lease

- 1) Determining the amount of funds needed to finance the assets.
- 2) Determining the amount of installment when using leasing funding sources. To calculate the amount of the loan lease are as follows:

$$PA_n = \text{Cost of Asset} - \text{PV Salvage Value (residual value of fixed assets)}$$

The next installment should be paid by the company will use an alternative if the lease is as follows:

$$PA_n = A \times (PVIFA_{i,n})$$

$$A = \frac{PA_n}{PVIFA_{i,n}}$$

- 3) Calculating the cost of leasing with present value analysis
 - 4) Technique Feasibility Analysis Method with Net Present Value (NPV)
- c. To compare between the Present Value (PV) of cash flow of leasing and cash flow of long term debt.

CHAPTER IV

RESULTS AND DISCUSSION

A. Company Overview

1. Company History

PT. Karya Jati Sejati is a company engaged in the furniture. The company was founded by Mr. Usman as the owner also doubled as leader in 1982. Initial capital to establish this company comes from their own capital and loans. In 1992 the company expanded marketing area with wood supplied to Jakarta. In 1993 the first company to export once registered as a member of Indonesia Sawmillers Associations (ISA), which is a kind of association of Indonesian craftsmen producing mainly wood. While the raw material of PT. Karya Jati Sejati is teak. Permit which is used in carrying out its activities, among others:

- a) Ho (Ijin Gangguan Lingkungan) No. 188.45/09/144.9/1984
- b) IMB (Ijin Mendirikan Bangunan) No. 188.416/48/1983
- c) SIUP (Surat Ijin Usaha Perdagangan) No. 188.416/48/1983

2. Company Locations

The area of PT. Karya Jati Sejati in Tirta Buana street No. 12, Village in Keplaksari, District in Peterongan, Jombang. The company's location is strategic as close to the highway, thus simplifying the flow of transportation of raw materials and finished goods. In addition, the fatherly obtain raw materials (teak) is more easily, by

following the teak wood auction, large or small auction held by Perhutani. The company also has expanded its area, by buying a plot of land that were located adjacent to the main corporate site. By increasing the area the company is expected to increase its production capacity.

3. Vision and Mission of the Company

Any company that was founded basically have a purpose. These objectives have been outlined in advance which will be used as guidelines in conducting the company's activities. Goals are the expected results can be achieved for the company within a certain time. The company's goal is divided into two, namely:

a. Vision

The vision of a company is a bridge in achieving goals and objectives are usually programmed for one year. The company's vision includes:

- 1) Increased sales and profits are targeted, almost every company has the objective to increase sales, because the success of the companies one of them is determined by the size of the volume of targeted sales and profit. In addition, the company also expected to reach a stable situation in accordance profit targets.
- 2) Keeping the continuity of company, continuity is very important because the company can maintain a sense of security for employees who work at the company.

b. Mission

The mission of a company that is the purpose to be achieved by the company in more than one year. The mission of the company include:

- 1) Hold the expansion, if the company has achieved a stable position in finance and marketing, will certainly encourage the company to expand its business.
- 2) Improve the reputation of the company, are intended to maintain the good name of the company as a producer of furniture with good quality

4. Organization Structure and Job Descriptions

a. Organization Structure and Job Description

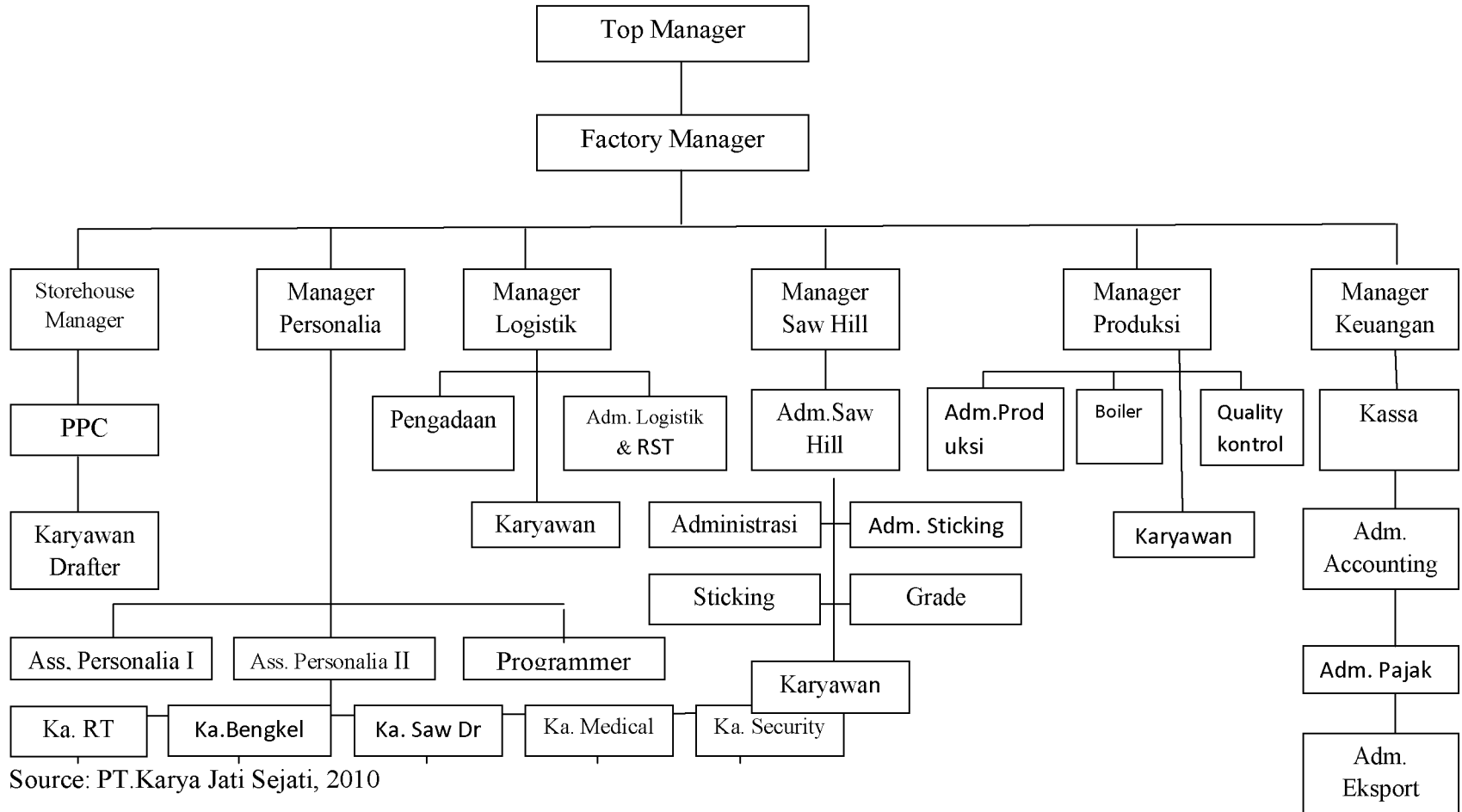
The organizational structure is a framework that shows the functions within an organization. The division will be formally separating the individual components that exist within the organization in accordance with the authority and responsibilities of each. Moreover, it also shows the relationship between the components with each other in order to achieve the goals. Thus in the organizational structure will be seen the division of tasks between the strict and formal components of the existing, will see the limits of authority and responsibilities of a supervisor and subordinate.

