repository.ub.ac.id

CHAPTER II
REVIEW OF RELATED LITERATURE

A. Accounting System

1. The Definition of System and Procedure

In discussing accounting system, it should be distinguished between the definition of systems and procedures. There are some opinions expressed by experts on definition of accounting systems and procedures. According to Romney & Steinbart (2000:2) "a system is a set of two or more interrelated components that interact to achieve a goal. Systems are almost always composed of smaller subsystems, each performing a specific function important to and supportive of the larger system of which it is a part". A system is a group of elements that are integrated with the common purpose of achieving an objective" (McLeod & Schell, 2001:9).

According to Post & Anderson (2003:5 and 602) the definition of procedures are" instructions that help people use the systems. They include items such as user manuals, documentation, and procedures to ensure that backups are made regularly. System is a collection of interrelated objects that work toward some goal". O'Brien & Marakas (2008:602-605) stated the definition of procedure and system are:

Procedures is sets of instructions used by people to complete a task.

System are:

a. A group of interrelated of interacting elements forming a unified whole.

b. a group of interrelated components working together toward a
common goal by accepting inputs and producing outputs in an organized transformation process.

c. an assembly of methods, procedures or techniques unified by regulated interaction to form an organized whole.

d. an organized collection of people, machines, and methods required to accomplish a set of specific functions.

UNIVERSITAS BRAWIJAYA

According to some definitions above, a conclusion can be drawn, that the system is an interconnected network of procedures and interact in order to achieve certain goals, meanwhile the procedure is sets of instructions used by people to complete a task.

2. Definition of Accounting System

There are several arguments related with the definition of accounting system. According to Reeve, Warren, & Duchac (2008:204) an accounting system is “the methods and procedures for collecting, classifying, summarizing and reporting a business’s financial and operating information”. Another definition from Boynton, Johnson, & Kell (2001:334) stated that “accounting system consist of the methods and records established to identify, assemble, analyze, classify, record, and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets and liabilities”. It can be concluded that accounting system is the methods to collect, classify, summarize, analyze, record and report the business financial and operation information.

3. The Importance of Accounting System

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

a. accounting systems are important because they extend throughout the company and because they focus on money.

b. they are used to collect data and evaluate performance.

c. accounting systems also enable managers to combine the many divisions into an integrated picture of the entire company.

d. accounting systems also provide controls over the data to ensure accuracy and to prevent fraud.

e. the primary purpose of accounting is to collect the financial data of the firm, ensure that it is accurate, and create standard reports. It is hard to capture all of the elements of an accounting system in one illustration.

repository.ub.ac.id UNIVERSITAS BRAWIJAYA

4. Preparation Steps of the Accounting System

As time goes by and the accounting system implemented by a company have a limited period, then the accounting system should be improved and developed as technology advances and the needs of companies concerned, so it can produce reliable financial statements. It also must held realignment of the accounting system owned by a company. According to Reeve, Warren, & Duchac (2008:204-205), accounting systems evolve through a three-step process as a business grows and changes:

a. the first in this process is analysis.

Which is consists of:

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

b. in the second step, the system is designed so that it will meet the user's needs.

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

c. finally the system is implemented and used.

Once a system has been implemented, feedback, or input, from the users of the information can be used to analyze and improve the system.

5. Processing Methods

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

a. Manual Accounting System

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

General ledger, subsidiary ledger, journals and special journals are used in manual accounting system.

b. Computerized Accounting System

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

B. wages and salary accounting system

1. what is salary? What is wages?
2. organization structure related
3. network procedures (flowchart)
4. form use

B. Cash Disbursement Accounting System

1. Definition of Cash

Cash is the most liquid asset because cash is a medium of exchange. “the cash is a record of the cash affects of a business’s transactions. Cash includes money and any medium of exchange that a bank accepts at face value, such as bank account balances, paper currency, coins, certificates of deposits, and checks” (Horngren, Harrison, & Bamber, 2002:39). Libby, Libby, & Short (2001:319), stated that “cash defined as money or any instrument that banks will accept for deposit and immediate credit to the company’s account, such as a check, money order, or bank draft. Cash excludes such items as notes receivable and postage stamps (a prepaid expense).”

repository.ub.ac.id UNIVERSITAS BRAWIJAYA

Increasing, cash consist of electronic impulses with no paper checks or deposit slips. Cash is easy to conceal, easy to move, and relatively easy to steal. Cash is the asset most likely to be diverted and used improperly by employees because of the ease with which money also can be transferred. In addition, many transactions either directly or indirectly affect the receipt or the payment of cash, therefore businesses must design and use controls that safeguard cash and control the authorization of cash transactions.

Effective cash management involves more than protecting cash from theft, fraud or loss through carelessness. The good cash management cash increase the safety of the cash itself. The more good cash management, the more safe of the cash. According to Libby, Libby, & Short (2001:319), other cash management responsibilities include:

a. accurate accounting so that reports of cash flows and balances may be prepared.

b. controls to ensure that enough cash is on hand to meet: current operating needs, maturing liabilities and unexpected emergencies.

c. prevention of the accumulation of excess amounts of idle cash. Idle cash earns no revenue; there, it is often invested in securities to earn revenue (return) pending future need for the cash.

2. Definition of Cash Disbursement Accounting System

According to Hall (2011:225), “the cash disbursements system processes the payment of obligations created in the purchases system. The principal objective of this system is to ensure that only valid creditors receive payment and the amounts paid are timely and correct”. Another definition according to Blazek (2008:140), “a disbursement system serves to make certain that disbursements are made only for goods or services that are known to have been received and for other purposes that have been properly authorized. Disbursement should be made only after appropriate supporting documenting have been reviewed and approved”. It can be concluded from the definitions above that the cash disbursement accounting system is a system of cash disbursement or payment in order to pay off approved company’s debt and

then also record the expenditures that has already occurred. The company can disburse the money by cash, check or by using banking services such as by Electronic Funds Transfer (EFT) that today is commonly used by every company when the payment must be transferred to the creditor account.

