

**THE IMPLEMENTATION OF ACCOUNTING
SYSTEM ON RAW MATERIALS TO SUPPORT
INTERNAL CONTROL
(Case Study at Tiara Handicraft Surabaya)**

MINOR THESIS

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DECLARATION

The work in this undergraduate thesis is based on research carried out on “The Implementation of Internal Control on Raw Materials Accounting Systems”. Case Study at Tiara Handicraft Surabaya. To the best of my knowledge, no part of this thesis has been submitted elsewhere for any other degree or qualification and it all my own work except where due reference has been given.

Malang, 24 November 2015

Ade Liana Fajrin



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SUMMARY

Tiara Handicraft Company is one of the Small and Medium Enterprises (SMEs) which is already established more than 15 years. Tiara Handicraft Company was built in Surabaya in 1995, having 38 people working in this company. Tiara Handicraft Company is a company that does not only concern in business, but also in social (disability), because most of their employees are persons with disability. Tiara Handicraft Company must apply the implementation of raw materials accounting system well and adequately. Tiara Handicraft Company is the Small and Medium Enterprises (SMEs) which is have a high demand in their product. By applying a good system, the company can conduct supervision, control, and activity plan which is associated with raw materials supply. Therefore, it makes the accounting system in Tiara Handicraft is unstructured. In order to identify the key success in business operations of the company, this research is dedicated to describe the implementation of accounting system of raw materials in order to support the internal control that has been applied by Tiara Handicraft.

The method used in this research is qualitative by using case study. The research focus comprises of organizational structure of work through the division of authority and responsibility that has been applied to the company, raw material inventory accounting system set out in the procedures that make up the network's accounting system and the way internal control supports the effectiveness of supplies of raw materials. The data collection method included interview, observation and documentation.

Based on research results, the implementation of accounting systems on raw materials in Tiara Handicraft has been consistent with the objectives of internal control, although there are shortcomings such as the dual function in a several department, recording every transaction into the accounting records made after payment and process order. Therefore it can be suggested to improve their record-keeping procedures, and improving organizational systems in order to improve the internal control in the company.

Keywords: Accounting system of raw materials, internal control, purchasing raw material, system and procedure, accounting system.

FOREWORDS

Alhamdulillah hirabbilalamin, thanks to Allah SWT, that grace and have guide the researcher to finish the minor theses entitled as **“The Implementation of Accounting System on Raw Material to Support Internal Control” (Case Study at Tiara Handicraft Surabaya).**

This minor thesis is a final proposed to comply with the requirement to get the degree of Bachelor of Business Administration at Faculty of Administrative Science.

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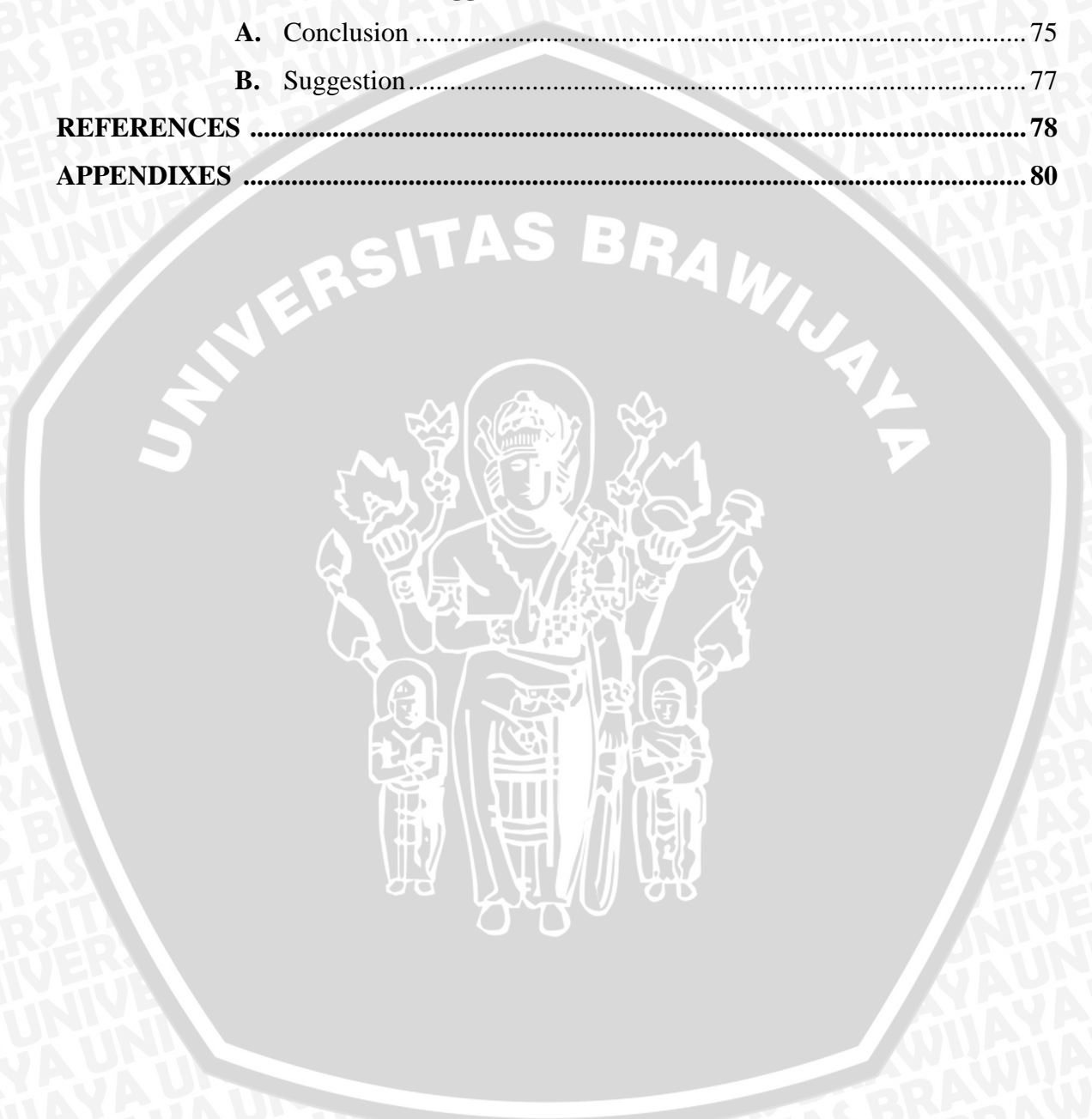
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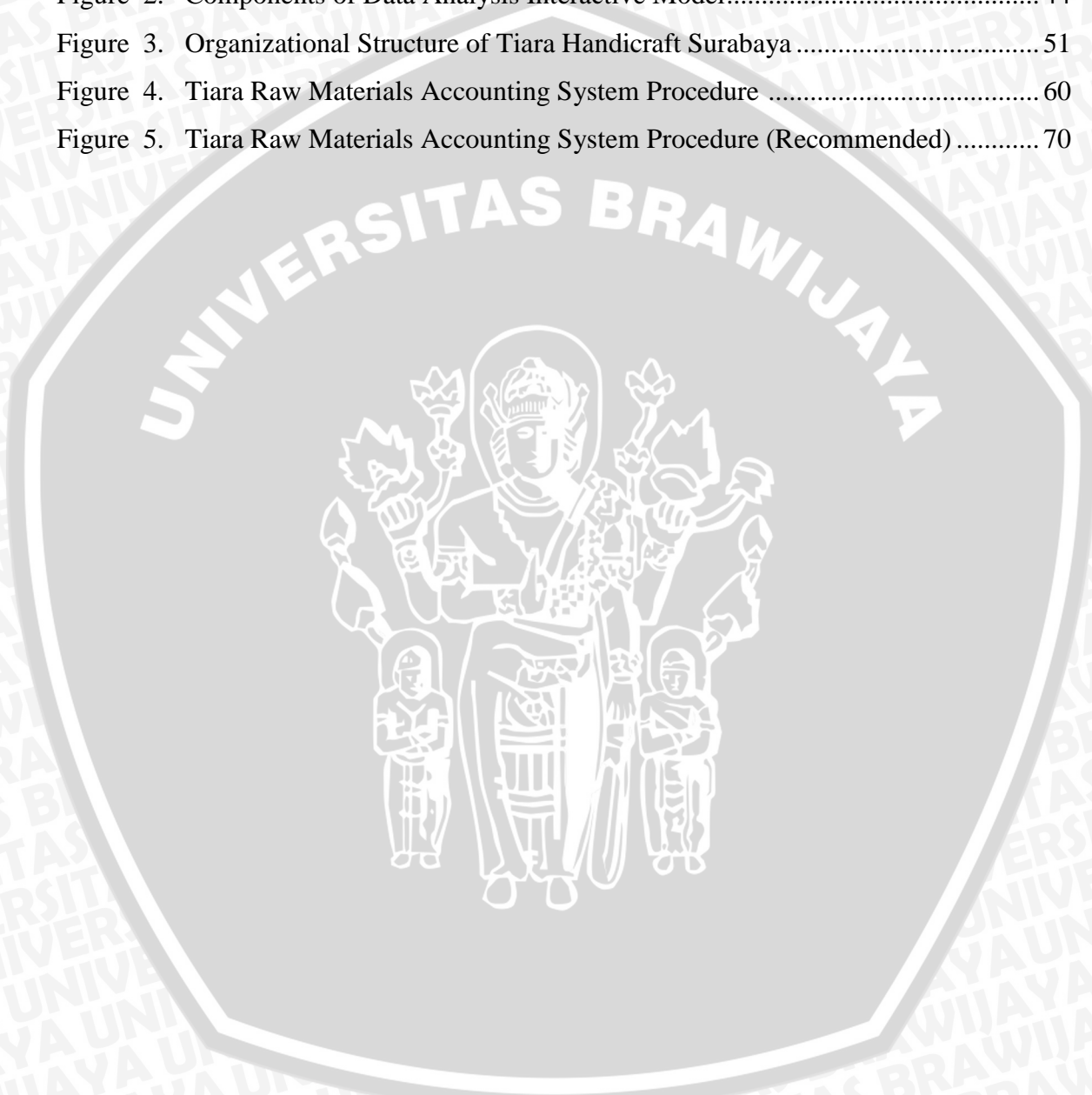
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CHAPTER I

INTRODUCTION

A. Background

Entrepreneur world in Indonesia today is facing fast development. This economic development situation causes tight competitive and force all the entrepreneur to get the best decision for the company. Companies are required to conduct operations effectively and efficiently to maintain its existence. In addition, each company will implement the various policies that the company is growing.

One of the company that have a significant existence in this country is SMEs (Small and Medium Enterprises). SMEs has quite great role to support the stability of Indonesian economic, especially after economic crisis in 1998, SMEs started to appear in some remote area in Indonesia. The existence phenomenon of SMEs happened because many companies in Indonesia were bankrupt because of the economic crisis. Uniquely, when the big companies were unable against the crisis, most of SMEs even could survive. Moreover, the number was increasing so fast that SMEs got more attention.

The definition of SMEs (OECD, 2005:17) is Small and medium enterprises (SMEs) are non-subsidiary, independent firms which employ fewer than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European

Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees. Small and Medium Enterprises (SMEs) have been acknowledged as one of the main drivers of a nation's economy" (Enright et al., 2001). SMEs (Small and Medium Enterprises) in this time to be the best and easiest alternative in business. SMEs has an important role in the national development, especially in economic sector, which is labor-intensive and each investment to create more employment opportunities, in addition to the SMEs have the ability to utilize local raw materials and produce goods or services needed by the public at an affordable price. The growth and development of SMEs are still facing a lot of problems and resistance. Problems and resistance faced still classic, consists of: management, capital, raw materials, technology, infrastructure, marketing information, and finally partnership. The diversity of problems and obstacles faced by SMEs is apparently a problem of limited raw materials remains a critical factor.

In the face of industrial companies require attention from the management of one of which is inventory control. In the inventory control of raw materials cannot be separated from the system and procedures, as systems and procedures is an element that makes a production process or transaction can be controlled. Therefore, inventory control is important for companies to be able to plan and control the supply of raw materials. To generate a good planning and controlling thus raw material company management required a system and procedure of raw material control system based on the a good accounting principal.

In Accounting system can be defined with emphasis on managerial aspects of administrative or technical aspects. A good information system is a information system must complete and accurate that needed by the company to utilize the factors of production to be effective and efficient. A good information system it is financial information system that used to know the company's financial position. A company that can provide good financial information also need a good accounting system. "The accounting system on purchase used in the company for the help of necessary goods by the company." (Mulyadi, 2010:299).

An accounting system is a well-planned course the truth can produce reliable information and useful in making decisions relating to all aspects of planning, coordinating, controlling and safeguarding the assets of the company. The accounting system is an important tool for management to produce the company's assets set out plans in advance so that the company plans to run efficiently, effectively and focus.

Accounting system is required by the company in this case the raw material has a important position, especially in the production process. In order to expedite the production process will require an adequate supply of raw materials. Furthermore, the company will expedite the process of determining the cost of production, cost of goods sold, and the selling price. Inventory management of raw materials that are less qualified would be fatal for the company, therefore the required control mechanisms are adequate to supply. The mechanism involves the separation of the functions associated with the supply of raw materials, which

should be separated between the functions and supply of the storage function of the accounting function.