Form the organizational structure of PT.Karya Jati Sejati is the organization's work Jombang line or lines. In unity there is a line organization structure of power and leadership so that in this case subordinate only governed and accountable to the direct supervisor. Command flows from the top to down, otherwise the responsibility

flows to immediate supervisor. The positions that exist in the organizational structure of PT.Karya Jati Sejati Jombang works are as follows:

Figure 2

Organization Structure PT.Karya Jati Sejati



The following descriptions outline the authority and responsibilities that exist on the PT. Karya Jati Sejati:

1) Top Manager

Top Manager or Director of PT.Karya Jati Sejati Jombang is the owner of the company. Top managers responsible for corporate activities and the smooth development of the company's activities and conduct activities related to corporate activities both outside and into the company. Duties, responsibilities, and authority of top manager are:

- a) Lead and plan all the activities of the company's leadership in the organizational structure.
- b) Provide duties and company policies to the general manager or factory manager.
- c) As the final decision maker on issues facing the company, as well as the owner of the company is solely responsible for the survival and development of the company.
- d) Plan and implement part of the marketing of products
- e) Looking at the same time negotiating with buyers.
- f) Doing supervision routinely approximately once a week by a meeting with managers of the company.

2) Factory Manager

Carry out the tasks and policies that have been given top manager, covering the areas of:

- a) Staffing
- b) Procurement of raw materials
- c) Problems implementation sawmill
- d) Production
- e) Financial

3) Storehouse Manager

Implement policies that have given general manager, then delegate to:

- a) The administration of the production planning and control (PPC)
- b) Designing.

4) Personnel Manager

Implement policies that have been given by factory manager, that is by doing the planning, training, supervision of employees and provide duties and obligations to the programmer, personnel assistant I and II are forwarded to:

- a) The household
- b) The workshop
- c) Grinding of saws
- d) The medical
- e) The security

5) Logistics section

Logistics manager responsible for managing inventory of raw materials and supporting materials and assisted by administration logistic and RST (logs), the procurement staff.

6) Saw Mill Manager

Regulate and monitor the implementation of in the field of administration and logistics and the administration saw mill, which was forwarded directly to:

- a) The general administration saw mill
- b) The administration of sticking
- c) The arrangement of the wood
- d) The selection of wood
- e) Employees

7) Production Manager

Planning, organizing and supervision of production processes and policies as well as perform duties assigned by the general manager and then forwarded to the:

- a) Administration of the production
- b) The production of wood drying or boiler
- c) The quality control of timber and production
- d) Employees

8) Financial Manager

Performs supervision on the management of accounting, which is directly forwarded to:

- a) Section kassa
- b) The administration of accounting
- c) The tax administration
- d) The administration of export

b. Company Employees

1) Total of The Employee and Labor

Employee and labor activity at PT.Karya Jati Sejati Jombang until the collecting the data as many as 251 employees, the largest number of employees in the position of production employees as much as 180 employees, for more details can be seen in the table below:

Table 5
Total of The Employees and Labor

No	Discription	Total
1.	Top Manager	1
2.	Factory Manager	1
3.	Storehouse Manager	1
4.	Manager Personalia	1
5.	Manager Logistik	1
6.	Manager Saw Mill	1
7.	Manager Produksi	1
8.	Manager Keuangan	1
9.	Product Personal Control (PPC)	1
10.	Programmer	2
11.	Ass. Personalia I	2
12.	Ass. Personalia II	2
13.	Pengadaan	5
14.	Adm. Logistik & RST	3
15.	Adm. Produksi	4
16.	Boiler	4
17.	Quality Control	6
18.	Kassa	2
19.	Adm. Accounting	2
20.	Adm. Pajak	2
21.	Adm. Ekspor	2
22.	Adm. Saw Mill	2
23.	Adm Sticking	2
24.	Ka. Rumah Tangga	1
25.	Ka. Bengkel	1
26.	Ka. Saw Dr	1
27.	Ka. Medical	1
28.	Ka. Security	1
29.	Sticking & Grade	2
30.	Karyawan Produksi	180
Total		251

Source: PT. Karya Jati Sejati, 2010

2) The Quality of Employee and Labor

Based on the amount of labor that existed at PT.Karya Jati Sejati Jombang, if viewed from the level of formal education can be classified into several groups, starting from the level of Senior High School (SMA) as many as 191 employees, as many as 6 employees Diploma I, Diploma III as many as 12 employees, and undergraduate as many as 42 employees. The largest number is at the level of Senior High School(SMA). More detail can be seen from the following table:

Tabel 6
The Quality of Employee and Labor

Education	Total
Sarjana (S-1)	42
Diploma III (D-3)	12
Diploma I (D-1)	6
SMA	191
TOTAL	251

Source : PT. Karya Jati Sejati, 2010

3) Time Work

Working hours have been set by the company of PT. Karya Jati Sejati are as follows:

Table 7
Time Work in PT. Karya Jati Sejati

Day	Time Work	Break
Monday - Thursday	07.00 – 12.00	12.00 – 13.00
	13.00 – 16.00	
Friday	07.00 – 11.00	11.00 – 13.00
	13.00 – 16.00	
Saturday	07.00 – 12.30	

Source : PT. Karya Jati Sejati, 2010

4) Wages and Payroll System

Wage and payroll system in PT.Karya Jati Sejati, based on the type of salaries paid to employees, can be grouped into two groups, namely the monthly salary and daily salary.

a) Monthly salary or a fixed salary

Salary is given to employees on the staff of each month.

b) Daily or weekly salary

Wages are given to employees or non-regular staff employees are based on working days during the six days of work that is incidental to the employee (casual).