3. **Related Function**

Related function to the cash disbursement in accounting system according to Boynton, Johnson, & Kell (2001:649) are:

a. The cash disbursement functions. The process by which a company provides consideration for the receipt of goods and services. The cash disbursement function usually involves simultaneously paying the liability and recording the cash disbursement.

b. Treasury or cash management function is responsibilities for determining that unpaid vouchers are processed for payment on their due dates. All payments should be by check. The computer can be programmed to extract the vouchers due on each day from the accounts payable master file and this report is reviewed to determine which payables should be paid, considering the company's cash position.

repository.ub.ac.id
UNIVERSITAS BRAWIJAYA

TABLE 2.1

CASH DISBURSEMENT FUNCTION

FUNCTION	POTENTIAL MISSTATEMENT	COMPUTER CONTROL	MANUAL CONTROLS
Cash Disbursement	A check may not be recorded	Computer pre-numbered check series	Access to blank check and signature plates is controlled
		Computer compares the total on the check summary with the total vouchers submitted for payment	
	A check may not be recorded promptly	Computer prints report of checks due but not paid	
		Run-to-run totals compare beginning cash, less cash disbursements, with ending cash balance as well as beginning accounts payable less disbursements with ending accounts payable	
	Check maybe issued for unauthorized purchases	Computer compares check information with purchases order and receiving information or other authorization	Checks must be manually signed
		Computers performs a limit test on large disbursements	
	A voucher may be paid twice	Computer has a field that identified that a voucher has been paid and the voucher number cannot be reused	
	A check may be issued for the wrong amount	Computer comparison of check amount with related voucher amount	
	A check may be altered after being signed		Manual control requires that check signers mail checks
			Independent bank reconciliation
	Errors may be made in recording the check	Computer comparison of information on check summary with related voucher information	Independent bank reconciliation
	Cash disbursements may be made for unauthorized purchases or they may be made in the wrong amount		Management control: an appropriate level of management monitors cash daily, including the amount of checks written daily, the reasonableness of the amounts, and the amount of debits to accounts payable daily.

Source : Boynton, Johnson, & Kell (2001:649)

repository.ub.ac.id
UNIVERSITAS BRAWIJAYA

4. Documents Used

According to Boynton, Johnson, & Kell (2001:649), the important documents and records used in processing cash disbursement transactions include the following:

a. Check

formal order to a bank to pay the payee the amount indicated on demand.

Arens, Elder, & Beasley (2003:545) defined the check as follow:

Checks are typically prepared in a multi copy form, with the original going to the payee, one copy filed with the vendor's invoice and other supporting document, and another field numerically. In the most cases, individual checks are recorded in a cash disbursements transactions file. Check is the document used to pay for the acquisition when the payment is due. After check is signed by an authorized person, it is an asset. Therefore, signed checks should be mailed by the signer or a person under the signer or a person under the signer's control. When cashed by the vendor and cleared by the client's bank, it is called a cancelled check. In some Electronic Data Interchanged (EDI) arrangements, the company submits payments to the vendor electronically through an Electronic Funds Transfer (EFT) between the company's bank and the vendor's bank.

b. Check Summary

Report of total check issued in a batch or during a day.

c. Cash disbursement transaction file

It brings information on payments by check to vendors and others. It also used for posting to the accounts payable and general ledger master files. The cash disbursements transaction file created when checks are prepared is used to update the accounts payable masters and general ledger accounts.

Accounts to Arrens, Elder, & Beasley (2003:545), "cash disbursements transaction file is a computer-generated file that includes all cash disbursements transactions processed by the accounting system for a period, such a day, week, or month".

d. Cash disbursement journal or check register

Formal accounting record of check issued to vendors and others.

According to Reeve, Warren, & Duchac (2008:223), “the cash payments journal is used to record the payments of creditor accounts and cash payments”.

Another definition from Arens, Elder, & Beasley (2003:546):

Cash disbursement journal or listing is a report generated from the cash disbursements transaction file that includes all transactions for any time period. The same transactions, including all relevant information, are included in the accounts payable master file and general ledger.

5. Petty Cash Funds

“Petty cash is funds containing a small amount of cash that is used to pay for minor expenditures” (Horngren, Harrison, & Bamber, 2002:285). The petty cash fund is opened when a payment is approved for a predetermined amount and a check for that amount is issued to petty cash. “The money obtained from cashing the check then is given to an employee, called the petty cash custodian, who is authorized to disburse money from the fund” (Reeve, Warren, & Duchac, 2008:367). The petty cash custodian is responsible for controlling the fund. For each petty cash payment, the custodian prepares a petty cash ticket. Each time money is paid from petty cash, the custodian records the details of the payment on a petty cash receipt form. The sum of the cash plus the total of the ticket amountss should equal the opening balance at all times. The petty cash fund is normally replenished at periodic intervals or when it is depleted or reaches a minimum amount. When a petty cash fund is replenished, the

accounts debited are determined by summarizing the petty cash receipts. A check is then written for this amount, payable to petty cash.

Maintaining the petty cash account at the same amount is a characteristic of an imprest system. In an imprest system, the amount of cash for which the custodian is responsible is clearly identified. “Imprest system is a way to account for petty cash by maintain a constant balance in the petty cash account, supported by the fund (cash plus payment tickets) totaling the same amount” (Horngren, Harrison, & Bamber, 2002:285).

6. Flowchart of Cash Disbursement Accounting System.

According to Boynton, Johnson, & Kell (2001:361), a flowchart is “a schematic diagram using standardized symbols, interconnecting flow lines, and annotations that portray the steps involved in processing information through the accounting system”. Another definition according to Romney & Steinbart (2000:65), the definition of flowchart are as follow:

> A flowchart is an analytical technique used to describe some aspect of an information system in a clear, concise, and logical manner. Flowcharts use a standard set of symbols to describe pictorially the transaction processing procedures used by company and the flow of data through a system.