For the small and medium companies (SMEs), corporate leaders can directly supervise the activities of the company. Therefore the activity of the company is still relatively small, the leaders of the company able to determine the overall activities of the company and the problems that occur within the company, therefore it is not difficult to do control. In order to reach the company's goals, company required to strive leadership of the company's operations, therefore, company management able to work in order to achieve effectively and efficiently. In order to achieve a minimum efficient means of waste is in the company. This is means that the activities of the company should be based on company's goods.

Raw material inventory is the total amount of goods a business has on hand at a given time. Raw materials inventory is so important to the production process which is one of the success key in a business operation that company provides in the business cycle. Inventory of raw materials plays an important role for the company. Many activities take place in the company, one of which is the raw material inventory activities. Therefore, management must be able to make a plan as well as providing raw material inventories in accordance with demand. In inventory of raw materials we required a better system which provide a network of integrated procedures in implementing an enterprise activities smoothly. Therefore, it's required to big concern of companies because it supplies an element of corporate assets value is quite large and is also an active element assets in the company's operations. Inventories are assets that are sensitive to wealth, the

decline in market prices, theft, waste, damage, and cost overruns due to incorrect handling. To overcome these problems it is necessary to control the internal supply of raw materials and inventory management as well. Effective Internal Control should be supported by an adequate accounting system.

Internal control has an important contribution to the continuity of business, because is a process of surveillance which is run by the internal company aims to determine whether all activities have been run effectively and efficiently with the rules and regulations in force , therefore company able to reach the goal that have been set. In general, a good internal control system does not provide an opportunity for every person in the position to make mistakes and actions. Internal controls have an important contribution to the company sustainability, because “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” (Reeve, 2008:205), therefore it is necessary to conduct the internal control and the company can control the company activities and purposed to know the company activity that can be implemented effectively and efficiently with regulations and legislation in force, therefore the company purpose can be achieved.

Furthermore, companies also need for recording in the purchase of raw materials to avoid any budget overuse in the purchase of raw materials so that there is no misappropriation of funds or corruption that could hurt the company. Therefore, monitoring and internal control that good must be taken by the company to purchase raw materials that will be in production to become a product

can run smoothly and optimally. In terms of company asset security, required a re-evaluation of the accounting data accountability that had been become one of the company's management policy in the activity of raw materials purchasing. Re-evaluating to some accounting systems that implemented in the company is expected to fix the system according to the purpose of to make an improvement in internal control systems. So that, Internal control system will achieve a more effective management in the company activities.

Mulyadi (2010:163) mention that "Internal control system including organization structure, check the accuracy and reliability of accounting data, encourage of efficiency and adherence to management policies". Internal control that adequate did not ensure that all deviations for actions detrimental to the company can be avoided completely, but this possibility can be minimized.

Tiara Handicraft Company is one of the Small and Medium Enterprises (SMEs) which is already established more than 15 years. Tiara Handicraft Company build in Surabaya in 1995, and they have 38 people work in this company. Tiara Handicraft Company is a company that not only concern in business, but also in social aspect (disability employment), because their employee is almost consist of disability persons.

Most of the employee worked in Tiara Handicraft is people with a handicap but have a great effort to work. Tiara Handicraft aimed to help this people to reach their dream by having the same chances with those the normal one. Yet, this is not the barriers for Tiara to growing. Most of Tiara's client today's are coming from local to multinational client. People have a greater sympathy on the disable people

and the product produced by the disable people are more precise then if it done by normal people.

Tiara Handicraft Company must apply the implementation of raw materials accounting system well and adequately. Tiara Handicraft Company is the Small and Medium Enterprises (SMEs) which is have a high demand in their product, since the employee is consist of disable people which have various handicap to do the job done thus, the greater internal control. Therefore, it makes the accounting system in Tiara Handicraft is unstructured. By applying a good system, the company can conduct supervision, control, and activity plan which is associated with raw materials supply. Material complexity in Tiara Handicraft Company compared with another Small and Medium Enterprises is still low than another manufactured company.

Therefore, it is expected that by conducting this research the result will diagnostic in where Tiara handicraft will be well informed about the strength and the weakness of its raw material accounting system which direct influence toward its internal control. Based on above background, the author interested in the issue and do research entitled **“The Implementation of Accounting System on Raw Material to Support Internal Control” (Case Study at Tiara Handicraft Surabaya).**

B. Problem Formulation

The formulation of problems in a research required to help the researcher in defining the problems that will be researched, in order to achieve the clear of objective and target and get the answer that be expected.

Based on the background that has been explained above, formulation of problems that will be taken are as follows:

1. How is the implementation on raw material accounting system at tiara handicraft to support in order internal control?

C. Research Objectives

Based on the existing problems, the objectives to be achieved in this research as follows:

1. To describe and analyze the implementation on raw material accounting system at tiara handicraft to support in order internal control.

D. Research Contribution

The contributions of research are as follows:

1. Academic
 - a. Giving a contribution to accounting system knowledge, especially related with the raw materials accounting system.
 - b. Giving a contribution to the next researcher for exploring their knowledge's especially about the same issues.
2. Practical

For the company, the result of research can give the contribution to support the internal control in order to the raw material of accounting system practices on their company.

E. Writing Structure

This writing structure purposed to generate a scientific paper more detail, clear, and understandable. This minor thesis proposal contained in three chapters as follows:

CHAPTER I : INTRODUCTION

This chapter describes the background description of research problems, formulation of the problems, research objective, research contribution, and the writing structure of minor thesis proposal.

CHAPTER II: REVIEW

This chapter describes about the empirical studies, the theory of systems and procedures, internal control, systems and procedures, description of small and medium enterprises, understanding and control about the accounting systems on raw materials.

CHAPTER III: RESEARCH METHOD

This chapter describe the types of research, research focus, research location, sources of data, data collection

techniques, research instrument, and data analysis used in this discussion.

CHAPTER IV: DISCUSSION

This chapter describes the general overview of the company, analysis and interpretation about accounting system on raw materials and internal controls that conducted.

CHAPTER V: CONCLUSION AND SUGGESTION

This chapter is the final part of this thesis writing. This chapter contains the conclusions of the discussion result in CHAPTER IV, accompanied suggestions that the expected useful as input for the company.



CHAPTER II

THEORITICAL FRAMEWORK

A. Empirical Studies

There are a number of previous studies, which are relevant to this study. As regard the first, the study title is “The influence of sale accounting information system toward the effectiveness of sale internal control (a case study in PT. INTI persero)” (Ismail, 2011), while another study is titled with “Role of accounting information system of raw material inventory and internal control of raw material inventory in supporting the smooth production process (a case study in UD Harapan Makaroni Special “Dua Saudara Top”)” (Sahromi, 2012).

The first study found that the implementation of sale accounting information system in PT. INTI (persero) had been operated very well. The respondents found that the indicators in the implementation of such system had facilitated them to do their best working performance. On the other hand, in terms of the influence of the system toward the internal control of company’s sale, it was identified that the system actually mattered as much as about 59.9% toward the internal control, while the rest percentage was dominated by other factors which were not included as the research concern.

Later, the second study by Sahromi (2012) found a number of key elements in raw material accounting inventory system, internal control and their relation to production process. Firstly, it was identified that management department of the company had already applied raw material inventory accounting system which highly regarded several elements such as form use, notes, reports, procedures, human resources, and equipment. Secondly, it was reported that the company had already carried out internal control of raw material inventory system through the following aspects namely controlled environment, risk calculation, controlling activities,

information and communication, as well as supervision. Thirdly, the company also proved that elements of successful production process were achieved. These included establishing production plan and operation, planning and controlling inventory and material provision, maintaining machines and equipment, providing quality control, and establishing employee management. Overall, the raw material inventory accounting system in the company achieved very well elaborated elements as mentioned above. Therefore, it was easy for the company to provide internal control toward the raw material inventory. This result supported the production process in general.

The result found by Sahromi (2012) was actually confirmed by a prior research by Rizki (2006). Likewise, the study done by Rizki (2006) investigated the role of raw material inventory accounting information system to support the fluidity of production process. He found positive correlation, that raw material inventory accounting information system was implemented very well and it facilitated the fluidity of production process. However, the writer had not given any further explanation to what extent and in what ways the system had improved the fluidity of production process.

Kurniawan Hardianto (2012) the study entitled "Analisis Sistem Akuntansi Pembelian Bahan Baku dan Pengeluaran Kas Dalam Meningkatkan Pengendalian Intern" (Case Study at PT. Mitsubishi Krama Yudha Motors and Manufacturing Jakarta). This research uses analytical descriptive study with a qualitative approach. This study focuses on the application of the accounting system of purchasing raw materials and disbursements. The results showed that the implementation of the accounting system purchases and cash disbursements in the PT. Mitsubishi Krama Yudha Motors and Manufacturing in compliance with the internal control objectives although there are shortcomings such as the lack of duplicate documents to any specific parts, recording each transaction into the accounting records have been done after making the payment process.

Therefore, it can be given suggestions to improve the document is used, the procedure of accounting records in order to improve internal control in the company.

In general, the several different previous studies discuss about the role of information system toward some different variables. They also found as much the same result that the implementation of accounting information system was very influential to establish effectiveness of either internal control or other variables under research question. However, they have different research focus. While the former focuses on describing the effectiveness of the application of the technology toward sale internal control through statistical method, the later with qualitative approach focuses on the role of two determined variables namely accounting information system of raw material inventory and internal control of raw material inventory toward production process. Therefore, the later is considered to be a useful model to describe the implementation of the raw material inventory accounting procedures and the internal control of raw material inventory implemented in a company.

Different from the above previous studies which have not closely described the individual relationship between raw material inventory procedures and its internal control, the proposed current study will specifically discuss about the implementation of raw material inventory accounting procedures and how each procedure supports the establishment of internal control. It will look through in detail and identify the strengths and the weaknesses throughout the procedures in raw material inventory accounting activities. Later, this study will inform the steps obtained by the company to establish internal control through the accountability of its raw material inventory accounting system.

B. Accounting System

1. Definition of System and Procedure

In accounting system, required to distinguish between the definition of systems and procedures. There are some opinions according to experts related to the accounting systems and procedures. According to (Hall, 2007:6) “a system is parts which interact on each other in order to achieve certain objects through three stages, namely input, process and output” According to Susanto (2008:22) a system is “a group of two or more component or subsystem which always connected each other which has the same purpose”. According to some opinion above, therefore it can be concluded that basically the system consist of three part, namely: input, process and output is an activity which transform input to output, while output is the goal, target, or organization target of a system.

According to Mulyadi (2001:5) the definition of procedure are “the order of clerical activity, usually it involves some people in one department or more, which is made to guarantee the solutions together of the company transactions which occur repeatedly”. Baridwan (2000:3) procedure is “clerical work order, with usually involves some people in one part or more, arranged to guarantee treatment”. Cole on Baridwan (2009:3) explain that “system a network which relate to each other and integrated to carry out the main activity and or the assignment from the company. “Procedure is an order of a written implementation which is held to make sure handling which is the same from the company transactions which appear”.

According to some definition 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. This is important for the company to create such integrated recording to ease the recording itself and also the data tracking for audit purposes in the future. By using this kind of concept the greater effectiveness in the working area both for the accounting or finance department to other department.

2. The definition of accounting system.

Accounting system is a system which has a fundamental role development and achievement of a purpose in a company. Mulyadi (2010:3) defines it as “accounting system is a form of organization, notes and report of financial administration to give some financial information to the company management”. According to Howard F. Settler in Baridwan (2009:4) “accounting system is forms, notes, procedures and tools that are used for processing economic unity data in order to give feedback report for company management and also for other divisions such as the investors, creditors, and other government institutes to give the assessment for the operational result”.

That accounting system consist of some element, they are forms, notes and reports which are organized to give some information for facilitating company management. And become a useful information to support internal controls and reduce the occurrence of mistakes or fraud in a company.

3. The elements of accounting system.

In order to create a good operation on accounting system, it require some elements or tools to support the company management. According Mulyadi (2010:4-5), those elements are:

- a. Form
Form is a document that is used for proving the transactions. Form is commonly mentioned as media, because form is a media for documenting some activities in an organization in the letters. The advantages of using form are:
 - 1) Establishing responsibility of the company business transaction.
 - 2) Recording data of company business transaction.
 - 3) Declining the error data by declaring all events in the letter form.
 - 4) Conveying main information to each people in the organization or other organization.
- b. Journal
Journal is the first accounting record which is used for making a record, classifying and summarizing financial and other data. Journal note resource is form. The example of journal notes are cash revenue journal, cash output journal, buying and selling journal.
- c. General ledger
General ledger consists of some bank accounts for summarizing financial data that have been written in a journal. Some bank accounts in the general ledger are appropriately provided with some information which will be written in financial report.
- d. Subsidiary ledger.
Subsidiary ledger consists of some second any bills which elaborate financial data of certain bills in general ledger. For instance if the trade credit bill in the scales need some further elaborations based on the name of sixty debtors, it can be formed a credit subsidiary ledger about subsidiary credit for each debtors. General ledger and subsidiary ledger are called the last accountancy note. It means that there is no other accountancy note after the accountancy data which has been summarized and classified into general ledger and subsidiary ledger.
- e. Financial report.
The final of accounting process is the financial report from scales, loss and profit report. The hold profit alteration report, the main price of product report, the marketing expense report etc. information report is including output accounting system.

So it can be concluded from the above understanding that the elements or tools used in the accounting system are very important in every activity and

management of the company. Some of the elements needed by the company is the form, journals, general ledger, subsidiary ledger, and financial reports.