5. Promotion System

One of encouragement someone working at a company is an opportunity to advance, and one of opportunity for advancement within the company that is often referred to as promotional . Promotion means the raising of office that is receiving power and a greater responsibility than before.

Promotions are set at the PT.Karya Jati Sejati, because the promotion is an expected by employees, while also promoting the work can boost employee morale. Base of promotion in PT.Karya Jati Sejati is working skills and seniority. Although the promotion is done in PT.Karya Jati Sejati is not always continuous work of every year, but the promotion is often done when there are vacancies in certain positions.

6. Production

a. Types of Production

PT.Karya Jati Sejati Jombang in produce their products perform mass production, which is produced on a large scale. Production is done on a large scale is not intended to serve the order, but will soon hit the market. In addition the company also produce their products based on the order appropriate to the consumer.

In order to meet consumer demand for the products manufacture, the company produce a wide range of product manufacture. Broad range of products produced by PT. Karya Jati Sejati can be seen include:

- 1) Chairs and tables beach
- 2) The chair and garden table

- 3) Place a vase of flowers
- 4) Place of decorative lights
- 5) Ubin
- 6) Bin

b. Total Productions

The resulting product PT.Karya Jati Sejati from 2008 until 2010 has been increased. This is due to the influence of public demand for the need for household appliances. Production quantities are produced PT.Karya Jati Sejati from 2008 to 2010 can be seen in Table 2.

c. Material

The materials used for the production of PT.Karya Jati Sejati is classified into two parts, namely raw materials and auxiliary materials.

1) Raw materials

The main raw materials required in the production process of PT.Karya Jati Sejati is a teak wood. To obtain the main raw material, the company through its representatives make a purchase at auction of teak wood.

2) Auxiliary materials

Materials used in production processes, among others: glue, wood, nuts, paint.

d. The Production Process

The production process is the management of raw materials into finished goods ready to be marketed. The production process at PT.Karya Jati Sejati are as follows:

1) Grade and sticking

The process of grading the stage of selection and sorting of quality teak wood. While the process of sticking a wooden stage arrangement in accordance with the quality of teak wood.

2) Saw mill

Is a cleavage stage or sawing wood for blocks formed according to the size and qualifications that have been determined.

3) Kiln dry or open

The process continued after in blocks, ie wood drying. This process is done to get the maximum quality of teak and standard suitable for entry in the next process. Moreover the drying of wood doing than the wood before coating does not coating material take more or finishing waste.

4) Moulding

Furthermore, after obtaining a teak wood with a certain dryness level, then the next process is to establish a furniture products are manufactured by PT.Karya Jati Sejati. This process is carried out by the drafter, which is part of the drawing shapes the products PT.Karya Jati Sejati.

5) Double end

The short length of wood cutting process in accordance with the product to be assembled, wood cutting process must be accurate. Because it's certainly cutting process uses a machine so that the size of the wood after the cut the same.

6) Assembling

This process is the assembly stage the wood that has been through the previous stages. This assembly line with wood forms received from the previous process to be assembled in such a way that it becomes the form of a product.

7) Finishing

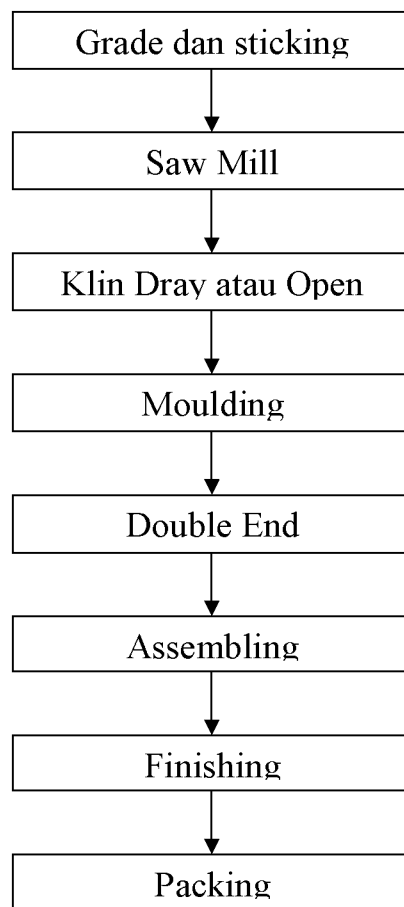
This stage is a teak wood coatings by using melamine or paint materials.

8) Packing

The final stage before the product is marketed both in domestic and abroad is the process of packaging a product which must be sent in the form of assemblies.

Figure of the production process in PT.Karya Jati Sejati.

Figure 3
Production Process PT.Karya Jati Sejati



Source: PT.Karya Jati Sejati, 2010

7. Marketing

Competition level of similar products produced by several other companies are very strict, which resulted in a limited market opportunities. Important way to deal with these limitations, companies are required to be more observant and able to read and analyze the market situation and seek a more potent marketing areas. Marketing areas PT.Karya Jati Sejati has been covering the work of foreign and domestic markets. Among the overseas markets are Britain, America, Spain and South Africa, while the domestic market of Bali and Central Java.