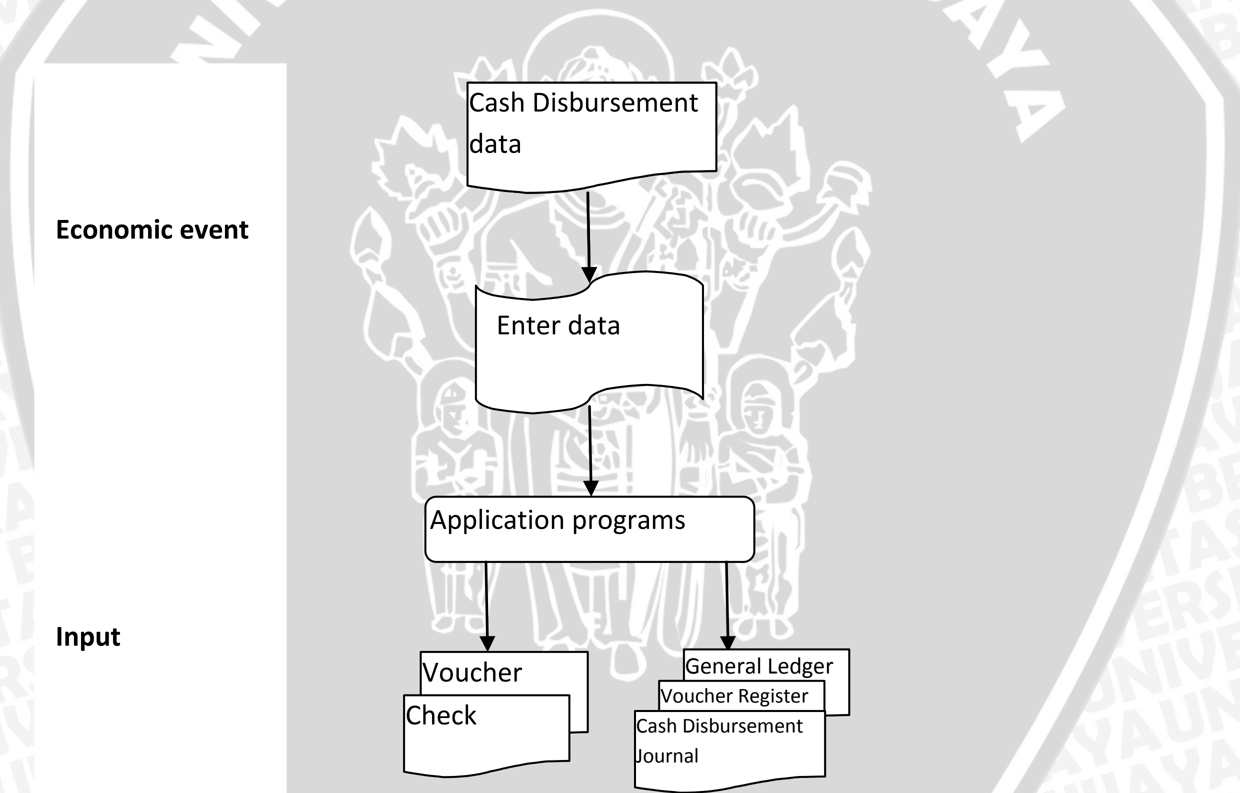
One of the advantages of flowcharts if that they are easy to read and understand. They provide a quick overview of a system for an individual who is not

repository.ub.ac.id
UNIVERSITAS BRAWIJAYA

familiar with that system. “System flowchart is a graphic diagramming tool used to show the flow of information processing activities as data are processed by people and devices” (O’Brien & Marakas, 2008:605). The flowchart of computerized system for cash disbursements are as following:

FIGURE 2.1

FLOWCHART OF COMPUTERIZED SYSTEM FOR CASH DISBURSEMENTS



Source : Bynton, Johnson, & Kell (2001: 636)

C. Internal Control

1. Definition of Internal Control

The most important effort in realizing operating discipline to prevent abuse and diversion of an authority is an effective internal control. According to Horngren, Harrison, & Bamber (2002:267), "internal control is organizational plan and all the related measures adopted by an entity to safeguard assets, encourage adherence to company policies, promote operational efficiency and ensure accurate and reliable accounting records". Another definition according to Wild, Bernstein, & Subramanyam (2001:130), "an internal control system consists of all procedures and method designed to safeguard a company's assets and ensure that all relevant economic events are accurately reflected in the financial statements". Reeve, Warren, & Duchac (2008:205) stated that "internal controls are the policies and procedures that protect assets from misuse, ensure that business information is accurate, and ensure laws and regulations are being followed".

The Committee of Sponsoring Organizations (COSO) Report that cited by Boynton, Johnson, & Kell (2001:325) also emphasize that the following fundamental concepts are embodied in the foregoing definition:

a. Internal control is a process. It is a means to an end, not an end in itself. It consists of a series of actions that are pervasive and integrated with, not added onto, an entity's infrastructure.
b. Internal control is affected by people. It is not merely a policy manual and forms, but people at every level of an organization, including the board of

repository.ub.ac.id UNIVERSITAS BRAWIJAYA

directors, management, and other personnel.

c. Internal control can be expected to provide only reasonable assurance, not absolute assurance, to an entity's management and board because of limitations inherent in all internal control systems and the need to consider the relative costs and benefits of establishing controls.

d. Internal control is geared to the achievement of objectives in the overlapping categories of financial reporting, compliance, and operations.

McWatters, Morse, & Zimmerman (2001:184) stated that:

> An internal control system is a system of checks and balances to verify that transactions are recorded and implemented correctly. An internal control system dissuades employees from committing fraud against the organization by establishing a trail of documents and by using the separation of duties so that employees monitor each other. Internal control systems work well unless employees collude to commit fraud.

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

> A process, effected by the entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives of reliability of financial reporting; effectiveness and efficiency of operations; and compliance with applicable laws and regulations.