4. The purpose of accounting system development.

According to Mulyadi (2010:19-20), the purposes of accounting system development are:

- a. Providing information for the recent management activities.
 - b. Refreshing information which is produced by the system like quality, exact presentation, and information structure.
 - c. Improving accountancy control and intern checking like improving reliability accountancy information and providing a complete document about the responsibility and company wealth protection.
 - d. Declining clerical expense in accountancy document of implementation.
- Based on these opinions can be concluded that, the development of

accounting system is for improving the recent accounting system. It is caused of the recent accounting system cannot complete the management requirement from the exact given information.

5. The factors that influence the accounting system

Some factors which need some considerations in the accounting system arrangement in order to the recent accounting system which has been arranged can complete the purposes, according Baridwan (2009:7) stated are:

- a. Accounting system should using simple quick principle. It means that accounting system has to provide some required information punctually, and it can also complete the appropriate quality of requirement.
- b. Accounting system arrangement has to have safety principle. it means that accounting system must be able to keep the wealth company safety.
- c. The accounting system has to have cheap principle. It means that the expense for implementing accounting system should be able to make it cheaper, in other words it is considered the cost and profit to produce information.

Based on the above opinion can be concluded that there are three factors to be considered in the preparation of the accounting system. Factors to be

considered include must meet the fast principle, the safety principle, and inexpensive principle. These factors are very important for the accounting system prepared can help companies in every activity or process.

6. The role in designing accounting system.

According to Baridwan (2009:9), the steps which are used in arranging accounting system are:

- a. Analyzing the system.
This step is aimed to know the strong point and the weakness of the system. The data that will be collected in this study are organization structure, journals, procedures, financial accounting and forms.
- b. Planning the accounting system.
In this step, it will rearrange the previous accounting system to minimize or delete the weaknesses of the previous system.
- c. Applying accounting system.
In this step, the arranged accounting system is for changing the previous accounting system. In the contrary, the use of the recent system emerges since the rearrangement will influence the accounting balance and also the use of the recent procedures in the middle of period.
- d. Following up the recent system.
This step is for caring the applying of the recent system. It observes whether the system can be well executed or not. If there are some errors, fixes can be applied as soon as possible.

Based on the above understanding the steps used in the accounting system there are some that include analysis of existing systems, planning accounting system, accounting system implementation, and supervision of the new system.

These steps are used so that the accounting system are made in accordance with the needs of the company so that the activity or process can running well.

C. Purchase accounting system.

1. The definition of purchasing.

Purchase accounting system is used in a company to supplying the required goods. Purchasing transactions are able to classified into two types, they are: local

purchasing and import purchasing. Local purchasing is buying some goods from local area, while import purchasing is buying some goods from other countries.

Purchase accounting system is critical to the company due to hold items that the company needs to carry out its activities. According to Mulyadi (2001:299) "Purchasing accounting system in the company for the procurement of goods the required by the company". And according to the opinion of Badriwan (2009:173) "The purchase procedure set ways of doing all the purchases of both goods and services required by the company. This process starts from the need for a good or service until the goods or services purchased accepted".

Purchasing is part of the system that supports activities within an enterprise to define and maintain the amount of goods that the company can run well. The accounting system of purchase required by the company to manage all purchase procedures, from the request, the purchase until the item is received. The Purchases transaction can be conducted by cash or credit in accordance with company requirements.

According to Mahmudi (2005:189) "purchasing process in a company started from price quote a supplier (vendor) or any type of goods, Then company interested in the goods offered and place an order for goods by sending the form purchase order of goods ". This procedure starts from the need for a good or service until the goods or services received.

2. The purpose of purchasing accountancy arrangement

Purchase accounting system that consists of purchase procedure system needs to be designed in the company with several purposes. According to liasusanni as stated from dir.unikom.ac.id (2003) the purpose of purchasing accountancy arrangement are:

- a. To be able to sustain the continuity of business enterprise, caused the purchase is part of the activity cycle of company operation.
- b. The purchase transaction will cause the adjustment of asset position and the debt in the enterprise.
- c. If the purchase is deficient planned will cause to the wealth and the product of business enterprise

Based on the above understanding the purpose of the purchase accounting system is to enable companies to make purchases and no problems that could harm the company itself. The objective of the purchase accounting there are three that can be used by companies to design procedures purchases including continuities effort should be maintained, changes in assets and debt position, and purchase planning.

3. The classification of purchase transaction system

According to liasusanni as stated from dir.unikom.ac.id (2003), the classification of purchase system that supports the purchase accounting system as the following:

- a. A cash purchase is the purchase which is involving cash in the process.
- b. A credit purchase is the purchase that gets the payment facility more a month
- c. A tender purchase is the purchase transaction implicates purchase price that is adequately big.
- d. A purchase is ordered exchange is the purchase of offered goods that have standard quality. Besides that, it can avoid the bond that is caused by rise of price.
- e. A commission purchase is the purchase of deposit goods on the sod goods that is paid later.

- f. An installment purchase means the purchase when the price of goods that are paid on credit after bank interest is calculated.
- g. A contract purchase is the purchase using the contract procedure that consists of the rights and the obligations of each participant.
- h. A mediator purchase is the purchase that uses the commissioner service as the mediator in purchase, and the service given accepts the commission and provision.
- i. A penetrate purchase is the payment is transacted to the bearer or the person that carries the goods.

Based on the above understanding purchases classification system is needed in order to support the purchase accounting system. Classification of system purchases are cash purchases, credit, tenders, futures, commissions, payments, contracts, through intermediaries, and temburs. Companies can implement or use some kind for the company in the purchase system.

4. The function of the purchase accounting system

According to Mulyadi (2001:299) the function of the purchase accounting system that use in a company are:

- a. Warehouse function. In the purchase accounting system, the warehouse function is responsible to propose the purchase demand that suitable to the stock position in warehouse and to save the accepted goods by the admission function.
- b. Purchasing function. Purchase function is responsible to gain the information about goods, decide the selected supplier in goods supplying, and to spend the purchase order to the selected suppliers.
- c. Acceptance function. In purchase accounting system, this function is responsible to examine the kind, a standard of quality, and the quantity of goods that is received by the supplier to decide whether those goods can be received or not from the enterprise.
- d. Accounting function. This function is related to the purchase transaction which consists of debt listing function and stock listing function. In purchase accounting system, the function of debt accountant is responsible to list the purchase transaction. The function of accountant is responsible to the stock in listing the cost price of the stock that is bought in its card.

According to other expert that Bonar and Hopwood (2006:350-354) separation of the functions that occur in purchase accounting systems are:

- a. The request function (warehouse)
The purchase request conducted outside the purchasing department. The purchase request made in warehouse department. The purchase request also can made in other department in company. The purchase request must authorized in department that make.
- b. The purchase function
Regardless of where the purchase request is made, is a function of the purchasing department to select suppliers and make agreement of the purchase terms and delivery terms. How this conducted depends on the level of centralization in the corporate purchasing function. Purchasing department to cancel the purchase request if insufficient budget, lack of authorization, or other reasons. The purchase request can also be changed or refunded to the department makes to be modified.
- c. The Reception function
The reception function should be separated from independent and storage function. The part reception has access to purchase orders and match them with deliveries from suppliers. Purchase order give authorizing to the receipt department for receive the delivery from the supplier when the goods have been delivery. Receive procedure should have independent roles to calculate delivery receipt and prepare reports. Independent or blind count delivery conducted by not allowing the counters have access to the existing quantity on the purchase order.
- d. The trade payables function
The trade payables department is responsible for initiating activities of the payment to the supplier. Four forms is the purchase request, purchase order, receipt and invoice reports needed to documentation the purchase transaction. The main control purchasing activities conducted by using a voucher system. The voucher system is an engineering review to ensure that all documentation has been covered, verified and analyzed before payment is doing. The review of documentation called the matching process and assumes that the documentation includes evidence of actions steps a procedure. Vouchers that have been approved and then sent to the cash disbursement department for conducted payment.

Based on some of the understanding, the existing functionality in purchase accounting system covering the request function, the purchase function, the reception function, the function of the warehouse, and accounts payable functions. These functions must be responsible for each task. Because of every function should be supervised by a section.

5. The documents or forms used

The documents or forms are used to record and archive for every purchase transaction. So every purchase transaction can be responsibility for righteousness. According Krimiaji (2002:318) "documents used in the purchase system includes the purchase request, purchase order, goods receipt reports, and vouchers".

According to mulyadi (2001:301-308) the documents used accounting system on raw materials purchasing are:

- a. Purchase request letter
This form is filled by the stock function or the supplier function to ask the purchase function for buying goods with kind, quantity, and standard of quality that is mentioned in it. This document is usually made 2 copies for each demand, another copies for purchase function, and its penetration for archive function that is requesting the goods.
- b. Request for Quotation Letter
This document is used for requesting the price negotiating of goods whose procurement is not repeatedly appear which concern the large purchases.
- c. Purchase order letter.
This document is used for ordering the goods to the selected supplier. This document consists of some penetration.
 - 1) Purchase order letter. This document is the first sheet of that letter that is sent to the supplier as the formal order that is issued by company or enterprise.
 - 2) The admission of penetration by supplier. The penetration of purchase order letter is sent to the supplier, asked the signature from the supplier and sent back to the company as proof of acceptance and purchasing orders and supplier as well as capability in fulfilling the promise of delivery of such goods in the document.
 - 3) Copies of Unit Demand for Goods. Copies are sent to the function that requested the purchase that the goods requested have been ordered.
 - 4) Archive filing date. Attachments to the purchase order is saved by purchasing functions according to the expected date of receipt of goods, as a basis to conduct an investigation action if the goods do not arrive at a predetermined time.
 - 5) Suppliers archives. Attachment to the purchasing order is saved by purchasing functions by name of the supplier as a base to find information about the supplier.

- 6) Copies function of Acceptance. Copies of the purchase order letter are sent to the acceptance function as an authorization to receive the item which is type, specification, quality, quantity, and suppliers as stated in the document. In a blind acceptance system (blind receiving system), the quantity column in the copy is blocked by black color so the quantity ordered in the purchase order letter is not recorded in the copy that is sent to the reception function. It is intended for the acceptance function can actually do the calculations and checks goods received from suppliers.
- 7) Copies of Accounting Functions. Copies of the purchase order letter are sent to the accounting function as one of the basic to record the liability arising from the purchase.

d. Reports Receipt of Goods

This document is created by a reception function to indicate that the item has been received from the supplier has filled the types, specifications, quality, and quantity as specified in the purchase order.

e. Securities Purchase Order Change

Sometimes it is necessary changes to the purchase order letter which is issued before. Usually the changes are formally notified to the supplier using a purchase order letter changes.

f. Proof of Outing cash

This document also serves as a cash disbursement orders for the payment of debts to suppliers and which also serves as a notice to creditors regarding payment intent.

Based on such understanding, basically the forms used in the purchase system include the purchase request letter, letter of requests for quotation, purchase order letter, reports the receipt of goods, letter of purchase order changes, proof cash out, and vouchers. Forms and documents that used in the purchase system is a tool to responsibility for the occurrence of a purchase transaction. The document and forms that used accordance with company requirements. Some companies choose to not using certain document and form because the reason use of electronically mediated information systems more sophisticated and efficient.

6. The procedure networks that make up the procedure of purchase accounting systems

The procedure Networks that required as a basis for regulating the activities process of the concerned functions in the purchase accounting systems. So that all activities related to purchase transactions can be run regularly and efficiently.

According to Krismiaji (2002:330) purchasing procedure include:

- a. Procedure request for goods
Business activity the first time conducted in the expenditure cycle is request the purchase of goods. Key decisions are made in this process is identifying the goods what that will to buy when needed, and how many will buy. Request for purchase of goods or supplies started by inventory control functions or organizational units that require goods. If they need the goods, then they will create a document called a purchase requisition letter. In companies that are already using advanced technology, the information system will automatically produce in this document if the inventory quantity has reach a certain number (eg under reorder point). But in a small company, this document creation conducted with manually.
- b. The ordering goods process
With the receipt of the purchase request, the purchasing department soon proceed with making a purchase order or purchase order letter. Purchase order is a document that formally requesting a supplier to sell and deliver certain product with a certain price. This document is also a form of a promise to pay and become a contract, if this document has been received by the supplier. In this purchase order documents listed names of suppliers and purchasing officers, the order date and the receipt date, location and delivery method, and information about the goods ordered.
- c. The receiving procedure and the goods storage
The main documents used in subsystems receipt of goods in the expenditure cycle is a goods receipt report. The goods receipt report is a document containing information about the details of the goods received, including date received, sender name, supplier name, and serial number purchase order.
- d. Purchase invoice approval procedures
There are two ways to process the purchase invoice, the system of non vouchers and voucher systems. In the non-voucher system, every purchase invoice in the post to each supplier record in the accounts payable file and then stored in an open invoice. When making a

payment, or when made payment check for the invoice, therefore purchase invoice issued from an open invoice file and stamped paid off and stored in a file invoices have been paid. In a voucher system, created a document called the expenditure vouchers. This document contains data about suppliers, a list of unpaid invoices, and the net value to be paid after deducting the pieces and the reducing price. Thereby, a document summarizing the information in a group purchase invoice.