8. Fixed Asset

Based on the list of fixed assets owned by the company until December 31, 2010, fixed assets here, can be classified as follows:

Table 8
List of Fixed Asset PT. Karya Jati Sejati

No	Fixed Asset	Economies Value (Years)	Book Value per 31 Desember 2010 (Rupiah)
1	Building	20 year	706.808.556
2	Machine and Instalation		
	a. Instalation PLN/ Telepon	8 year	66.000.000
	b. Bandsaw mechine	8 year	62.282.477
	c. Planer mechine	8 year	99.917.273
	d. Ripsaw mechine	8 year	49.454.700
	e. Moulding mechine	8 year	1.194.774.216
	f. Cross Cut mechine	8 year	72.620.000
	g. Spindle mechine	8 year	346.143.409
	h. Double End mechine	8 year	464.880.000
	i. Tenorer mechine	8 year	119.272.726
	j. Boring mechine	8 year	528.716.461
	k. Router mechine	8 year	55.164.958
	l. Sanding mechine	8 year	22.342.500
	m. Press mechine	8 year	87.354.505
	n. Bubut mechine	8 year	650.000
	o. Laminating	8 year	205.474.909
	p. Straping Belt mechine	8 year	8.300.000
3.	Total of office inventory	8 year	131.579.950
4.	Vehicles	4 year	766.070.000
	Total fixed asset		4.987.806.640

Source: processed data

Based on the table 8 it can be concluded that the condition of the assets of PT.Karya Jati Sejati in December 31, 2010 totaled Rp 4.987.806.640. From the table 8 is greatest molding machine with book value Rp1.194.774.216, the second is a vehicle with book value Rp766.070.000, and the third is a building with a book value Rp706.808.556, and the rest Rp2.320.153.868 machines and installations comprised

PLN / phone, Bandsaw, planer, ripsaw, cross cut, spindle, double end, tenorer, boring, router, sanding, press, lathe, laminating, straping belt, and office inventory.

B. Data Analysis and Interpretation

1. Analysis of Fixed Asset

In carrying out its operations the company requires fixed assets in the form of buildings, machinery, inventory, vehicles and other fixed assets as facilities and infrastructure for these activities run smoothly. List of fixed assets owned by PT.Karya Jati Sejati can be seen in Table 8. From Table 8 shows that the condition of fixed assets PT.Karya Jati Sejati until December 31, 2010 totaled Rp4.987.806.640. Based on the table 8 it can be seen that the types of assets molding machines and installations that have the greatest book value. From the data on fixed assets molding machine company until December 31, 2010, it can be made classification type and age of fixed assets. The following table will give the classification of the type and age of the fixed assets.

Table 9
Classifications of the types and age of Moulding Machine
PT. Karya Jati Sejati
Per Desember 31, 2010

No	Fixed Asset	Total	Year of acquisitions	age (years)
1.	Moulder Weining I	1 unit	1996	15
2.	Moulder Weining II	1 unit	1997	14
3.	Moulder Weining III	1 unit	1998	13
4.	Auto Power Feeder	1 unit	2007	4
5.	Manual Finger Joint	1 unit	2007	4
6.	Finger Joint Shapper	1 unit	2008	3
7.	Glue Spreeder	1 unit	2009	2

Source: processed data

Based on the table 9 it can be concluded that there are three fixed assets molding machine which have a useful of more than 8 years, it is moulder Weining I have a useful 15 years, moulder Weining II have a useful 14 years, and moulder Weining III have a useful 13 years. While for have 4 years there were two machines Moulding namely Auto and Manual Power Feeder Finger Joint, which have a useful three years of Finger Joint Shapper, and who has 2 years of Glue Spreeder.

This shows that there are three kinds of assets of type Moulding machines which have a useful of assets that exceed its economic value. This asset that has exceeded its economic value is no longer feasible is used for operating activities because it expiration of the economic and book value at the end of 2010 and can not be used again. Type of Moulding machine has a fairly important function is as a tool

to form a furniture products are produced by PT.Karya Jati Sejati. If there are constraints on the formation of the product it will affect to the outcome of the product itself, so as to smooth the process of formation of a product in the year 2011 the company need new Moulding machine.

2. The determination of Amount of Fund

Fixed assets are included in this type of Moulding is Moulder Weining I, II, and III is a tool to form a product which produced by PT.Karya Jati Sejati. This tool is one of the important tool in the process of formation of a product. The success of a product depends on all this three machines, therefore, the resulting product to be perfect, these assets must be in good condition.

The company plans to procure new Moulding mechine because the existing mechine can not be used again and its economic value depleted, thus the need for procurement of assets. In order procurement of these assets, then the total funds needed from the three assets of the type of Moulding machine Rp600.000.000 (Moulder Weining I Rp200.000.000, Moulder Weining II Rp200.000.000 and Moulder Weining III Rp200.000.000)

3. Source of Fund

Source of funding on PT.Karya Jati Sejati mostly using sources of external funding. In the financing of fixed assets when less than Rp100.000.000 using internal

funds, but if more than Rp100.000.000 that using external funds. The external sources of financing to procure that machines has two alternative, they are:

- a. Long-term debt financing.
- b. Lease financing.

Financing lease and long-term debt have the same cash flow characteristics. Cash flow from both financing is annuity cash flow, but have different tax effects as a result of decreased interest expense and depreciation on debt, while at lease expense to has the tax effects are fixed each the end of period. Besides the reasons for these characteristics the level of ease or difficulty of the maintenance process procedures leasing and debt is relatively different. To find out which one source of funding more favorable so that given the following analysis of the two alternative funding sources.

a. Source of Funding With Long Term Debt

The Great funding requirements for the procurement of Moulding Machine in PT.Karya Jati Sejati with alternative debt is Rp600.000.000. Interest rate applicable is 14.76% per annum or 1.23% per month with the loan for 5 years. Installment payment made each month for 60 times the payment. Moulding machine have economic value for 8 years, with no residual value and depreciated using the straight-line method. Depreciation is computed using the straight-line method, namely:

$$\begin{aligned} \text{Depreciation per monthly} &= \frac{\text{Rp600.000.000}}{96} \\ &= \text{Rp6.250.000} \end{aligned}$$

So the amount of depreciation each month is for Rp6.250.000.

$$\begin{aligned} \text{Depreciation during 5 years} &= 60 \times \text{Rp}6.250.000 \\ &= \text{Rp}375.000.000 \end{aligned}$$

The amount of depreciation during 5 years is Rp375.000.000 so book value of Moulding machine at the end of the fifth year that is equal to:

$$\begin{aligned} \text{Book value of the 5 year} &= \text{Rp}600.000.000 - \text{Rp}375.000.000 \\ &= \text{Rp}225.000.000 \end{aligned}$$

Tax rate to be used in the calculation is 12.5% based on Income Tax of Institutions (PPH atas badan Pasal 17 dan Pasal 31e UU Nomor 36 tahun 2008).