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

2. An Effective Internal Control

Internal controls are most effective when employees at all levels adopt the organization's goals and ethical standards. Top managers need to communicate these goals and standards to workers. "Effective internal controls help businesses guide their operations and prevent theft and other buses" (Reeve, Warren, & Duchac, 2008:350). Such controls are important because they deter fraud and prevent misleading financial statements. According to Horngren, Harrison, & Bamber (2002:26?-271), the characteristics of effective internal control are:

a. Competent, reliable, and ethical personnel

   Employees should be competent, reliable and ethical. Paying top salaries to attract top quality employees, training them to do their job well, and supervising their work all help a company build a competent staff.

b. Assignment of responsibilities

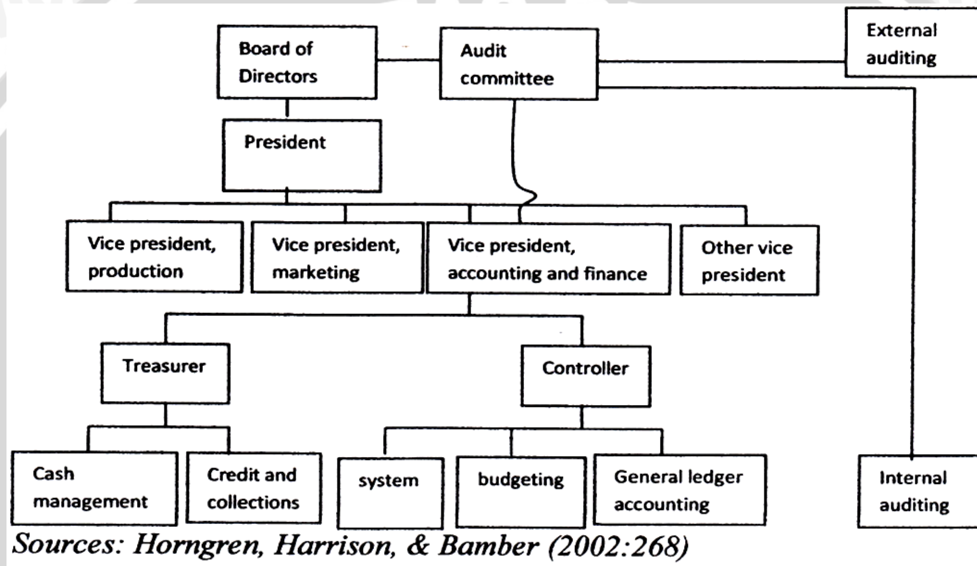
   In a business with a good internal control system, no important duty is overlooked. Each employee is assigned certain responsibilities. A model of this assignment of responsibilities appears in the corporate organizational chart in Figure 3. Notice that the company has a vice president of finance and accounting. Two other officers, the treasurer and the controller, report to that vice president. The treasurer is responsible for cash management. The controller is the chief accounting officer.

   The controller may be responsible for approving invoices (bills) for payment, and the treasurer may actually sign the checks. Working under the

controller, one accountant may be responsible for payroll, another accountant for depreciation. All duties should be clearly defined and assigned to individuals who near responsibility for carrying them out.

FIGURE 2.2

A CORPORATE ORGANIZATION CHART



Sources: Horngren, Harrison, & Bamber (2002:268)

c. Proper authorization

An organization generally has written rules to outline its procedures. Any deviation from policy requires proper authorization.

d. Separation of duties

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

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

e. Internal and external audits.

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

repository.ub.ac.id UNIVERSITAS BRAWIJAYA

company's managers, on the other hand, are immersed in day to day operations and may overlook their own weaknesses.

Audit can be internal or external. Figure 3 shows internal auditors as employees of the business. Throughout the year, the internal auditors examine various segments of the organization to ensure that employees are following company policies and that operations are running efficiently.

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

f. Document and records

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

Pre-numbering sale receipts discourages theft by cashiers because the copies retained by the cashiers list the amount of the sale. These figures can be checked against the actual amount of cash received. If the receipts are not pre-numbered, a cashier can destroy the sale receipt and pocket the cash received.

g. Electronic devices and computer controls.

Accounting systems are relying less and less on documents and more and more on digital storage devices. Computers shift the internal controls to the people who write the programs. Programmers then become the focus of internal controls because they can write programs that transfer company assets to themselves.

h. Other controls

Businesses keep cash and important business documents (such as contracts and titles to property) in fireproof vaults. Burglar alarms protect buildings and other property. Retailers receive mist of their cash from customers on the spot. To safeguard cash, they use point of sale terminals that serve as a cash register and also record each transaction entered into the machine. Several times each day, a supervisor removes the cash for deposit in the bank.

Employees who handle cash are in an especially tempting position, many businesses purchase fidelity bonds on cashier. The bond is an insurance policy that reimburses the company for any losses due to the employee theft. Before issuing a fidelity bond, the insurance company investigates the employee's past record.

According to Libby, Libby, & Short (2001:320), effective internal control of cash should include the following:

repository.ub.ac.id
UNIVERSITAS BRAWIJAYA

a. Separation of duties

1) Complete separation of the jobs of receiving cash and disbursing cash.

2) Complete separation of the procedures of accounting for cash receipts and cash disbursement.

3) Complete separation of the physical handling of cash and all phases of the accounting function.

b. Responsibilities assigned to individuals

1) Require that all cash receipts be deposited in a bank daily. Keep any cash on hand under strict control.

2) Require separate approval of the purchases and other expenditures and separate approval of the actual cash payments. Pre-numbered checks should be used. Special care must be taken with payments by electronic funds transfers since the bank processes no controlled documents (checks).

3) Assign the cash payment approval and the actual check-signing or electronic funds transfer transmittal responsibilities to different individuals.

4) Require monthly reconciliation of bank accounts with the cash accounts on the company's books.