Based on this definition, this procedure should be conducted by certain functions and conducted in sequence. A function should not be doing or mastering some procedures, it is indicated to prevent fraud or negligence in the implementation. Meanwhile according to Hall (2004:2-4) procedures in the company's purchasing system include:

- a. The first step in the purchasing cycle occurs when it is decided that inventory needs replenishment. In a manufacturing environment, this would occur in the planning department. The example developed in the book involves a merchandising firm. In this type of business, inventory control is responsible for determining when to reorder inventory. This involves determining the needs and preparing a purchasing department for action and preparing a purchase requisition or request. This document is sent to the purchasing department for action and to account payable for information purposes. Another copy is kept in the open purchase requisition file in the inventory control department for monitoring.
- b. It is the job of purchasing department to actually place the order and work with vendors to secure the needed items. This department will prepare a purchase order which is sent to the vendor to initiate the order. Other copies go to inventory control to confirm that the order was placed, to accounts payable, and a special copy goes to receiving. This copy is "blind" in that it shows the items ordered but not the quantities. This is to force a count of goods when received. Naturally purchasing keeps a copy.
- c. When the vendor acts on the purchase order, the next internal department involved in a purchase is receiving. When the goods are received, the people in receiving reconcile the items in the shipment with the blind copy of the purchase order. When this is complete, a receiving report is prepared showing the quantity and condition of the goods received. One copy goes with the goods to wherever they are stored: the storeroom if raw materials or the finished goods warehouse. Other copies go to purchasing, inventory control, and accounts payable.

- d. By this point in the process, accounts payable has received copies of the purchase requisition (goods were needed), the purchase order (goods were ordered), and the receiving report (goods were received). These will be kept on file until a vendor invoice is received. When it is, accounts payable will reconcile all four documents, record the purchase in the purchase journal, and record the liability to the vendor in the accounts payable subsidiary ledger. The documents are then moved to the open accounts payable file to await payment.

Based on the two opinions that have been described above, basically two opinions that have the same meaning. The procedure can be used by the company in the accounting system advisable purchase through four stages. Some of these steps include the process of goods request, the process of ordering or purchasing goods, the receipt and storage of goods, as well as the process of recording the purchase.



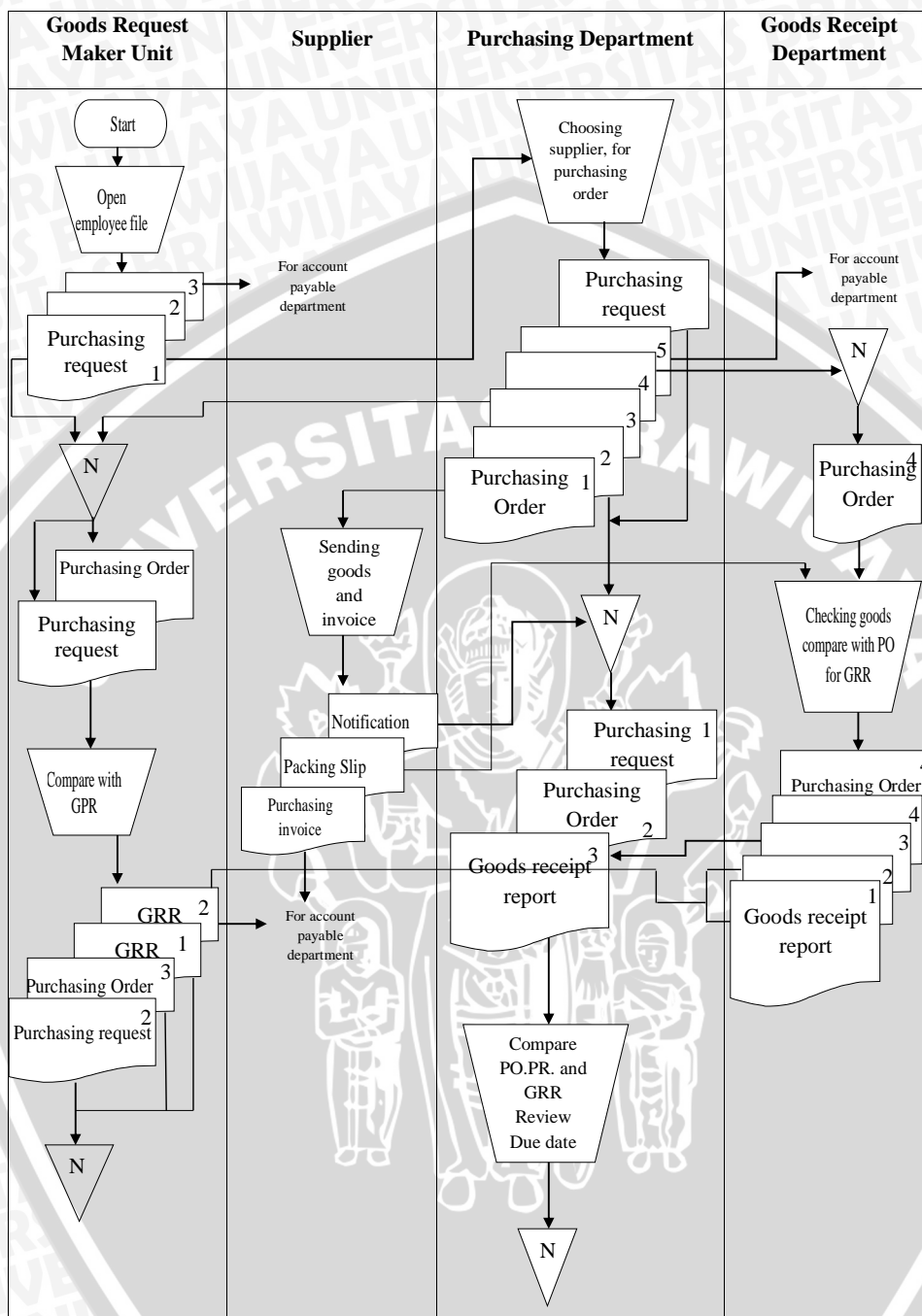


Figure 1 : Raw materials purchasing procedure on flowchart

Source : Krismiaji (2002:325)

- GRR= Good Receipt Report
- GPR= Good Purchasing Report
- PO= Purchasing Order
- PR= Purchasing Request



D. SMEs (Small and Medium Enterprises)

Small and Medium Enterprises (SMEs) have been acknowledged as one of the main drivers of a nation's economy (Enright, 2001:128). While viewed from the motive of maximizing business value, some of these enterprises may not be able to keep pace with the increasing use of information technology which may enable market leaders expanding the competition gaps. SMEs are different from large organizations in terms of their small number of employees and the significant role play by a single person, typically the owner-manager in running a business (Looi, 2004:46).

According to Kotelnikov (2007:2) SME's are technical definition varies from country to country in the Asia-Pasific region but is usually based on employment, assets, or a combination of the two. In Indonesia itself, an enterprises that categorized into SME's is a company that employee no more than 100 people to operate their business. In accordance which the requirements of the law, and which conforms to the following criteria:

1. In the manufacturing, construction, mining and quarrying industries, a paid-in capital of NT\$80 million (US\$2.42 million) or less.
2. In the agriculture, forestry and fisheries, water, electricity and gas, commercial, transportation, warehousing and communications, finance, insurance and real estate, industrial and commercial services or social and personal services industries, sales revenue of NT\$100 million (US\$3.03 million) or less in the last year.

There are three types of business that can be done by SMEs to generate profits, namely manufacturing, merchandising, and services. Each type of business has the characteristics and strategies of each business. The best description of the key characteristics of a small firm remains that used by the Bolton Committee in its (1971:134) Report on Small Firms. This stated that a small firm is an independent business, managed by its owner or part-owners and having a small market share.

The Bolton (1971:136) report also adopted a number of different statistical definitions. It recognized that size is relevant to sector- i.e. a firm of a given size could be small in relation to one sector where the market is large and there are many competitors; whereas a firm of similar proportions could be considered large in another sector with fewer players and/or generally smaller firms within it. Similarly, it recognized that it may be more appropriate to define size by the number of employees in some sectors but more appropriate to use turnover in others. Across Government, it is most usual to measure size according to numbers of full-time employees or their equivalent.

E. Internal Control System

1. Definition of Internal Control System

Internal control is the policies and procedures that protect assets from misuse, ensure that business information is accurate, and ensure that laws and regulations are being followed. Internal control is broadly defined as a process, affected by an entity's board of trustees, management, and other

personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- a. Effectiveness and efficiency of operations
- b. Reliability of financial reporting
- c. Compliance with applicable laws and regulations
- d. Safeguarding of assets

According to Adikusumah (2000:20) internal control consist of an organization plan and coordinated methods and action, implemented in a company to secure its assets, check minuteness and credibility and also its accounting in order to improve the operational efficiency and to support all the policy which has been determined by the company leader.

Furthermore, based on Mulyadi (2010:163) stated that internal control include of organization structure, method and measures coordinated to keep the company assets, check minuteness and reliable accounting data, to support efficiency and to support the obeyed management policy. Another definition according to Reeve, (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”.

Internal control systems can divide in two:

- a. Internal Accounting Control, is the part of internal control system, including of organization a structure, method, and measures coordinated especially to keep an organization and to check minuteness and reliable accounting data.

- b. Internal Administrative Control, include of organization structure, method and measures coordinated especially to support efficiency and to support the obeyed management (Mulyadi, 2010:163-164).

Internal control consists of five interrelated components:

- a. Control environment - The control environment includes the integrity, ethical values, and competence of the entity's people and is the foundation for all other components of internal control.
- b. Risk assessment - Every entity faces risks that must be identified, analyzed, and managed to achieve its objectives.
- c. Control activities - Control activities are the measures used to help ensure that management directives are carried out and that risks are addressed. They take many forms including policies and procedures, approvals, verifications, reconciliations, performance reviews, security measures, and segregation of duties.
- d. Information and communication - Information systems must be in place to identify, capture, and communicate relevant information in a form and timeframe that enables people to carry out their responsibilities and maintain accountability for the entity's assets.
- e. Monitoring - The entire internal control process must be monitored and the quality of its performance assessed as a part of regular management and supervisory activities. Corrective actions must be taken whenever the system does not perform as intended.

Internal control can safeguard assets by preventing theft, fraud, misuse, or misplacement. 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.

2. Element of Internal Control

Internal control have an element which are related to each other. According to Mulyadi (2001:164-172) in his book “accounting system” there are four key elements, those are:

- a. The organization structure which separates functional responsibility strictly.
- b. Authority system and register procedure which gives enough protection towards to assets, debt, income and cost.
- c. The healthy practice which carries out duty and function each organization unit.
- d. The employee whos skill suits his responsibility.

The definition about element of internal controls:

1) Organization Structure

In order to make an internal control in the company, it is important to form organization structure which separates structure strictly functional responsibility. The distribution of functional responsibility is based on some principal:

- a. Must be separated operational function and the saving of accounting function.

- b. A function may not be given a full responsibility to perform all the stages of a transaction. The distribution of responsibility is expected to prefer the fraud in the company.

2) Authority Systems and Recording Procedures

In order to make an internal control in the company, the element which needs to be design is authority system and recording procedure which give enough protection toward the assets, deb, income and cost.

In organization, every transaction only occurs based on the authority from official who has authority to approve how the transaction happens. Therefore, in an organization the system which regulates authority distribution must be made. A good record procedure will guarantee the data which is recorded in the form written in accounting journal with high minuteness and reliable.

3) Healthy Practice

Some method needs to be design to arrange healthy practice to make internal control. Some common ways conducted by companies to make healthy practice as whole: (a) the use of numbered form written in which the usage must be under authorities responsibility, (b) sudden review, (c) job rotation. Besides that, what's meant bt healthy practice is every employee in the companies does his job according to the fixed procedure. This healthy practice must be applied to all procedure, so job in a department will be directly job by others. The job of checking like this can happen if organization structure and the

procedure arranged has separate task and authority, therefore there is no any department in the company which conduct from the beginning until the end.

4) Employee Quality

In order to make an internal control in a company, we need to have qualified employees which is suitable with his responsibility. To get the competent employees and reliable, some ways can be done: firstly, selection employee's candidate based on requirement demanded his job; secondly, developing employees education during they work in this company, based on claim his job progress.

3. The objectives of internal control

The activity in a company must have the standard objectives to be achieved according to Mulyadi (2010:164), which is:

- a. Maintaining organizational wealth
 - b. Checking the accuracy and reliability of accounting data
 - c. Encouraging the efficiency
 - d. Encouraging the compliance with the management policy
- As for other opinions about the purpose of internal control are:

- a. To maintain the security of the property of an organization
- b. To check the accuracy and validity of accounting data
- c. To drive the efficiency in the operation
- d. Help to avoid deviating from management policy that has been set in advance (Baridwan, 2009:13)

From both these opinions, it can be concluded, the purpose of internal control is to maintain the organizational wealth, check the accuracy and reliability of accounting data and encourage efficiency as well as compliance management policy.

4. The limitations of internal control

Internal control is not intended to negate all the possibilities of the errors and fraud, but rather it will be able to suppress or reduce the occurrence of error and fraud within the limits proper. This is due to the factor that limits operation of an internal control system. Based on Halim (1997:201) factors that limit the operation of internal control are:

- a. Errors in judgment
Management or other personnel might give wrong judgment in making decisions or in structuring routine tasks. This might caused by the lack of information, lack of time or other pressures.
- b. Failure
Failure may still be experienced even though its control is hard to performed. This might caused by misunderstanding between personnel or recklessness in carrying out the task.
- c. Collusion
The functions in the organization should not be held by individual. Then he/she acts kindly to other employee, consumers, suppliers so that the financial data do not reflect the fact.

Based on the above understanding, there are some limitations of internal control that is a mistake in judgment, failure, and collusion. These factors influence the limitations of internal control in every activity or process undertaken by the company.