As for the administrative costs implied by the banks was 1.5% of the loan.

$$\begin{aligned} \text{Administration Cost} &= \text{Rp}600.000.000 \times 1,5\% \\ &= \text{Rp}9.000.000 \end{aligned}$$

Installment of loans to be paid each month are:

$$\begin{aligned} \text{Installment of loan each month} &= \frac{\text{total payment}}{PVIFA (i,n)} \\ &= \frac{\text{Rp}600.000.000}{PVIFA ((1,23\%).60 \text{ month})} \\ &= \text{Rp } 14,198,482.18 \end{aligned}$$

So the installment every month is Rp 14,198,482.18

The discount rate used for to discount cash flows after tax is interest rate of loan after adjusted for taxes:

$$\begin{aligned}\text{Discont Rate} &= i (1 - t) \\ &= 0,0123 (1 - 12.5\%) \\ &= 0,0123 (0,875) \\ &= 0,0107625 \\ &= 1.07625\% / \text{month}\end{aligned}$$

Once known discount rate, then make a schedule of installment of loan principal and interest payments on debt and calculation of the cash flow as follows:

Table 10

Schedule of Loan Payment (in Rupiah)					
Month (1)	Principal Loan (2)	Installment/ Month (3)	Interest (4) (2)x0,0123	Installment of principle loan (5)=(3)-(4)	The rest of principle loan (6)=(2)-(5)
1	600,000,000.0	14,198,482.2	7,380,000.0	6,818,482.2	593,181,517.8
2	593,181,517.8	14,198,482.2	7,296,132.7	6,902,349.5	586,279,168.3
3	586,279,168.3	14,198,482.2	7,211,233.8	6,987,248.4	579,291,919.9
4	579,291,919.9	14,198,482.2	7,125,290.6	7,073,191.6	572,218,728.3
5	572,218,728.3	14,198,482.2	7,038,290.4	7,160,191.8	565,058,536.5
6	565,058,536.5	14,198,482.2	6,950,220.0	7,248,262.2	557,810,274.3
7	557,810,274.3	14,198,482.2	6,861,066.4	7,337,415.8	550,472,858.5
8	550,472,858.5	14,198,482.2	6,770,816.2	7,427,666.0	543,045,192.5
9	543,045,192.5	14,198,482.2	6,679,455.9	7,519,026.3	535,526,166.2
10	535,526,166.2	14,198,482.2	6,586,971.8	7,611,510.3	527,914,655.9
11	527,914,655.9	14,198,482.2	6,493,350.3	7,705,131.9	520,209,523.9
12	520,209,523.9	14,198,482.2	6,398,577.1	7,799,905.0	512,409,618.9
13	512,409,618.9	14,198,482.2	6,302,638.3	7,895,843.9	504,513,775.0
14	504,513,775.0	14,198,482.2	6,205,519.4	7,992,962.7	496,520,812.3
15	496,520,812.3	14,198,482.2	6,107,206.0	8,091,276.2	488,429,536.1
16	488,429,536.1	14,198,482.2	6,007,683.3	8,190,798.9	480,238,737.2
17	480,238,737.2	14,198,482.2	5,906,936.5	8,291,545.7	471,947,191.5
18	471,947,191.5	14,198,482.2	5,804,950.5	8,393,531.7	463,553,659.8
19	463,553,659.8	14,198,482.2	5,701,710.0	8,496,772.2	455,056,887.6
20	455,056,887.6	14,198,482.2	5,597,199.7	8,601,282.5	446,455,605.2
21	446,455,605.2	14,198,482.2	5,491,403.9	8,707,078.2	437,748,526.9
22	437,748,526.9	14,198,482.2	5,384,306.9	8,814,175.3	428,934,351.6
23	428,934,351.6	14,198,482.2	5,275,892.5	8,922,589.7	420,011,762.0
24	420,011,762.0	14,198,482.2	5,166,144.7	9,032,337.5	410,979,424.5

25	410,979,424.5	14,198,482.2	5,055,046.9	9,143,435.3	401,835,989.2
26	401,835,989.2	14,198,482.2	4,942,582.7	9,255,899.5	392,580,089.7
27	392,580,089.7	14,198,482.2	4,828,735.1	9,369,747.1	383,210,342.6
28	383,210,342.6	14,198,482.2	4,713,487.2	9,484,995.0	373,725,347.6
29	373,725,347.6	14,198,482.2	4,596,821.8	9,601,660.4	364,123,687.2
30	364,123,687.2	14,198,482.2	4,478,721.4	9,719,760.8	354,403,926.4
31	354,403,926.4	14,198,482.2	4,359,168.3	9,839,313.9	344,564,612.5
32	344,564,612.5	14,198,482.2	4,238,144.7	9,960,337.4	334,604,275.1
33	334,604,275.1	14,198,482.2	4,115,632.6	10,082,849.6	324,521,425.5
34	324,521,425.5	14,198,482.2	3,991,613.5	10,206,868.6	314,314,556.8
35	314,314,556.8	14,198,482.2	3,866,069.0	10,332,413.1	303,982,143.7
36	303,982,143.7	14,198,482.2	3,738,980.4	10,459,501.8	293,522,641.9
37	293,522,641.9	14,198,482.2	3,610,328.5	10,588,153.7	282,934,488.2
38	282,934,488.2	14,198,482.2	3,480,094.2	10,718,388.0	272,216,100.2
39	272,216,100.2	14,198,482.2	3,348,258.0	10,850,224.1	261,365,876.1
40	261,365,876.1	14,198,482.2	3,214,800.3	10,983,681.9	250,382,194.2
41	250,382,194.2	14,198,482.2	3,079,701.0	11,118,781.2	239,263,413.0
42	239,263,413.0	14,198,482.2	2,942,940.0	11,255,542.2	228,007,870.8
43	228,007,870.8	14,198,482.2	2,804,496.8	11,393,985.4	216,613,885.4
44	216,613,885.4	14,198,482.2	2,664,350.8	11,534,131.4	205,079,754.0
45	205,079,754.0	14,198,482.2	2,522,481.0	11,676,001.2	193,403,752.8
46	193,403,752.8	14,198,482.2	2,378,866.2	11,819,616.0	181,584,136.8
47	181,584,136.8	14,198,482.2	2,233,484.9	11,964,997.3	169,619,139.5
48	169,619,139.5	14,198,482.2	2,086,315.4	12,112,166.8	157,506,972.7
49	157,506,972.7	14,198,482.2	1,937,335.8	12,261,146.4	145,245,826.3
50	145,245,826.3	14,198,482.2	1,786,523.7	12,411,958.5	132,833,867.8
51	132,833,867.8	14,198,482.2	1,633,856.6	12,564,625.6	120,269,242.2
52	120,269,242.2	14,198,482.2	1,479,311.7	12,719,170.5	107,550,071.7
53	107,550,071.7	14,198,482.2	1,322,865.9	12,875,616.3	94,674,455.4