According to Rich et al (179), the following internal controls help businesses effectively control cash:

a. the authority to collect, hold, and pay cash must be clearly assig7ed to specific individuals. Whenever feasible, cash-handling activities and cash record keeping activities should be assigned to different individuals.
b. cash records should be examined often by an objective party as a basis for evaluating the performance of cash handling activities.
c. controls should be supported by and appropriately designed record keeping system
d. cash should be safeguarded in vaults and banks

3. The Aims of Internal Control System

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

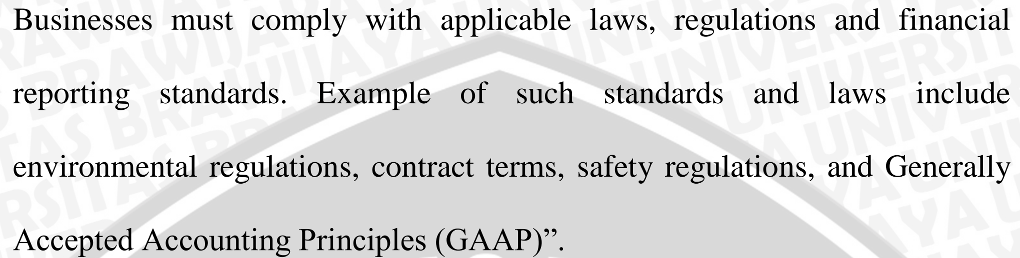
a. Assets safeguarded and used for business purposes Internal control can safeguard assets by preventing theil, fraud, misuse, or misplacement. One of the most serious breaches of internal control is employee fraud. Employee fraud is the intentional act of deceiving an employer for personal gain.
b. Business information is accurate

   Accurate information is necessary for operating a business successfully. The safeguarding of assets and accurate information often go hand-in-hand. The reason is that employees attempting to defraud a business will also need to adjust the accounting records in order to hide the fraud.

repository.ub.ac.id UNIVERSITAS BRAWIJAYA

c. Employees comply with laws and regulations

Businesses must comply with applicable laws, regulations and financial reporting standards. Example of such standards and laws include environmental regulations, contract terms, safety regulations, and Generally Accepted Accounting Principles (GAAP)".



Horngren, Harrison, & Bamber (2005:324), stated that internal control is the organizational plan and all the related measures that an entity adopts to accomplish four objectives:

a. Safeguard the assets

A company must safeguard its assets; otherwise it's throwing away resources.

b. Encourage employees to follow company policies

Everyone in an organization needs to work toward the same goal.

c. Prombte operational efficiency

Companies cannot afford to waste resources.

d. Ensure accurate, reliable accounting records

Good records are essential. Without reliable records, a manager cannot tell what investments to make or how much to charge for products. Banks cannot determine whether to make a loan.

A good internal control system within the company will guarantee the security of company's assets so it will give reliable financial statements, encourage efficiency and also maintain compliance with the policy defined by

repository.ub.ac
UNIVERSITAS BRAWIJAYA

managements. With the existence of good internal control would enhance any company to conduct any activities in order to achieve the goals set.

4. Importance of Internal Control .

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

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

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

repository.ub.ac.id
UNIVERSITAS BRAWIJAYA

a. Of overriding importance in preventing fraudulent financial reporting is the "tone set by top management" that influences the corporate environment within which financial reporting occurs.

b. All public companies should maintain internal control that will provide reasonable assurance that fraudulent financial reporting will be prevented or subject to early detection.

c. The organizations sponsoring the Commission (including the Auditing Standards Board (ASB)) should cooperate in developing additional guidance on internal control systems.

5. Elements of Internal Control

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

a. The control environment

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

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

b. Risk assessment

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

c. Control procedures

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

1) Competent personnel, rotating duties, and mandatory vacations

The successful operation of an accounting system requires procedures to ensure that people are able to perform the duties to which they are assigned.

Hence, it is necessary that all accounting employees be adequately trained and supervised in performing their jobs. It may also be advisable to rotate duties of clerical personnel and mandate vacations for non clerical personnel. These policies encourage employees to adhere to prescribed procedures. In addition, existing errors or fraud may be detected.

2) Separating responsibilities for related operations

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

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

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

3) Separating operations, custody of assets, and accounting

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

4) Proofs and security measures

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

d. Monitoring

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

repository.ub.ac.id
UNIVERSITAS BRAWIJAYA

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

e. Information and communication

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

6. The Related Functions of Internal Control

According to The COSO Report that cited by Boynton, Johnson, & Kell (2001:328-329) concludes that everyone in an organization has some responsibility for, and is actually a part of, the organization's internal control. Several responsible parties and their roles are as follow:

a. Management.

It is management's responsibility to establish effective internal control. In particular, the chief executive officer should set the "tone at the

top" for control consciousness throughout the organization, and see that all the components of internal control are in place as discussed further in the next section. An effective internal control environment may reduce the probability of errors or fraud in an entity. Senior management in charge of organizational units (divisions, etc) should be accountable for controlling the activities of their units.

b. Board of directors and audit committee.

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

c. Internal auditors

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

d. Other entity personnel.

The roles and responsibilities of all other personnel who provide information to, or use information provided by, systems that include internal control, should understand they have a responsibility to communicate any

problems with noncompliance with controls or illegal acts of which they become aware to a higher level in the organization.

e. Independent auditors.

As a result of procedures in an audit of financial statements, an external auditor may discover deficiencies in internal control that he or she communicates to management, the audit committee, or the board together with the recommendations for improvements. This applies primarily to financial reporting controls. But because the auditor's study of a client's system of internal control in a financial statement audit is performed primarily to enable the auditor properly plan the audit, neither does it result in the expression of an opinion of the effectiveness of internal control, nor can it be replied upon to identify all necessarily even most significant weaknesses in internal control. This is especially the case for areas of the audit where the auditor has adopted 1 primary substantive approach as the preliminary audit strategy.

f. Other external parties.