F. The relationship between the internal controls on purchasing system

1. The internal control over purchasing system

In order to meet the objectives of internal control, there are several elements which constitute main characteristics of an internal control. Internal control of purchasing system is required to support all activities especially in maintaining the wealth of the company. According to Mulyadi (2001 : 314-351), there are elements of the internal control applied in the purchase system, including:

a. Organization

- 1) The purchasing system should separate from the reception function
- 2) The purchasing function must separate from the accounting function
- 3) The receipt function should be separate from goods storage function
- 4) Purchases transaction must be implemented by the warehouse function, purchasing function, and the receipt function, and accounting functions. There is no purchase transaction is fully implemented by only one such function.

This element distinguish purchasing function, revenue, accountancy and goods storage but still coordinated , so the purchases made by the related functions are integrated, which means it cannot be done as a absolute single function.

b. Authority system and Recording Procedure

- 1) A letter purchase request authorized by the function of the warehouse, for goods stored in the warehouse, or by the user directly used goods
- 2) Letters purchase order authorized by the purchasing function or a higher authority
- 3) The receiving report of goods authorized by the goods receipt function
- 4) Evidence cash disbursement authorized by accounting function or higher authorities
- 5) Recording of the occurrence debt is based on evidence cash disbursement that supported by a letter purchase order, goods receipt reports, and invoices from suppliers
- 6) Recording into the debt card and registers evidence cash disbursement authorized by the accounting function

Documents management agree with the related function and recording transactions based on the journals supported by the documents (letter purchase order, invoice, goods receipt report)

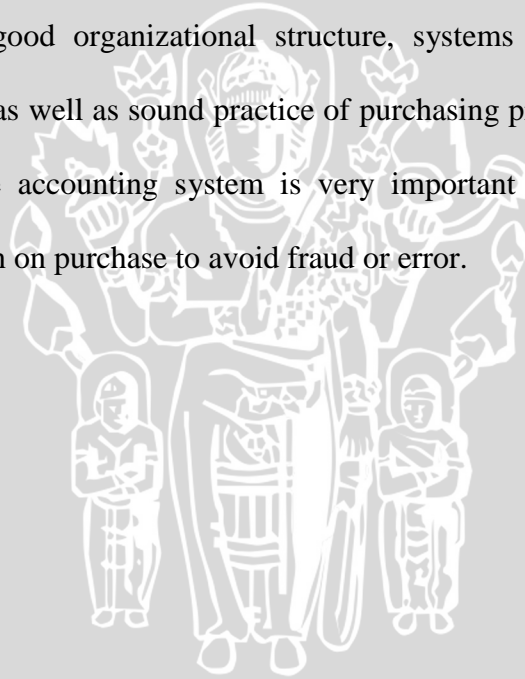
c. Sound Practices

- 1) A request letter numbered purchase order is printed and the wearer be accounted for by the purchasing function
- 2) Letters purchase order The serial number printed and the wearer be accounted for by the purchasing function
- 3) The goods receiving report serial number printed and the wearer be accounted for by the purchasing function
- 4) Suppliers are selected based on the answers offers compete prices from various suppliers
- 5) The goods only received and inspected by the acceptance function if this function has received a letter purchase order from purchasing function
- 6) Acceptance function doing inspection of goods received from suppliers with ways to calculate and inspect the goods and compare them with a copy of purchase order letter

- 7) There is a check on the price, requirements of purchase, and precision multiplication in an invoice from a supplier before an invoice is processed for payment
- 8) Notes that functions as a debt subsidiary ledger be periodically reconciled with debt control account in the general ledger
- 9) Payment invoices from supplier conducted based on the payment terms in order to prevent the loss of the opportunity to obtain a cash rebate
- 10) Cash disbursement evidence along with supporting documents was labeled keel by cash disbursements function after a check sent to suppliers

The existing functions run and accountable for their tasks resulting rise to an objective-oriented professionalism.

Based on these opinions, internal control procedures over the purchase advisable include a good organizational structure, systems authorization and recording the correct, as well as sound practice of purchasing procedures. Internal control over purchase accounting system is very important to implement the activities or transaction on purchase to avoid fraud or error.



CHAPTER III

RESEARCH METHOD

A. Types of Research

Research method is the method of think and implementation that prepared to implement the research and reach the research purpose. Research method is certain systematic procedure to find some problem that need to solve (Indriantoro, 2005:256). Referring to the background, formulation of the problem and the theories that have been describe previously, therefore the type of research used in this research is qualitative method by using case study. Qualitative method is research that provide description related to population or phenomenon characteristic (Indriantoro, 2005:256).

According to Jackson (2011: 180), qualitative research focuses on phenomena that occur in natural settings, and the data are analyzed without the used of statistics. This research used descriptive type, by using research method it's means research in fact, problem identification, and problem solving by using knowledge, is an essential from the research activity. It is purposed to describe phenomenon, find the relationship, find influences from one or more activity. Qualitative research is systematic scientific inquiry which seeks to build a holistic, largely narrative, description to inform researcher to understand of a social or the phenomenon of culture (Astalin, 2013:118). Case study research is one of qualitative research that researcher used. According to Yin (2011:17) case study approach is a studies a phenomenon in its real-world context.

By an explanation about it's enough that's why research would try to analyze the problem at Tiara Handicraft in terms of accounting system of raw materials to support the internal control. This research will try to analyzing directly with the activities in the company that focused on accounting system of raw materials.

B. Focus of Research

The important of research focus is to restrict the studies in research therefore that the objects to be studied are not too broad. Based on the description above, so the research focuses of this research are:

1. The accounting system on raw materials includes:
 - a. Forms or documents that used in the accounting system on raw materials purchasing.
 - b. The raw materials accounting system procedures.
2. The elements of internal control that related with accounting system of raw materials purchasing and cash disbursement includes:
 - a. Organization structure
 - b. Recording procedure
 - c. Appropriate practices

C. Location and Site of Research

Location refers to research in which researchers will conduct the research in conduct the problem that already created to make clear the scope of the

study. In this type of research the researcher will involve directly in daily activities to get deeper to understand towards the problem.

This research conducted in Tiara Handicraft which is located at Jl. Sidosermo Indah II/5 Surabaya, 60239, East Java. Tiara Handicraft is growing Small and Medium Enterprises (SMEs) in Surabaya, which focuses on creating craft things that are basically made of cloth.

D. Type and Sources of Data

1. Type of Data

In here, researcher focus on qualitative data. Qualitative data, are the data that generate qualitative researchers with slight refinement (Wollcott, 1994:4).

2. Source of Data

Data source is important factor that consider to determine data collection method to making easy taking a conclusion. This research use primary and secondary data.

a. Primary Data

Primary data is data that gathered directly from the original source of first party. This data collected by the researcher to answer the research question Arikunto (2006:114).

b. Secondary Data

Secondary data means data of the company records. This data collected by the method of abstraction and using to make statistical inference is used primary data to collect by an investigator.

Secondary data include the data that gathered to previous research by third parties or releasing press (Funsho:2012).

E. Data Collection Method

Data collection methods is the main step of the research, because the main purpose of a research is gathering data without collection method. Collection method are systematic procedure and gather the required data (Nasir, 2011:174).

This research used data collection methods, are as follows:

a. Interview

Interview is a method to gather data by arrange direct communication write the company that authorized to record and report raw material activities in the company.

b. Observation

Observation is data collection methods that arrange by direct observation into appear symptoms of research object (Sugiyono, 2005:132).

c. Documentation

Documentation is data collection technique by gather data from the company using written object. Such as document, rule, books, daily record, and other data (Arikunto, 2002: 149).

F. Instrument of Research

Research instruments is a tool or facility used by researchers to collect data in order to make the research easier and more accurate, complete, and systematic

results, so it will be more easily processed. Arikunto (2002: 136) in this research, the instruments used include:

1. Human or researcher Instrument
The main instrument in this research is when researcher conducting observation activity and direct observation in the field related problems raised with the ability, a good in theory and practice that is owned by the researcher.
2. Interview Guide
Interview guide is an invaluable tool in the form a list of questions during the interview. Its purpose other than ease the interviewing process between respondents with researchers also limits the data obtained in order to focus and appropriate based on purposes of research.
3. Field Notes
During the field researchers using field notes to support the observation, documentation, and interviews while underway. The purpose in order to the researchers easily gather information and minimize the loss of information when the research took place.

G. Data Analysis Technique

After the data were obtained from literature and field research is processed, then the next step is to analyze the data. Data analysis is an attempt to find the answers to questions that obtained from the research. Analysis method used is descriptive analysis using qualitative methods. The research method to describe the situation or event, so the method is willing to create the data accumulation mere" (M. Nazir, 1998, hal.64). The following stages in the presentation of data according to Miles and Hubberman in Sugiyono (2008: 247):

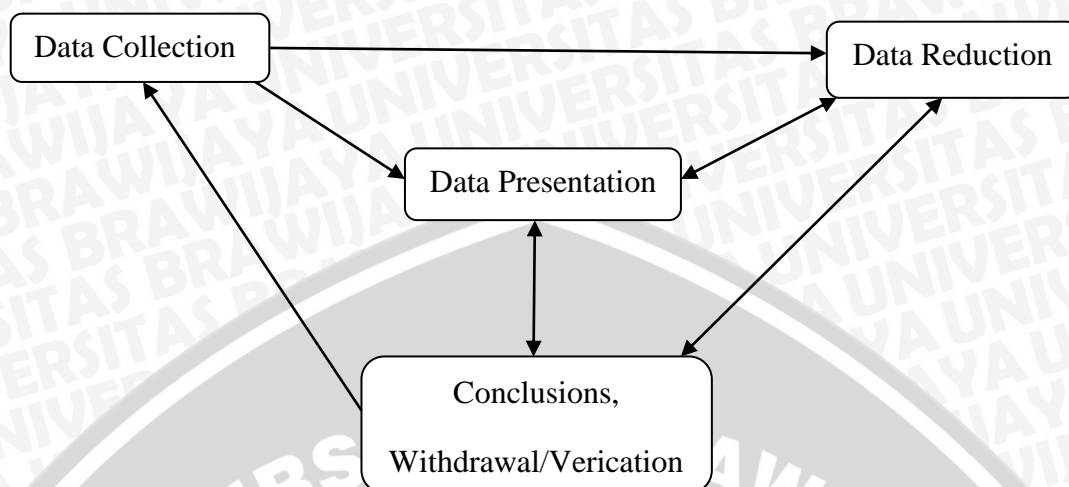


Figure 2: Components of Data Analysis Interactive Model

Resource: Miles dan Huberman, in Sugiyono (2008 : 247)

Remarks:

1. Data Collection: Data collection activities are activities that the researcher obtained by interview, observation, and documentation. This activity is made directly to the related parties, namely Tiara handicraft. The data collected from result of interviews and documentation that conducted by researchers, information obtained from the Tiara handicraft and especially parties that relating to activity of accounting system implementation on raw material purchasing and cash disbursement to support the internal control.
2. Data Reduction: Data reduction is the completion, focusing, simplification, and data abstraction that contained from the rough written records. This means that researchers conducted a review of all the data obtained from various sources and data collection methods have been described. In this process, the researchers also ignore the data or

information that is not in accordance with the problems, objectives, and the focus of research. So that the data presented is an exact data that related with the title of the research.

3. Data Presentation: present in the form of an information series, in the form of descriptive or narrative that can be understood by the reader and describes image data that have been obtained which will be in drag to a conclusion. The data obtained from interviews with related institutions, namely Tiara handicraft and parties that concerned in the implementation of accounting systems. Then Conducting observation and documentation for the implementation of accounting systems on raw materials purchase and cash disbursements in support internal control in order to the data presented in accordance with the results in the field based on the data collection from the research focus.
4. Conclusion / Verification: Pulling down a conclusions is an activity in which researchers observes data collection to the data presentation is described in detail and later give some advice, include solutions or problems solving that arise related to the application of the accounting system on raw material purchases and cash disbursements to support internal control.

CHAPTER IV

RESULTS AND DISCUSSION

A. Company General Overview

1. History

Tiara Handicraft was established in 1995 from the hobby of Mrs. Titik Winarti as the founder of this business. It was started to spend the spare time of Mrs. Titik Winarti as a housewife. Firstly Tiara handicraft only processed recycled goods that still useable such as food containers and cans of soft drink. By gaining a very limited capability and several finance considerations, Tiara handicraft start the production. The production developed in sequent and fortunately it has been become a small business that could support the family income. With a strong willingness and confidence that the quality is more important than looks, it makes Tiara develop faster and can compete with another small business company.

Begin from a hobby in fiddling around with textile material, the owner start from combine between cloth material and unused good. Then, the owner decides to made the more specific goods not only from recycling but also made all new goods from high quality material. Then Tiara handicraft concentrate to produce things, such as:

- 1) Gifts for a newly born and other things for babies.
- 2) Household, such as curtain, table clothes, pillows, bed sheets, etc.

- 3) Wedding accessories (souvenirs, bedroom ornaments, ceremony equipment etc.)
- 4) Handbags
- 5) Clothes for children and adults

By awareness of the importance of human development skill, the company build a training and workshop to reach skillful and developed human resources. This concerned by an understanding of differentiation of human abilities and knowledge especially in entrepreneurship. At the beginning, the company teach and held some training and workshop for some handicapped teenagers. The company hope that they eventually could become a ready-to-work human resources and moreover improving their creativity. This is a very important task since they have limitation in doing things because of their handicapped.