54	94,674,455.4	14,198,482.2	1,164,495.8	13,033,986.4	81,640,469.0
55	81,640,469.0	14,198,482.2	1,004,177.8	13,194,304.4	68,446,164.6
56	68,446,164.6	14,198,482.2	841,887.8	13,356,594.4	55,089,570.3
57	55,089,570.3	14,198,482.2	677,601.7	13,520,880.5	41,568,689.8
58	41,568,689.8	14,198,482.2	511,294.9	13,687,187.3	27,881,502.5
59	27,881,502.5	14,198,482.2	342,942.5	13,855,539.7	14,025,962.8
60	14,025,962.8	14,198,482.2	172,519.3	14,025,962.8	(0.0)

Source: Processed Data

Table 11

Schedule of Cash Flow in Long Term Debt (in Rupiah)							
Month (1)	Installment/loan (2)	Interest (3)	Depreciation (4)	Tax Saving (5)=(3+4)x0.125	PVIF (6)= 1.07625%	PV Tax Saving (7)=(5)x(6)	PV Cash Outflow (8)=(2)x(6)
1	14,198,482.18	7,380,000.00	6,250,000.00		0.989352098		14,047,298.13
2	14,198,482.18	7,296,132.67	6,250,000.00		0.978817574		13,897,723.88
3	14,198,482.18	7,211,233.77	6,250,000.00		0.96839522		13,749,742.28
4	14,198,482.18	7,125,290.61	6,250,000.00		0.958083843		13,603,336.37
5	14,198,482.18	7,038,290.36	6,250,000.00		0.94788226		13,458,489.38
6	14,198,482.18	6,950,220.00	6,250,000.00		0.937789303		13,315,184.70
7	14,198,482.18	6,861,066.37	6,250,000.00		0.927803814		13,173,405.92
8	14,198,482.18	6,770,816.16	6,250,000.00		0.91792465		13,033,136.79
9	14,198,482.18	6,679,455.87	6,250,000.00		0.908150679		12,894,361.23
10	14,198,482.18	6,586,971.84	6,250,000.00		0.898480779		12,757,063.33
11	14,198,482.18	6,493,350.27	6,250,000.00		0.888913844		12,621,227.37
12	14,198,482.18	6,398,577.14	6,250,000.00		0.879448776		12,486,837.78
Total	170,381,786.16	82,791,405.07	75,000,000.00	19,723,925.63	0.879448776	17,346,182.26	149,842,053.36
Present Value Cash Outflow I							132,495,871.10
13	14,198,482.18	6,302,638.31	6,250,000.00		0.870084492		12,353,879.16
14	14,198,482.18	6,205,519.43	6,250,000.00		0.860819918		12,222,336.26
15	14,198,482.18	6,107,205.99	6,250,000.00		0.851653992		12,092,194.02
16	14,198,482.18	6,007,683.29	6,250,000.00		0.842585663		11,963,437.53
17	14,198,482.18	5,906,936.47	6,250,000.00		0.833613894		11,836,052.02
18	14,198,482.18	5,804,950.46	6,250,000.00		0.824737655		11,710,022.90
19	14,198,482.18	5,701,710.02	6,250,000.00		0.815955929		11,585,335.72
20	14,198,482.18	5,597,199.72	6,250,000.00		0.80726771		11,461,976.20
21	14,198,482.18	5,491,403.94	6,250,000.00		0.798672003		11,339,930.20
22	14,198,482.18	5,384,306.88	6,250,000.00		0.790167822		11,219,183.74
23	14,198,482.18	5,275,892.52	6,250,000.00		0.781754192		11,099,722.97

24	14,198,482.18	5,166,144.67	6,250,000.00		0.77343015		10,981,534.21
Total	170,381,786.16	68,951,591.71	75,000,000.00	17,993,948.96	0.77343015	13,917,062.65	131,778,410.49
Present Value Cash Outflow II							117,861,347.84
25	14,198,482.18	5,055,046.92	6,250,000.00		0.765194742		10,864,603.91
26	14,198,482.18	4,942,582.67	6,250,000.00		0.757047023		10,748,918.67
27	14,198,482.18	4,828,735.10	6,250,000.00		0.748986061		10,634,465.24
28	14,198,482.18	4,713,487.21	6,250,000.00		0.741010931		10,521,230.50
29	14,198,482.18	4,596,821.78	6,250,000.00		0.733120719		10,409,201.46
30	14,198,482.18	4,478,721.35	6,250,000.00		0.725314521		10,298,365.31
31	14,198,482.18	4,359,168.29	6,250,000.00		0.717591444		10,188,709.32
32	14,198,482.18	4,238,144.73	6,250,000.00		0.7099506		10,080,220.95
33	14,198,482.18	4,115,632.58	6,250,000.00		0.702391116		9,972,887.74
34	14,198,482.18	3,991,613.53	6,250,000.00		0.694912124		9,866,697.41
35	14,198,482.18	3,866,069.05	6,250,000.00		0.687512768		9,761,637.78
36	14,198,482.18	3,738,980.37	6,250,000.00		0.680192199		9,657,696.82
Total	170,381,786.16	52,925,003.60	75,000,000.00	15,990,625.45	0.680192199	10,876,698.69	115,892,361.86
Present Value Cash Outflow III							105,015,663.17
37	14,198,482.18	3,610,328.50	6,250,000.00		0.67294958		9,554,862.61
38	14,198,482.18	3,480,094.20	6,250,000.00		0.665784078		9,453,123.37
39	14,198,482.18	3,348,258.03	6,250,000.00		0.658694875		9,352,467.44
40	14,198,482.18	3,214,800.28	6,250,000.00		0.651681156		9,252,883.29
41	14,198,482.18	3,079,700.99	6,250,000.00		0.644742119		9,154,359.49
42	14,198,482.18	2,942,939.98	6,250,000.00		0.637876968		9,056,884.77
43	14,198,482.18	2,804,496.81	6,250,000.00		0.631084917		8,960,447.95
44	14,198,482.18	2,664,350.79	6,250,000.00		0.624365187		8,865,037.98
45	14,198,482.18	2,522,480.97	6,250,000.00		0.617717007		8,770,643.92
46	14,198,482.18	2,378,866.16	6,250,000.00		0.611139617		8,677,254.97
47	14,198,482.18	2,233,484.88	6,250,000.00		0.604632263		8,584,860.41
48	14,198,482.18	2,086,315.42	6,250,000.00		0.598194197		8,493,449.65
Total	170,381,786.16	34,366,117.01	75,000,000.00	13670764.63	0.598194197	8177772.075	101,921,395.84