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

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

repository.ub.ac.id
UNIVERSITAS BRAWIJAYA

a. Board of directors

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

b. Senior management Senior management must:

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

c. Financial management

The financial management team must:

1) Know the technical requirements of a sound financial control system and how to create such a system based on the nuance of the existing business

repository.ub.ac.id UNIVERSITAS BRAWIJAYA

2) Verify that a sufficient number of controls are installed and that they operate in a satisfactory manner

3) Enforce conformance to all controls, as noted in policies and procedures

4) Assume direct responsibility for the accuracy of the information contained in periodic financial statements and accompanying notes

d. Internal Audit staff

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

e. Independent auditor

As part of an outside auditor's audit of a company's financial statements, it is customary to determine the strength of the underlying control systems that support those statements. If weaknesses in the control system are discovered, the auditor is in a unique position to report

repository.ub.ac
UNIVERSITAS BRAWIJAYA

this information to senior management as well as the Board of Directors as part of a management report that frequently accompanies the audited financial statements.

7. Warning Signs of Internal Control Problems

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

TABLE 2.2

WARNING SIGNS OF INTERNAL CONTROL PROBLEMS

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

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

repository.ub.ac
UNIVERSITAS BRAWIJAYA

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

a. Invoicing discrepancies

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

b. Lack of supervision

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

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

d. No competitive bidding

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

repository.ub.ac
UNIVERSITAS BRAWIJAYA

e. No payment from the sale of assets

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

f. No vacations

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

g. Supplier addresses match employee addresses

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

Several descriptions about the signal of internal control problems and also the indicator of fraud could be considered in order to avoid the fraud that could occur in a company and also to overcome the fraud. There are several activities that can indicate the fraud. These indicators can be very helpful in order to make the effective internal control of the company.

8. The Limitations of Internal Control

Practically, a perfect control system is very difficult to achieve.

According to Horngren, Harrison, & Bamber (2005:329):

> The most internal control can be overcome. Collusion two or more employees working as a team-can beat internal controls and defraud the firm. The stricter the internal control system, the more it costs. A system of internal control that is too complex can strangle the business with red tape. Internal control must be judged in light of their costs and benefits.

According to The Consideration of Internal Control in a Financial Statement Audit cited by Boynton, Johnson, & Kell (2001:327), the following inherent limitations that explain why internal control, no matter how well designed and operated, can provide only reasonable assurance regarding achievement of an entity's control objectives:

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

repository.ub.ac.id
UNIVERSITAS BRAWIJAYA

be able to perpetrate and conceal fraud so as to prevent its detection by internal control (e.g., collusion among three employees from personnel, manufacturing, and payroll departments to initiate payments to fictitious employees, or kickback schemes between an employee in the purchasing department and a customer).

d. Management override. Management can overrule prescribed policies or procedures for illegitimate purposes such as personal gain or enhance presentation of an. entity's financial condition or compliance statues (e.g., inflating reported earnings to increase a bonus payout or the market value of the entity's stock, or to hide violations of debt covenant agreements or noncompliance with laws and regulations). Override practices include making deliberate misrepresentations to auditors and other such as by issuing false documents to support the recording of fictitious sales transactions.

e. Cost versus benefits. The cost of an entity's internal control should not exceed the benefits that are expected to ensue. Because precise measurements of both quantitative and qualitative estimates and judgments in evaluating the cost benefit relationship.

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

repository.ub.ac.id
UNIVERSITAS BRAWIJAYA

D. The Internal Control over Wages and Salaries Accounting System

"Exercising control over cash disbursements is as important as controlling cash receipts" (Horngren, Harrison, & Bamber, 2002:283). The control of cash disbursements should provide reasonable assurance that disbursements are made for only authorized transactions. In addition, controls should ensure that cash is used effectively. "Payment by check is an important control over cash disbursements. First, the check provides a record of the payment. Second to be valid, the check must be signed by an authorized official" (Horngren, Harrison, & Bamber, 2002:283). Cash disbursements by check can guarantee the receipt of such payments by the companies who deserve it and allow the inclusion of a third party (bank) to participate in overseeing the company's cash disbursements. Company cash record can be checked by comparing which the bank checking account periodically received from the bank by the company.

These elements of internal control in cash system requires cash deposit immediately to the bank, cash disbursements by check and electronic funds transfer, and the cash disbursement by the imprest petty cash system, make the company can take advantage of the bank records to oversee the company's cash records.

1. The Elements of Internal Control over Cash Disbursements

According to Horngren, Harrison, & Bamber (2002:285), the elements of internal control over cash disbursements are as follow:

repository.ub.ac.id
UNIVERSITAS BRAWIJAYA

TABLE 2.3
THE INTERNAL CONTROL OVER CASH DISBURSEMENTS

Element of internal control	Internal controls over cash disbursements
Competent reliable, ethical personnel	Cash disbursements are entrusted to high level employees
Assignment of responsibilities	Specific employees approve purchase documents for payment. Executives examine approvals, then sign checks
Proper authorization	Large expenditures must be authorized by the company owner or board of directors
Separation of duties	Computer operators and other employees who handle checks have no access to the accounting records. Accountants have no opportunity to handle cash.
Internal and external audits	Internal auditors examine company transactions for agreement with management policies. External auditors examine the internal controls over cash disbursements and the accounting records
Documents and records	Suppliers issue invoices. Bank statements list cash disbursements. Checks are renumbered in sequence to account for payments
Electronic devices, computer controls, and other controls	Blank checks are stored in a vault and controlled by a responsible official. Machines stamp the amount on a check in indelible ink. Paid invoices are punched to avoid duplicate payment

Source: Horngren, Harrison, & Bamber (2002:285)

According to Kimmel, Kieso, and Weygandt (2011:342-350) cash disbursement controls includes:

a. Establishment of responsibility

Only designated personnel are authorized to sign checks (treasurer) and approve vendors.

b. Segregation of duties

Different individuals approve and make payments; check signers do not record disbursements.

c. Documentation Procedures

Use pre-numbered checks and account for them un sequence; each check must have an approved invoice; require employees to use corporate credit cards for reimbursable expenses; stamp invoices “paid”.

d. Physical control

Store clank checks in safes, with limited access; print check amounts by machine in indelible ink.

e. Independent Internal verification

To obtain maximum benefit from independent internal verification:

1) Companies should verify records periodically or on a surprise basis.
2) An employee who is independent of the personnel responsible for the information should make the verification.
3) Discrepancies and exceptions should be reported to a management level that can take appropriate corrective action

repository.ub.ac
UNIVERSITAS BRAWIJAYA

f. Human resource controls

Human resource control activities include the following:

1) Bond employees who handle cash

Bonding involves obtaining insurance protection against theft by, employees. It contributes to the safeguarding of cash in two ways; first, the insurance company carefully screens all individuals before adding them to the policy and may reject risky applicants. Second, bonded employees know that the insurance company will vigorously prosecute all offenders.