After receiving knowledge from the workshop hopefully they could improve their skill, or at least they could be accepted in a normal social life and could live independently in the community. An opportunity is their biggest hope. Their existence in a business world makes them think that they want to increase their capability. Especially in knowing that their product is well accepted and could be beneficial in the market with no mercy, will be more appreciated by the company.

The growth of the business, the company is composed by so many disability employee. The owner of Tiara Handicraft assumed that the disability people need more opportunities and she discovered that most of

them have a higher intention to work than a normal person. That's why by to educate them is the best way so they are not only able to help themselves but also help another disable people.

Starting from 2009 Mrs. Titik as an owner Tiara Handicraft starting a foundation is “Yayasan Bina Karya Tiara” to accommodate disable people and transfer of labor not only to Tiara Handicraft, but also to other institutions that accept the disable people. Not only developing internal business, given the importance of human development skills, tiara set as training programs and workshops to transfer skills, experience, and also to develop human resources not only for handicapped people, but also for the community. It is concerned by an understanding of differentiation of human ability and knowledge especially in entrepreneurship.

At first, the team of Tiara teaches and holds several trainings and workshops for some teenagers with disabilities. Expected from the type of workshop can improve the ability not only to find jobs but also create job as entrepreneur. This is a very important task because they have limitations in doing things because of their disability. After receiving the knowledge of the workshop hopefully they could improve their skills, or at least they can be accepted in a normal social life and could live in the community independently.

In today's business, SMEs are able to produce so many things not only for souvenirs but also clothing. By the product innovation, and also focus on doing business, tiara capable consistent. Tiara product also begin

their movement into the international market by joining the international SMEs exhibition. To this exhibition, the owner of Tiara Handicraft able to promote the disable empowerment mission to the WHO which is also a potential market for Tiara handicraft of this promotion. This business further than just a business, it is also about empowering the people that are marginalized in this country. This business is not only to produce a product and empower the community, but it's about mindset.

In terms of expanding the business, Tiara handicraft projects often handle orders by phone where most of their customers are local or foreign customers who live near the location of his business. In addition to this website Tiara also use social media as a means of telemarketing to promote their business and their programs to the society all around the world.

2. Company Vision and Mission

In conducting the business with some social activities, is not easy to achieve successfully. Its need to find a draft vision and mission can be found in the organization purpose.

Motto

To give them the opportunity not only sympathy.

Vision

Being an organization that gives an opportunities for disable people not only sympathy, so they can have equal opportunities and equal treatment with other normal people.

Mission

- a) Increasing creativity through handicrafts design
- b) Provide opportunities for disable persons
- c) Developing environmentally friendly mindset
- d) Instill a different mindset in treating persons with disability

3. Organization structure at Tiara Handicraft

The organizational structure is a systematic overview of cooperation relations between the people who are in an institution or organization in order to achieve the goals of the agency or organization.

The organizational structure is something that is very important for every organization within the company because it is through the organizational structure of authority and responsibility can be viewed and implemented with clear and achieve the desired goal. At Tiara Handicraft the total number of members 35 people in which 21 of whom were under training which most of them is disability people.

Organizational structure in Tiara Handicraft is composed of a general manager, a creative director which is directly under the general manager supervision. There are four divisional structure consisting of operational, financial, marketing, and also the material handling and shipping. At the operational department is divided into three sub-division structure consists of cutting, finishing, and also sewing department. Sewing department also includes embroidery division, the division is placed under the sewing department since of the characteristics is the same, but the job

density is high enough, that's why this division was placed under the sewing department. Organizational Structure of Tiara Handicraft shown below:

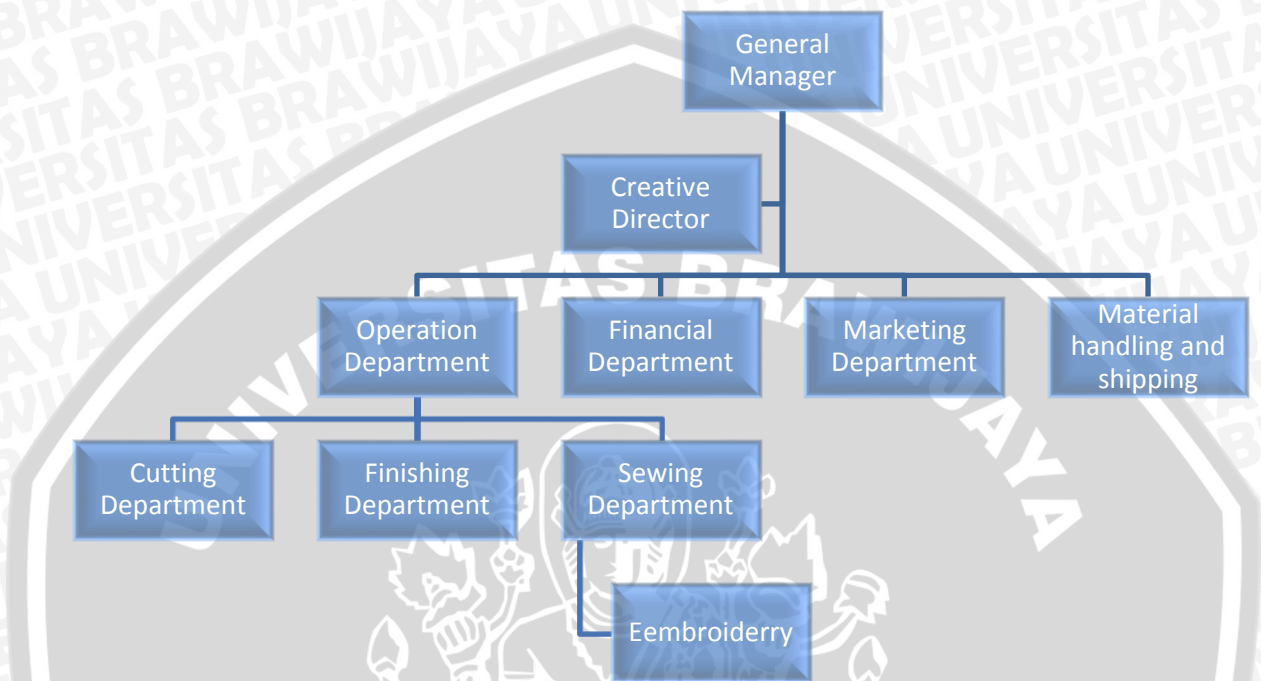


Figure 3 : Organizational Structure of Tiara Handicraft Surabaya

Source : Tiara Handicraft, 2015.

4. Job description of department at Tiara Handicraft

a) General Manger

General Manager is the highest position in Tiara Handicraft organizational Structure. There are some tasks that have to be done by General Manager.

- 1) Highest Project Manager
- 2) Prepare, propose, negotiate, and revise Work Plan and Budget.
- 3) To foster and coordinating work units

- 4) Enabling all work units and employees under supervision in performing job in accordance with the strategy that has been established in order to realize the best possible product and service for its customers.
- 5) Supervise all subordinates and units in order to implement and achieve the objectives of the work plan that has been set up.
- 6) To conduct marketing activities
- 7) To ensure government policy such as tax that implemented correctly and consistently to achieve optimum benefit and minimum risk.

b) Creative Director

Creative director is a crucial position at Tiara Handicraft. Since Tiara Handicraft is a creative organization, that selling creative product, creative director have a crucial position among other division. Creative director have some responsibility like:

- 1) Have a good product design references
- 2) Suggest the newest design to product
- 3) Making sample product (prototype)
- 4) Gather all resource especially information about product raw material combination.
- 5) Handling Experimental Responsibility

c) Financial Department

Financial department have special task related with budgeting and taxation. They have to plan, control, and develop any financial program

related with organization activity in order to do business. There were some functions of financial department:

- 1) Annual business plan making.
- 2) Plan, control, and develop any financial program related with organization activity.
- 3) Manage purchasing and selling notes.
- 4) Responsible in distributing salary.
- 5) Budget plan.
- 6) Asset control.
- 7) General administration, financial and taxation control.
- 8) Evaluate financial report
- 9) Doing another task that given by general manager in accordance with duties and function.

d) Material handling and Shipping department

Since the limited human resource and considering the job density among department, material handling and shipping handling is placed at material handling and shipping department. This department is responsible for:

- 1) Distributing material to other division
- 2) Control equipment from all division
- 3) Deliver product to customer
- 4) Enlist all material and equipment in warehouse
- 5) Help other department in accessing warehouse

6) Give report of equipment and material usage

e) Marketing Department

Marketing have certain responsibility related with marketing activity.

The marketing department tasks are as follow:

- 1) Responsible in developing sales program
- 2) Product promotion by using available media
- 3) Responsible in customer care
- 4) Responsible in dealing with customer
- 5) Give an explanation to customer about the process and material needed for their own product

f) Operational Department

Operational department is the biggest department among departments in Tiara Handicraft. Because Operational department exist and lead 3 sub division in Tiara Handicraft such as sewing, finishing and accessories, cutting and raw material division. Operational department job is so important because all primary and daily task of Tiara Handicraft come from this.

Under Operational Manager, job will be separated and distributed as follows:

Cutting and Raw Material Department

- 1) Calculate raw material needed to make certain product
- 2) Make pattern of product
- 3) Prepare all fabric needs by Sewing Department

- 4) Control fabric cutting neatly
- 5) Archive all Pattern that made
- 6) Collect all left over material for recycling
- 7) Fabric Dye responsibility

Sewing Department

- 1) Sewing Material from cutting Department
- 2) Build the best construction of product
- 3) Control sewed fabric neatly
- 4) Manage all threads and needle personally
- 5) Study the best technic in order to producing the product
- 6) Understand the sewing technique for certain product

g) Finishing and Accessories Department

- 1) Make accessories product
- 2) Responsible in packing
- 3) Evaluate all product output
- 4) Coordinate with General distribution division to prepare delivery process

B. Data Presentation

1. Procedures of Raw Materials Accounting system

Raw materials are very important for the sustainability of a firm and smooth production process in Tiara Handicraft. If the production process can run properly, then the company can operate properly. The accounting system is needed to maintain a smooth production process and

avoiding fraud and mistakes in the process of raw materials purchasing, as well as assisting and supervising the raw materials purchasing, then Tiara Handicraft implements accounting system of raw materials purchasing in order to record and maintain raw materials. Raw materials purchasing on Tiara handicraft include various type of fabrics, hard fabric, dacron and supporting materials (glue, button, artificial goggle, yarn, needle, and etc.)

Based on the interview result which conducted by the researcher to the informant who related with the implementation of accounting system on raw materials purchasing at Tiara Handicraft According to Mr. Ade as purchasing department in charge and also as informant accounting system of raw materials implemented are the following below:

a) Function related

The authority and responsibilities on the Tiara Handicraft is divided into a number of functions in the raw materials accounting system. The functions involved as follows:

1. Purchasing Department

This section is responsible for obtaining information about the goods, determine the preferred supplier in the procurement of goods, and issue a purchase order to the selected supplier.

2. Receiving Department

This section is responsible to counting goods received of purchased order an examination of the type, quality, and quantity of the goods

that received by the supplier in order to determine whether or not the goods are received by the company.

3. Warehousing Department

This section is responsible for submit a request purchase in accordance with the position of existing inventory in the warehouse and to store goods that have been received by the receiving department.

4. Accounting Department

In this section the accounting functions involved in the purchasing transaction is the debt recording function and the function of recording inventory. In purchase accounting system, the debt recording function is responsible for record the purchasing transaction. In purchase accounting systems, inventory recording function is responsible to record the cost of goods sold inventory that purchased into inventory cards.

5. Production Department

This part is responsible for a received job order about raw materials of good, and made the design process for the goods.

b) The procedure of raw materials accounting system on Tiara Handicraft

All the raw materials are obtained by Tiara Handicraft through the raw materials purchasing locally. Here is the raw material accounting system procedure conducted by Tiara Handicraft:

1. The purchase procedure starts from the purchase department in the company who view the inventory of raw materials to meet the needs and requirements of the company's production. At this stage the purchasing department make plans received purchase order of raw materials of existing and planning the purchase, and then made a duplicate document of purchased order (PO) as much 5 copies of sheet. The first sheet sent to the supplier, then the second, third, and fourth of sheet submit to the receiving department and warehousing department. After that the last sheet submits to the purchasing department for saved the company's archived.
2. The next step after the purchasing department is counting the good receives of purchase order (PO) to receiving department. After the purchase order in counting, the receiving department made a receiving report 2 number of copies of sheet. Then the first number of sheet sent to the supplier as an evidence, and the second number of sheet entry into the receiving department as archived.
3. The production department received job order from purchasing department. Then the goods of order have been done design process. After that the goods that have been design done, production department made a material requisition as number of 2 sheets. The first sheet submit to the warehouse department as warehouse card (out), and the second sheet submit to the production department as a company's archived.