Present Value Cash Outflow IV							93,743,623.76
49	14,198,482.18	1,937,335.76	6,250,000.00		0.591824684		8,403,012.23
50	14,198,482.18	1,786,523.66	6,250,000.00		0.585522993		8,313,537.78
51	14,198,482.18	1,633,856.57	6,250,000.00		0.579288402		8,225,016.05
52	14,198,482.18	1,479,311.68	6,250,000.00		0.573120196		8,137,436.88
53	14,198,482.18	1,322,865.88	6,250,000.00		0.567017668		8,050,790.25
54	14,198,482.18	1,164,495.80	6,250,000.00		0.560980119		7,965,066.23
55	14,198,482.18	1,004,177.77	6,250,000.00		0.555006858		7,880,254.98
56	14,198,482.18	841,887.82	6,250,000.00		0.549097199		7,796,346.80
57	14,198,482.18	677,601.71	6,250,000.00		0.543250466		7,713,332.07
58	14,198,482.18	511,294.88	6,250,000.00		0.537465989		7,631,201.26
59	14,198,482.18	342,942.48	6,250,000.00		0.531743103		7,549,944.98
60	14,198,482.18	172,519.34	6,250,000.00		0.526081155		7,469,553.91
Total	170,381,786.16	12,874,813.38	75,000,000.00	10,984,351.67	0.526081155	5,778,660.42	89,634,646.86
Present Value Cash Outflow V							83,855,986.45
Present Value Cash Outflow Tahun I until V							532,972,492.31
Book Value of 5 year 225.000.000 x 0,526081155							118,368,259.90
Administrative cost							9,000,000.00
Total Present Value Cash Outflow							423,604,232.41

Source: Processed Data

b. Source of Fund with Lease

PT. Karya Jati Sejati in the procurement of fixed assets can use lease financing alternative. The requirements must be met if the procurement of fixed assets using finance leases with reference to the Otto Finance leasing company as lessor are:

- 1) Copy of ID card (directors and managers)
- 2) Copy of current account or financial report
- 3) Copy of deed
- 4) Copy of NPWP

The Great funding requirements for the leasing is Rp600.000.000 with a down payment of 10% is determined by the lessor. Interest rates of 27.6% per year (2.3% / month) with a lease period of 5 years (60 months). Lease payments conducted every end of the month. Following the calculation of lease payments every month.

$$\begin{aligned} \text{Down payment} &= 10\% \times \text{Rp}600.000.000 \\ &= \text{Rp}60.000.000 \\ \text{Lease payment} &= (\text{Rp}600.000.000 \times (1-10\%)) - \text{PV residual} \\ &\quad \text{value fixed asset} \\ &= \text{Rp}540.000.000 - (\text{Rp}225.000.000 \times (1+0,023)^{-60}) \\ &= \text{Rp}540.000.000 - \text{Rp}57.496.908,67 \\ &= \text{Rp}482.503.091,3 \end{aligned}$$

While the amount of monthly lease cost is:

$$\begin{aligned}\text{Lease Payment/month} &= \frac{\text{Total payment}}{\text{PVIFA}((2,3\%).60\text{month})} \\ &= \frac{\text{Rp}482.503.091,3}{\text{PVIFA}((2,3\%).60\text{month})} \\ &= \text{Rp}14.906.909,94\end{aligned}$$

So the amount of the obligation of the lessee every month Rp14.906.909,94 and down payment of Rp60.000.000. The discount rate used for to discount cash flows after tax is the applicable interest rate loans, amounting to 14.76% per year (1.23% / month) with a tax rate of 12.5%.

$$\begin{aligned}\text{Discount rate} &= i(1-t) \\ &= 0,0123(1-12,5\%) \\ &= 0,0123(0,875) \\ &= 0,0107625 \\ &= 1,07625\% / \text{month}\end{aligned}$$

Then make a schedule of installment of lease and interest payments on financing lease and calculation of the cash flow as follows:

Table 12						
Schedule of Cash Flow in Leasing (in Rupiah)						
Month (1)	Down Payment (2)	Lease Payment (3)	Tax Saving (4)=0.125x(3)	PVIF (5)= 1.07625%	PV Tax Saving (6)=(4)x(5)	PV cash outflow (7)=(3)x(5)
0	60,000,000.00					60,000,000.00
1		14,906,909.94		0.9893521		14,748,182.62
2		14,906,909.94		0.97881757		14,591,145.42
3		14,906,909.94		0.96839522		14,435,780.34
4		14,906,909.94		0.95808384		14,282,069.56
5		14,906,909.94		0.94788226		14,129,995.49
6		14,906,909.94		0.9377893		13,979,540.68
7		14,906,909.94		0.92780381		13,830,687.90
8		14,906,909.94		0.91792465		13,683,420.09
9		14,906,909.94		0.90815068		13,537,720.38
10		14,906,909.94		0.89848078		13,393,572.06
11		14,906,909.94		0.88891384		13,250,958.62
12		14,906,909.94		0.87944878		13,109,863.71
Total		178,882,919.28	22,360,364.91	0.87944878	19,664,795.56	166,972,936.86
Present Value Cash Outflow I						147,308,141.30
13		14,906,909.94		0.87008449		12,970,271.16
14		14,906,909.94		0.86081992		12,832,164.99
15		14,906,909.94		0.85165399		12,695,529.35
16		14,906,909.94		0.84258566		12,560,348.60
17		14,906,909.94		0.83361389		12,426,607.24
18		14,906,909.94		0.82473765		12,294,289.95
19		14,906,909.94		0.81595593		12,163,381.55
20		14,906,909.94		0.80726771		12,033,867.06
21		14,906,909.94		0.798672		11,905,731.62
22		14,906,909.94		0.79016782		11,778,960.56
23		14,906,909.94		0.78175419		11,653,539.34