2) Rotate employee's duties and require employees to take vacations

These measures deter employees from attempting thefts since they will not be able to permanently conceal their improper actions. Many banks, for example, have discovered employee thefts when the employee was on vacation or assigned to a new position.

3) Conduct thorough background checks

Many believe that the most important and inexpensive measure any business can take to reduce employee theft and fraud is for the human resources department to conduct thorough background checks. Two tips:

a) Check to see whether job applicants actually graduated from the schools they list.

b) Never use the telephone numbers for previous employers given in the reference sheet; always look them up yourself.

repository.ub.ac.id
UNIVERSITAS BRAWIJAYA

The description above it can be concluded that there are several ways in order to control the cash disbursement. These method could be applied by every companies is order to safeguard the assets. Even company has already deposited money in the bank, it does not mean that the major problem of safeguarding the cash has been solved. The false documents and vouchers used a second time have been the means of securing executive signature. The collusion among employees also could be occurred. So, every company has to control the cash disbursement prosedur in order to safeguard the assets.

2. Controls over Cash Disbursements

According to Boynton, Johnson, & Kell (2001:651), controls over cash disbursements include the following:

a. Run to run totals comparing the beginning balance of the disbursement files plus transactions, with the expected ending balance of updated cash disbursement transaction files and the account payable master file.

b. An independent check of the agreement of the total of the checks issued (usually reported on a check summary) with a batch total of the vouchers processed for payment.

c. An independent check by an accounting supervisor of the agreement of the amounts journalized and posted to accounts payable with the check summary received from the treasurer.

repository.ub.ac.id
UNIVERSITAS BRAWIJAYA

d. Independent bank reconciliations.

According to McLeod & Schell (2001:231-232), before payment is made, the firm wants to make certain that the money actually is owed. This certainty is established when three conditions exist:

a. There is a proof that the stock was ordered, This proof is provided by a record in the account payable file.
b. There is proof that the stock was received. This proof is provided by the received purchases file that contains the notification of the receipt by the receiving system.
c. An invoice has been received from the supplier, as reflected in the invoice and statement file.
   1) Set up supplier payables records. Records are added to the account payable file when the incurred obligations data flow is received from the purchasing system. Considerable time then might elapse before the items are received.
   2) Make supplier payments. Supplier invoices and supplier statements are entered in the invoices and statement file, where they are held until payment is made. Payments are made when all three of the aforementioned conditions have been met. Payment data from the accounts payable file and invoice data from the invoice and statement file are used in making the payments to suppliers.

repository.ub.ac.id UNIVERSITAS BRAWIJAYA

3) Delete paid payables. When a supplier payment is made, the corresponding record is removed from the account payable file and added to the paid payables file.
4) Provide general ledger data. The accounts payables system provides data to the general ledger system. Payables are shown as liabilities on the balance sheet.

3. Voucher System

In large business, the duties of purchasing goods, inspecting the goods received, and verifying the invoices are usually performed by different employees. These duties must be coordinated to ensure that checks for proper payments are made to creditors. One system used for this purpose us the voucher system. According to Reeve, Warren, & Duchac (2008:371), "a voucher system is a control system for cash payments that uses a set of procedures for authorizing and recording liabilities and cash payments". "A voucher is any document that serves as proof of authority to pay cash or issue, an electronic funds transfer" (Reeve, Warren, & Duchac, 2008:359). For example, an invoice properly approved for payment could be considered a voucher. A voucher is special form from recording relevant data about a liability and the details of its payment.

According to Reeve, Warren, & Duchac (2008:359), voucher system may be either a manual or computerized:

a. In a manual system, a voucher is normally prepared after all necessary supporting documents have been received. For example, when a voucher is

prepared for the purchase of goods, the voucher should be supported by the supplier's invoice, a purchase order, and a receiving report. After a voucher is prepared, it is submitted to the proper manager for approval. Once approved, the voucher is recorded in the accounts and file by due date. Upon payment, the voucher is recorded in the same manner as the payment of an account payable.

b. In computerized system, properly approved supporting documents (such as purchase orders and receiving reports) would be entered directly into computer files. At the due date, the checks would be automatically generated and mailed to creditors. At that time, the voucher would be electronically transferred to a paid voucher file.

Romney & Steinbart (2000:481-482) stated that the use of disbursement vouchers offers three advantages:

a. It reduces the number of checks that need to be written, because several invoices may be included on one voucher.
b. Because the disbursement voucher is an internally generated document, it can be pre-numbered to simplify tracking all payables.
c. Because the voucher provides an explicit record that a vendor invoice has been approved for payment, it facilitates separating the time of invoice approval from the time of invoice payment. This makes it easier to schedule both activities to maximize efficiency.

repository.ub.ac.id
UNIVERSITAS BRAWIJAYA

4. Controlling Petty Cash Disbursements

Horngren, Harrison, & Bamber (2002:285) also added that the company needs to set up controls of petty cash funds such as the following:

a. Designate an employee to administer the fund as its custodian.

b. Keep a specific amount of cash on hand.

c. Support all fund payments with a petty cash ticket.

d. Replenish the fund through normal cash disbursement procedures.

According to Kieso, Weygandt, & Warfield (2001:365), two additional procedures are followed to obtain more complete control over the petty cash fund:

a. Surprise counts of the fund are made time to time by a superior of the petty cash custodian to determine that the fund is being accounted for the satisfactorily.

b. Petty cash receipts are canceled or multilated after they have been submitted for reimbursement, so that they cannot be used to secure a second reimbursement.