4. The next stage is the goods that have been shipped it is accepted and directed to warehouse department. The first sheets of material requisition from production department submit in the warehouse department which will then be recorded as a warehouse card (out). And the fourth number of copies purchased order from the purchasing department will be recorded as a warehouse card (in).
5. The last stage after the purchased goods have been received and stored, then the procedure purchase raw materials on Tiara handicraft is doing by accounting department. Records prepared by the accounting department this is the made an inventory card and record that is inserted into the card stock and the recording was aimed to knowing the cost of god manufacturing before the purchase and after the purchase. The debt record write into debt cards and records prepared by section of accounting is to determine the cost of goods sold. Some of documents such as the sales memo and the delivery letter that is sent at the time of the goods delivery will be stored by accounting department as an archive

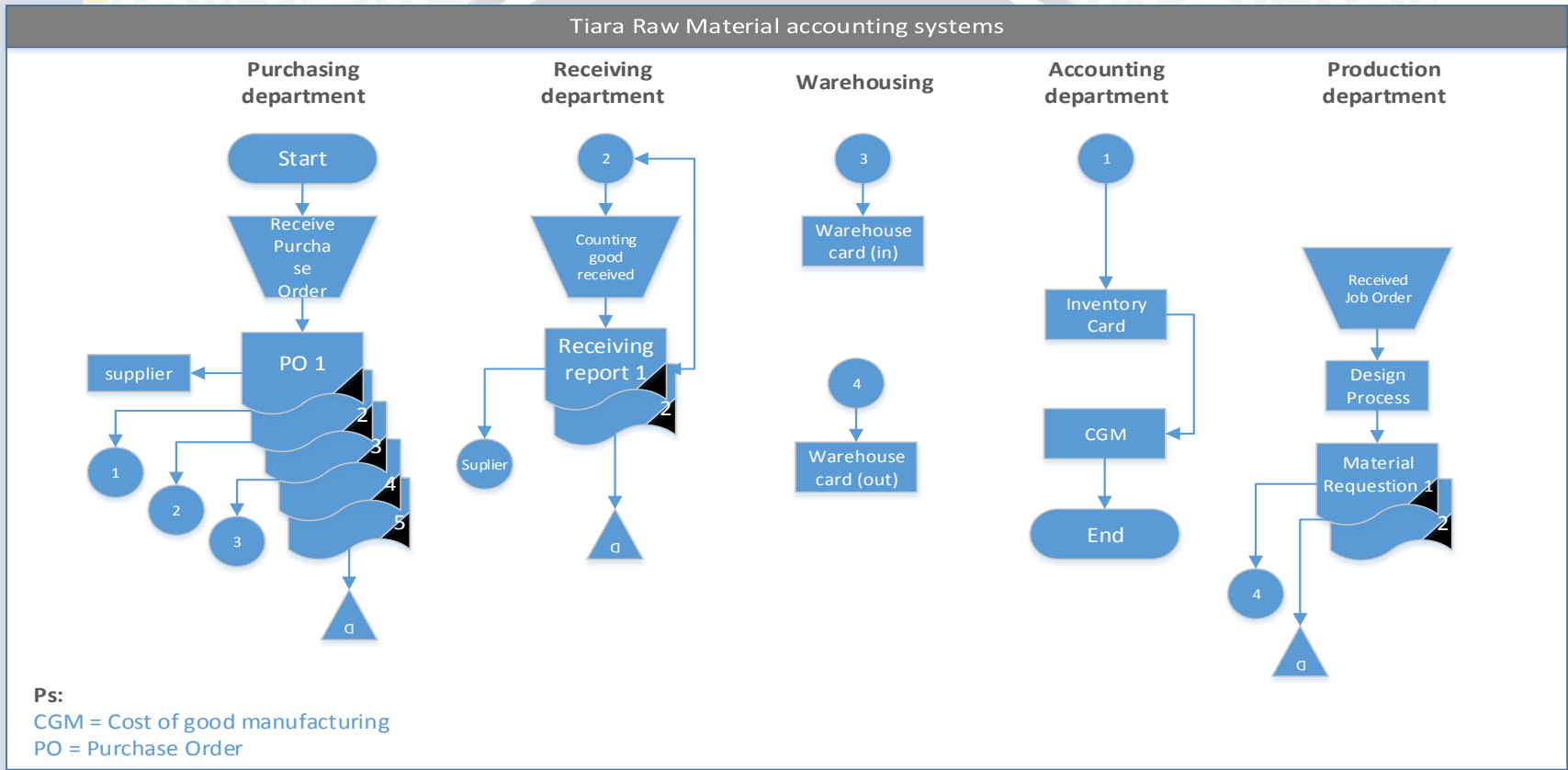


Figure 4: Tiara Raw Material Accounting System Procedure

Source: Tiara Handicraft (2013)

c) **The records that used in purchase accounting system**

The records that used in the raw materials purchasing system that used in the process of raw material purchasing on Tiara Handicraft as follows:

1) **The purchasing record**

This report contains a list of the purchase transaction that are recorded in a certain time period. This report contains a summary of the data that was posted to the general ledger accounts, so it can be used to do the audit scan (audit retail) on account balances. This purchasing report is a list that contains of all transactions (purchases) that processed during one of processing period. This purchasing report makes it easy the auditor's to connecting between the evidence transactions in the general ledger accounts that contains a list of checks that are used to pay the debt.

2) **The general ledger**

This report contains about all lists activities or the transactions of expenditures and also income that conducted by the company within a certain time period. And this report is also used for the makes it easy to the examination (audit) in activities that have been done by the company.

2. Procedures of Establishing Internal Control

Internal control is very important in an organization, to maintain the security and protect the asset of the company, and also so that the

system that has been set up can efficiently run within the company to advances the company into greater goals. In Tiara Handicraft internal control is very important in order to determine management policy adhered by all employees in the company and to an effective and efficient of the running systems.

According to Mr. Ade the implementation of internal control in Tiara Handicraft only covers several the purchase accounting system elements that is used document, related functions and the procedures network that make up accounting system of the purchasing. Implementation of internal control on the purchase accounting system is inseparable from the internal control element itself that consist of:

1. Organization Structure

Internal control that implemented in the organization structure including purchasing department separated from production department. Purchasing function separated from accounting system, but accounting department is not separated from warehouse department. The transaction of raw material purchasing that conducted by Tiara Handicraft includes warehouse department, purchasing department, production department, and accounting function

2. Authority system and Recording Procedure

Tiara Handicraft in conducting the procedure of raw material purchasing used the purchase request letter in the purchase

procedure and also make a report of receipt of goods. Tiara Handicraft uses some of documents or forms and recording procedure, including are:

- The letter of order purchasing which authorized by the purchasing department
- Recording of the debt based on purchasing evidence

3. Appropriate Practices

In implementation of the purchasing procedure at Tiara Handicraft the company implementing some of documents and recording procedure that used in activities or transaction of raw material purchasing. Some of document and recording procedure that implemented include:

- The letter numbered purchasing order are accountable by purchasing department

Some of documents and recording procedure that are not used are:

- The form not used pre-numbered especially for receiving report, purchase order, warehouse card, inventory card, and material requisition.

4. Employee Capability

Every employee Tiara Handicraft required competent, trustworthy, and integrity in performing their duties and obligations in the raw material purchasing procedures carried out by the company. Every employee has responsibility for their

respective jobs and duties. So, the internal control on the raw materials purchasing can be run well and did not cause fraud or error, although the majority of employees are disable people but the spirit and their ability to work must be appreciated.

C. The Analysis Data

In this section describes the analysis on how to identify problems related to the implementation of the accounting system on raw material in order support to the internal control. Problem identification is mainly focused on known causes and the impact caused from the existing problems so that the problems can be fixed as soon as possible in order to maintain stability on the company activities. The problem identifying conducted by finding the weaknesses of the accounting system on the raw materials purchasing implementation, so that from these weaknesses can be erased and eventually the implementation of accounting systems on the raw materials purchasing will be able to support the internal control system that conducted by management.

Based on the data that obtained with conducting a series of activities some of them are interviews and documentation, the next phase will be conducted the data analysis. Data analysis was conducted on the documents and the procedures of the accounting system on raw materials purchasing that implemented by Tiara Handicraft so the weakness and problems can be found and fixed for the time being.

1. The analysis of accounting system on raw material

a. Function related

The functions that related on the accounting system on raw materials in Tiara Handicraft is good enough, that there is a separation between the warehouse department, the purchasing department, the production department, and the accounting department in handling the purchase order procedure. But between the warehouse department with the accounting department still unite and there is no separation, and those parts, warehouse function and accounting function, should be separated into two different parts.

1) The used document

Tiara Handicraft using some simple documents in the process accounting system on raw materials purchasing until the reception, this was done to facilitate the employees in running the duty, checking data as the company archives are useful for maintaining the company assets. The documents used in Tiara Handicraft same as the documents that are generally used by a company, that is:

- a) In the Tiara Handicraft purchasing department to request purchasing function to make a purchase with using the purchasing request letter, but advisable use the purchasing request letter in the purchase procedure.
- b) A ordering letter (the purchasing order letter) that made by the purchasing department was much as 5 sheets, and advisable the

ordering letter be made as many as 4 sheets that is first sheet to the supplier, the second for the purchasing department archives, the third sheet to the receiving department, and the fourth sheet to the warehouse department.

- c) Making of warehouse card that made by the warehousing department to know and calculate the number of physical raw materials inventories that in the warehouse. In Tiara Handicraft accounting department also made the raw materials inventories report existing but the difference record that made in the warehouse department with the accounting department is in the record that made by the accounting department there is a report of the cost of goods manufacturing and record the material used that made by the receiving department, production department, and purchasing department.

b. The procedure accounting system on raw materials on Tiara Handicraft

All the raw materials are obtained by Tiara Handicraft through the raw materials purchasing locally. Here is the raw material purchase procedure conducted by Tiara Handicraft:

1. The purchase procedure starts from the purchase department in the company who view the inventory of raw materials to meet the needs and requirements of the company's production. At this stage the

purchasing department make plans received purchase order of raw materials of existing and planning the purchase. Then the receiving department made the receiving report that next will count. The purchase order and receiving report then sent to the accounting department for the record. If the approves the purchase plan, the accounting department will continue with ask the production department to receive a job order. If the accounting section does not approve the purchase plan, then the purchase plan will be canceled or will be discussed further. The purchasing requests letter that was made consisting of several number of copies, that is:

- The first sheet be given to the supplier
 - Then the second, third, and fourth of sheet submit to the receiving department, warehousing department, and purchasing department
 - The last sheet be kept by purchasing department as an archive
2. The next step after the purchasing department is counting the good receives of purchase order (PO) by receiving department. After the purchase order in counting, the receiving department makes receiving report. (RR) receiving report amounts to four copies, namely :
- The first sheet is a sheet Letter original reservations and sent to the supplier.
 - The second sheet be kept by receiving department as an archive
 - The third sheet be given to the warehouse department
 - The four sheet be given the accounting department as an archive.

Letter of this reservation contains the type of goods and the number of goods to be ordered or purchased and in the ordering letter has listed the price as agreed in advance. Letter of order is made in accordance with the information provided and the needs of the desired goods by the receiving department, after the ordering letter is finished make then the staff on purchasing section gave a letter ordering it to parts accounting department to be approved and known. The ordering letter that has been signed and approved by accounting department amounting to four copies will be sent to the supplier for the first sheet, the second sheet will be kept by purchasing department as an archive, and the third sheet will be given to the warehouse department, and the last sheet or four sheet will be given to the accounting department to kept on archive.

3. The production department received job order from purchasing department. Then the goods of order have been done design process. After that the goods that have been design done, production department made a receiving report then makes material requisition as number of 3 copies of sheets. The first sheet submit to the warehouse department as warehouse card, and the second sheet submit to the accounting department as an inventory card, the last sheet submit to the production department as a company's archived.
4. The next stage is the warehouse department receive the purchased order (PO) and receiving report from the purchase department and

receiving department for made warehouse card. Then the accounting department made inventory card doing the stock opname incidentally without inform to each department related before, especially warehouse department and purchasing department. The purchase order and receiving report entry to the accounting department as an inventory card.