24		14,906,909.94		0.77343015		11,529,453.60
Total		178,882,919.28	22,360,364.91	0.77343015	17,294,180.39	146,844,145.02
Present Value Cash Outflow II						129,549,964.62
25		14,906,909.94		0.76519474		11,406,689.10
26		14,906,909.94		0.75704702		11,285,231.80
27		14,906,909.94		0.74898606		11,165,067.76
28		14,906,909.94		0.74101093		11,046,183.21
29		14,906,909.94		0.73312072		10,928,564.53
30		14,906,909.94		0.72531452		10,812,198.25
31		14,906,909.94		0.71759144		10,697,071.02
32		14,906,909.94		0.7099506		10,583,169.66
33		14,906,909.94		0.70239112		10,470,481.11
34		14,906,909.94		0.69491212		10,358,992.45
35		14,906,909.94		0.68751277		10,248,690.91
36		14,906,909.94		0.6801922		10,139,563.86
Total		178,882,919.28	22,360,364.91	0.6801922	15,209,345.79	129,141,903.66
Present Value Cash Outflow III						113,932,557.87
37		14,906,909.94		0.67294958		10,031,598.78
38		14,906,909.94		0.66578408		9,924,783.30
39		14,906,909.94		0.65869487		9,819,105.18
40		14,906,909.94		0.65168116		9,714,552.31
41		14,906,909.94		0.64474212		9,611,112.71
42		14,906,909.94		0.63787697		9,508,774.52
43		14,906,909.94		0.63108492		9,407,526.02
44		14,906,909.94		0.62436519		9,307,355.61
45		14,906,909.94		0.61771701		9,208,251.80
46		14,906,909.94		0.61113962		9,110,203.24
47		14,906,909.94		0.60463226		9,013,198.68
48		14,906,909.94		0.5981942		8,917,227.03
Total		178,882,919.28	22,360,364.91	0.5981942	13,375,840.54	123,082,463.68

	Present Value Cash Outflow IV					109,706,623.14
49		14,906,909.94		0.59182468		8,822,277.27
50		14,906,909.94		0.58552299		8,728,338.53
51		14,906,909.94		0.5792884		8,635,400.03
52		14,906,909.94		0.5731202		8,543,451.14
53		14,906,909.94		0.56701767		8,452,481.31
54		14,906,909.94		0.56098012		8,362,480.12
55		14,906,909.94		0.55500686		8,273,437.25
56		14,906,909.94		0.5490972		8,185,342.50
57		14,906,909.94		0.54325047		8,098,185.78
58		14,906,909.94		0.53746599		8,011,957.09
59		14,906,909.94		0.5317431		7,926,646.55
60		14,906,909.94		0.52608116		7,842,244.40
Total		178,882,919.28	22,360,364.91	0.52608116	11,763,366.60	99,882,241.97
Present Value Cash Outflow V						88,118,875.37
Total Present Value Cash Outflow I until V						588,616,162.30

Source: Processed Data

4. Funding Decision

The determination alternative sources of funding of the most profitable for the company carried out by the method of Net Present Value (NPV). This method is performed by comparing Present Value (PV) net cash outflow from debt and leasing alternatives, then the known ratio of present value net cash outflow from source alternative sources of funds, as follows:

PV Cash outflow with debt	: Rp423,604,232.41
PV Cash outflow with lease	:Rp588,616,162.30
	<hr/>
	Rp165,011,929.90

Comparison of PV net cash outflow shows that the net cash outflow from PV debt is smaller than the PV net cash outflow from lease. Therefore, sources of long term debt is more profitable for companies than sources of financing lease. This is because the PV of net cash outflow was analyzed cash outflow, so the PV of cash outflow a smaller and it will give the profit for PT.Karya Jati Sejati.

So if PT.Karya Jati Sejati using long term debt in the procurement of fixed assets, the company will earn a saving of Rp165,011,929.90 instead of using debt financing sources.

CHAPTER V

CONCLUSION

A. Conclusion

1. Based on the data that has been analyzed, it can be concluded that the policy PT.Karya Jati Sejati policy in determining the source of funding in the procurement of fixed assets are mostly using sources of external funding. In the procurement of fixed assets when the fixed assets of less than Rp100.000.000 using internal resources, but if more than that Rp100.000.000 uses an external fund sources.
2. Based on the results of comparative analysis of leasing and financing long-term debt in the procurement of fixed assets that are most profitable funding for PT.Karya Jati Sejati is long term debt. Because PT.Karya Jati Sejati can make savings fund rather than using the alternative financing lease. Selection of this funding the most profitable for PT.Karya Jati Sejati selected using analysis of Net Present Value (NPV). Net Present Value (NPV) of cash flow long term debt is smaller than NPV cash flow financing lease. It is within the framework of the procurement of fixed assets which the company plans to procure new Moulding machines caused by conditions that can not be used again and its economic value has been exhausted, so the need for the procurement of fixed assets. With total funding needed is for Rp600.000.000.

B. Suggestion

1. From the calculation between long-term debt and lease so PT.Karya Jati Sejati should be choose to use debt. This is because the debt can save the money compared to financing lease.
2. In selecting debt, PT.Karya Jati Sejati should be use some alternative bank to borrow some money that offers small interest.

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PT. KARYA JATI SEJATI
 Manufacturer of Wood Products

SURAT KETERANGAN
No. 001/ Person/ KJS/ I/ 2012

Yang bertandatangan dibawah ini Pimpinan Perusahaan PT. KARYA JATI SEJATI Jombang, menerangkan bahwa :

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Telah melaksanakan penelitian riset di Perusahaan PT KARYA JATI SEJATI Jombang dalam rangka menyelesaikan tugas akhir/ skripsi dengan judul :

“ Comparative Analysis Between Financing Lease and Long Term Debt in Procurement of Fixed Asset. “ (Case Study at PT. Karya Jati Sejati Manufacture of wood products, Jombang)

Demikian surat keterangan ini dibuat untuk dipergunakan sebagaimana mestinya.

Jombang, 19 Januari 2012

A.n. Pimpinan Perusahaan

PT. Karya Jati Sejati Jombang,



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