5. Controls over Payment by Check

According to Horngren, Harrison, & Bamber (2002:283-284), the controls over payment by check can be done by:

a. Controls over purchasing

The purchasing process, starts when the sales department prepares a purchase request (or requisition). A separate purchasing department locates

the goods and mails a purchase order to the supplier. When the supplier ships the merchandise, the supplier also mails the invoice, or bill. The goods arrive, and the receiving department checks the goods for damage and lists the merchandise received on a document called the receiving report. The accounting department combines all the foregoing documents and forwards this payment packet to officers for payment. The packet includes the purchase request, purchase order, invoice and receiving report.

TABLE 2.4
PURCHASING PROCESS

Business document	Prepared by	Send to
Purchase request (requisition)	Sales department	Purchasing department
Purchase order	Purchasing department	Outside company that sells the needed merchandise (supplier or vendor)
Invoice (bill)	Outside company that sells the needed merchandise (supplier or vendor)	Accounting department
Receiving report	Receiving department	Accounting department
Payment packet	Accounting department	Officer who signs the checks

Source: Horngren, Harrison, & Bamber (2002:284)

b. Controls over approval of payments

Before approving the payment, the controller or the treasurer should examine the packet to ascertain that the accounting department has performed the following control steps:

repository.ub.ac.id
UNIVERSITAS BRAWIJAYA

1) The invoice is compared with a copy of the purchase order and purchase request to ensure that the business pays only for the goods that it ordered.
2) The invoice is compared with the receiving report to ensure that cash is paid only for the goods actually received.
3) The mathematical accuracy of the invoice is proved.

In the other side, “to avoid document alteration, some firms use machines that stamp the amount on the check in indelible ink. After payment, the check signer punches a hole through the payment packet. This hole makes it hard to run the documents through for a duplicate payment" (Horngren, Harrison, & Bamber, 2002:284). According to Boynton, Johnson, & Kell (2001:651), controls over the preparation and signing of the checks including the following:

a. Authorized personnel in the treasurer's department should be responsible for signing larger checks.
b. Programmed controls check to determine that each check is matched with a properly approved unpaid voucher and that the name of the payee and the amount on the check agree with the voucher.
c. Programmed controls cancel voucher number once it has been paid, and review paid voucher file to ensure that a voucher is not paid twice.
d. To reduce the risk of theft or alterations, the department controlling the production of checks should control the mailing of the checks.
e. No check should be made payable to “cash” or “bearer” and no blank checks should be issued.

f. Pre-numbered checks should be used and accounted for.

g. Access to blank checks and to signature plates should be limited to authorized personnel.

6. Controls over Payment by Electronic Funds Transfer (EFT)

Cash can also paid by electronic funds transfer systems by using computers rather than paper money or checks. "Electronic Funds Transfer (EFT) is a system that moves cash by electronic communication" (Horngren, Harrison, & Bamber, 2005:330). Electronic Funds Transfer (EFT) systems require bank accounts for the transfer of funds between companies. Cash can be transferred between bank accounts through the use of wire transfers. For example, a company may pay its payments to the , vendors by means of EFT. Likewise, many companies de using EFT systems to pay their supplies and other vendors. It is cheaper for a company to pay their liabilities by EFT because they don't have to write checks for those payments. The monthly bank statement lists EFT deposits and payments. According to Romney and Steinbart (2000:487), "EFT can generate considerable cost savings because the time and expenses associated with preparing, signing, and mailing checks, as well as storing canceled checks, are eliminated".

7. The Bank Account as a Control Device over Cash

"A bank account is one of the primary tools a company uses to control cash" (Reeve, Warren, & Duchac, 2008:362). Use of bank accounts reduces the

repository.ub.ac.id
UNIVERSITAS BRAWIJAYA

amount of cash on hand at any one time. Keeping cash in a bank account helps control cash because banks have established practice for safeguarding customers' money. Banks also provide customers with detailed records of their transactions. To take full advantage, the business should deposit all cash receipts in the bank and make all cash disbursements through the bank. The use of bank accounts provides a double recording of cash transactions. The company's cash account corresponds to the bank's liability (deposit) account for the company. In addition, online banking allows companies to transfer funds and pay bills electronically as well as monitor their cash balances on a real time basis. According to Horngren, Harrison, & Bamber (2005:329-330), the documents used to control a bank account include the:

a. Signature card

   Banks require each person authorized 1to transact business through an account to sign a signature card. The bank uses the signature card to protect against forgery.

b. Deposit ticket

   Banks supply standard forms such as deposit tickets. The customer filis in the dollar amount of each deposit. As proof of the transaction, the customer keeps a deposit receipt.

c. Check

   To draw money from an account, the depositor writes a check, which is the document that tells the bank to pay the designated party a specified amount of

repository.ub.ac

UNIVERSITAS BRAWIJAYA

money. There are three parties to a check: the maker, who signs the check, the payee, to whom the check is paid, and the bank on which the check is drawn.

d. Bank statement

Banks send monthly statements to customer. A bank statement is the document on which the bank reports what it did with the customer's cash. The statement also lists deposits and other changes in the account. Deposits appear in chronological order, and checks are listed by check number.

e. Bank reconciliation

There are two records of business cash:

1) The cash account in the company's general ledger.
2) The bank statement, which shows the cash receipts and disbursements transacted through the bank.

The books and the bank statement usually show different amounts. Differences arise because of a time lag in recording transactions. To ensure accurate cash records, you need to update your checkbook often- either online of after you receive your bank statement. The result of this updating process is a document called a bank reconciliation which is prepared by the company. The bank reconciliation explains all differences between the company's cash records and the bank statement figures. It ensures that all cash transactions have been accounted for. It also establishes that bank and book records of cash are correct.

repository.ub.ac
UNIVERSITAS BRAWIJAYA