5. The last stage after the purchased goods have been received and stored, then the procedure purchase raw materials on Tiara handicraft is doing by accounting department. Records prepared by the accounting department this is the made an inventory card and record that is inserted into the material used report and the recording was aimed to knowing the cost of good manufacturing before the purchase and after the purchase. The debt record write into debt cards and records prepared by section of accounting is to determine the cost of goods manufacturing. Some of documents such as the sales memo and the delivery letter that is sent at the time of the goods delivery will be stored by accounting department as an archive

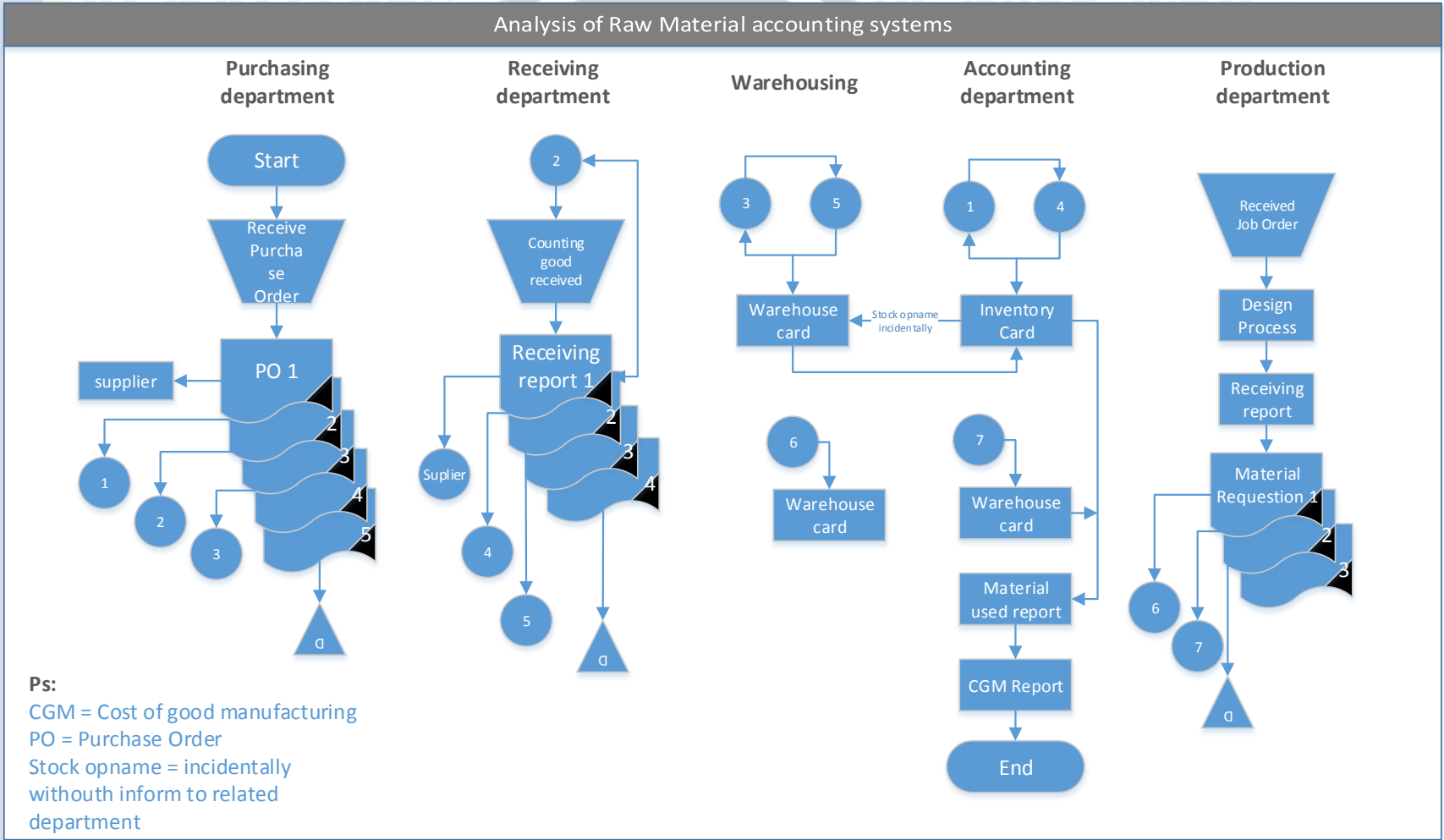


Figure 5: Tiara Raw Material Accounting System Procedure (recommended)

Source: Tiara Handicraft (Processed Data)



c. The records that used in accounting system on raw materials

The records that used by Tiara Handicraft has been good enough in supporting the accounting system and internal control of the company. The records that used in Tiara Handicraft include purchasing reports, receiving report, warehouse card, and inventory card. But advisable the Tiara Handicraft added a purchase receipt report as the records that used in the company, because the purchase receipt report to help accounting department and warehousing department make it easier to examine the documents, see the transactions of purchase, and the truth status of the debt from the purchase.

2. The internal control analysis on raw materials accounting system

The accounting system is a very important to support the company's internal control, especially internal control in the raw materials in order to avoid mistakes and irregularities that could hurt the company. The internal control element on the accounting systems of raw material that conducted by Tiara Handicraft is already good. And analysis that conducted by researchers of the internal control elements in the accounting system of raw materials, including:

1) The organizational structure

In the accounting system of purchasing, there is a separation of duties and functions in the organizational structure. The separation aims to keep the company's asset. The separation of functions that implementation by Tiara Handicraft is good enough which the existence

of a clear separation between the department of purchase, receiving department, and warehousing department, the production department be separate with the warehouse department, and separate the warehouse department with the accounting department.

2. The system of authorization and recording procedures

Every financial transaction happened on the basis of authorization from the official who has the authority to approve occurrence of the transaction, none of the transactions taking place that is not authorized by that has the authority. Based on the analysis that conducted to documents and recording procedures used in the accounting system of raw materials purchasing in Tiara Handicraft, that is :

- A purchase order letter is made by the purchasing section
- The card debts is made by the accounting section

The recording every transaction into the accounting records or general ledgers conducted after doing the payment process.

2) Appropriate Practices

Based on the results of research on the raw materials purchasing accounting system in the implementation of tasks and functions are good enough, be seen that:

- a) Use of purchasing order letters be responsible by the purchase section
- b) The goods checked and counting by the receiving department when the goods arrived

3) Employee Capability

The quality employee is the most important element of the control system. If the company has employees who are competent and honest, other control elements can be reduced to a minimum, and the company is still able to produce reliable financial responsibilities. This internal controls can be seen from all the employees conduct the work in accordance with the targets set by the PR. Sejahtera Abadi Malang.

Based on the analysis conducted by researcher on the accounting system of internal control in the raw materials purchasing, the researchers gave some suggestions to further improve the internal control in Tiara Handicraft Surabaya, as follows:

- a) A suggestion to separate the organizational structure is a function of acceptance must be separated with warehousing department, receiving department, and purchasing department
- b) Must be separate the function between warehouse department and production department as a part of which will perform the duties and functions.
- c) Separate report between warehouse department and accounting department, to avoid dual function in section.
- d) Incidentally without inform to department related before, especially between warehouse department and purchase department.
- e) A suggestion to Tiara Handicraft Surabaya related authorization system and recording procedures, which is :

- The goods demand letter is made and authorized by the receiving department and accounting department
 - The receipt report that made by the receipt section
- f) A suggestion to tiara Handicraft Surabaya related appropriate practice is there is no collusion each department. The form must be pre-numbered especially for receiving report, purchase order, warehouse card, inventory card, and material requisition. There are always using number of copies for all form, except warehouse card and inventory card, because that available of stock opname.



CHAPTER V

CONCLUSION AND SUGGESTION

A. CONCLUSION

Based on the results of the research, literature review, and the analysis have been pulled down some of conclusions about accounting systems on raw materials in order to supporting the internal control in Tiara Handicraft Surabaya, it can be concluded as follows :

1. The accounting system on raw materials on Tiara Handicraft Surabaya is good enough, where the company not only concern in business, but also in social (disability), because most of their employees are persons with disability. Systems that made and implemented in the company has been effective and provide convenience to the company's employees. The accounting system that implemented by the Tiara Handicraft is already good, it can be seen from :
 - a. The organizational structure that good enough where the sections have been standing its own, that the purchasing department, receiving department, warehousing department, accounting department, and production department.
 - b. The documents used in the accounting system of raw materials purchasing Tiara Handicraft have been good enough, with there are

serial number that is printed, and the name of the form. And the document is made and authorized by the competent authority.

- c. The procedure of raw materials purchasing that implemented Tiara Handicraft has been good enough. Related functions in this procedure are not only done by only one section alone but are composed of several department.

Some of the weaknesses that exist in the implementation of accounting system on raw materials purchasing Tiara handicraft, as follows:

- Purchasing department, receiving department, and production department still be one with the reception section
 - The warehouse department and financial department did not make a goods receipt report when receiving goods from suppliers
 - In making payment of raw materials purchase transactions between Tiara Handicraft with suppliers still often use a trust system
2. The internal control in the accounting system of raw materials in Tiara Handicraft must be appropriate, because the small and medium enterprises difficult to make double function internal control. The internal control in the accounting systems of raw materials purchasing his already good seen from :

- a) Internal control in the accounting systems of raw materials purchasing, that include in organizational structure there are separation of duties and functions that obviously.
- b) In the system of authorization and recording procedures there are authorization from the officials that has the authority to approve the transactions.
- c) In the appropriate practice there are responsibility from every function for duties that conducted.
- d) In the capable employee there are competent and hones every employee to work, although the company still have limitation employee because the employee are disable.

B. SUGGESTION

Based on the research there are still many weaknesses on the internal control of raw materials procedures. For reducing the weaknesses above the researcher suggest to:

1. In the accounting systems of raw materials such as :
 - a. In the procedures of raw material purchase, receipt of goods that conducted by receipt section, advisable receipt section make a receipt report in writing or printed.
 - b. The form must be pre-numbered especially for receiving report, purchase order, warehouse card, inventory card, and material

requisition. There are always using number of copies for all form, except warehouse card and inventory card, because that available of stock opname.

- c. In the functions that related between warehousing department, receiving department, accounting department, and purchasing department must be separate as a part of which will perform the duties and functions.



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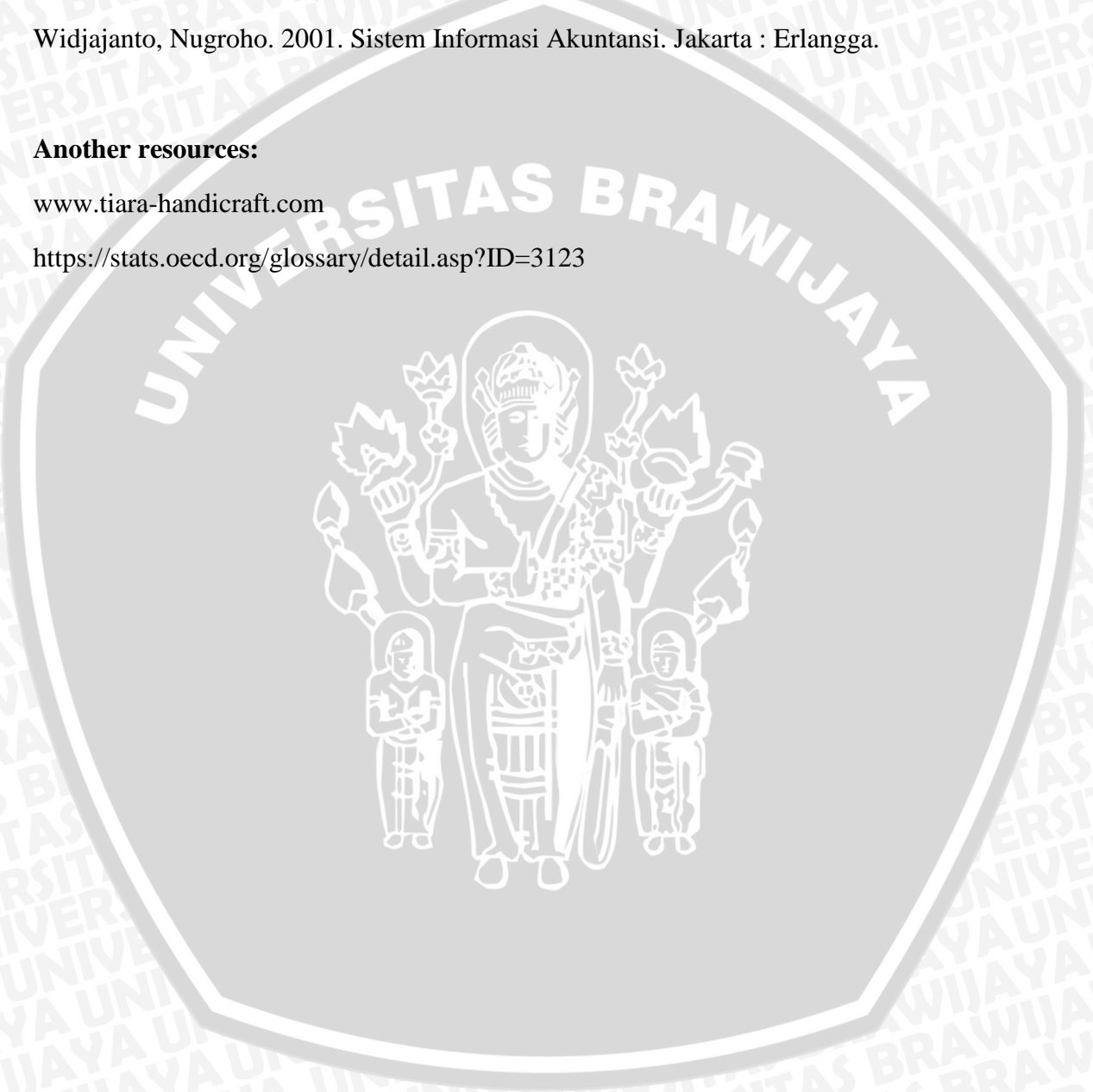
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Another resources:

www.tiara-handicraft.com

<https://stats.oecd.org/glossary/detail.asp?ID=3123>



APPENDIX



(Tiara Handicraft's Finished Goods)



(Tiara Handicraft's Finished Goods)



(Production Process in Tiara Handicraft)



(Production Process in Tiara Handicraft)





(Raw Material of Tiara Handicraft)



(Raw Material of Tiara Handicraft)



(Supporting Material of Tiara Handicraft)



(Additional Material of Tiara Handicraft)



(Raw Material of Tiara Handicraft)



(Research Visit in Tiara Handicraft)



APPENDIX

CURRICULUM VITAE

Name : Ade Liana Fajrin

Student ID Number : 105030201121001

Date of Birth : Tuban, 23 Mei 1992

Formal Education : 1. SDN Kutorejo 1 Tuban Graduated 2004
 2. SMPN 1 Tuban Graduated 2007
 3. SMAN 2 Tuban Graduated 2010
 4. University of Brawijaya

Organization experience : 1. Committee of PK2MABA 2012
 2. Committee of “Seminar Ekonomi Kerakyatan” 2012

Internship Experience : PT. Reliance Securities Tbk, Malang 2013

Research Experience : 1. The Implementation of Internal Control on Raw Materials Accounting System (Case Study at Tiara Handicraft Surabaya)



