THE IMPLEMENTATION OF ACCOUNTING SYSTEM ON RAW MATERIALS IN ORDER TO SUPPORT THE INTERNAL CONTROL (Case study at Tiara Handicraft Surabaya)

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ABSTRACT

These research objectives are to: identify the key success in business operations of the company, to describe the implementation of accounting system on raw materials in order to support the internal control that has been applied by Tiara Handicraft, 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. 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. Tiara Handicraft Company must apply the implementation of raw materials accounting system well and adequately. 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.
INTRODUCTION

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. One of the companies 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. 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.

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. 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. Accounting system is required by the company in this case the raw material has an important position, especially in the production process.

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. In inventory of raw materials we required a better system which provides a network of integrated procedures in implementing an enterprise activity smoothly.

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. a good internal control system does not provide an opportunity for every person in the position to make mistakes and actions, 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.

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. 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. 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. So, that internal control system will achieve a more effective management in the company activities.

THEORITICAL FRAMEWORK

Empirical Studies

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. 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. This result supported the production process in general.

**Accounting System**

In accounting system, required to distinguish between the definition of systems and procedures. According to 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”.

Accounting system is a system which has a fundamental role development and achievement of a purpose in a company. 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”.

Accounting system consist of some element, they are forms, notes and reports which are organized to give some information for facilitating company management.

**Purchase Accounting System**

Purchase accounting system is critical to the company due to hold items that the company needs to carry out its activities. According to the opinion of Baridwan (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 systems of purchase required by the company to manage all purchase procedures, from the request, the purchase until the item is received.

The purpose of the purchase accounting system is to enable companies to make purchases that could harm the company. 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. Classification of system purchases are cash purchases, payments, contracts, through intermediaries.

The documents are used to record and archive for every purchase transaction. So every purchase transaction can be responsibility for righteousness. 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.

b. Request for Quotation Letter
   This document is used for requesting the price negotiating of goods which concern the large purchases.

c. Purchase order letter.
   This document is used for ordering the goods to the selected supplier.

The procedure Networks that required as a basis for regulating the activities process of the concerned functions in the purchase accounting systems. This procedure should be conducted by certain conducted and function in sequence. The function should not be mastering some procedures, it is can indicated to prevent fraud in the implementation.
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). SMEs are different from large organizations in terms of their small number of employees and the significant role played 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-Pacific 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.

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.

Internal Control system

Internal control is the policies and procedures that protect assets from misappropriation, ensure that business information is accurate, and ensure that regulations are being followed. According to 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. 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).

Relationships between the Internal Controls on Purchasing System

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
b) Authority system and Recording Procedure
c) Sound Practices

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 implementation the activities on purchase to avoid of fraud.

RESEARCH METHOD

Types of Research

This research using the descriptive type, by using research method, its means research in fact, problem identification, and problem solving by using knowledge, is an essential from the research activity. It’s purposed to describe the phenomenon, find the relationship, and find the influences from one or more activities.

Data Collection Method

Data collection methods are the main step of the research, because the main purpose of a research is gathering data without collection method. Collection methods are systematic procedure and gather the required data. This research used data collection methods, 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 activity 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.

Data Analysis Technique
   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.

![Figure 2: Components of Data Analysis Interactive Model](image)

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

1. Data Collection: Data collection activities are activities that the researcher obtained by interview, observation, and documentation.
2. Data Reduction: Data reduction is the completion, focusing, simplification, and data abstraction that contained from the through written records.
3. Data Presentation: The data obtained from interviews with related institutions, namely Tiara handicraft that concerned in the implementation of accounting systems. Then Conducting observation and documentation for the implementation of accounting systems on raw materials purchase in support internal control with the results on the data collection from the research focus.
4. Conclusion / Verification: an activity in which researchers observes data collection to the data presentation, include solutions or problems solving that arise related to the application of the accounting system on raw material to support the internal control.

RESULT AND DISCUSSION

Procedures of Raw Material Accounting System
   Based on the interview of 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 and also as informant accounting system of raw materials implemented are the following below:

![Figure 3: Tiara Raw Material Accounting System Procedure](image)

1. The purchase procedure starts from the purchase department 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 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 steps after the purchasing department is counting the good receive 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 to knowing the cost of god manufacturing before the purchase and after the purchase. The documents such as the sales memo will send at the time of the goods delivery will be stored by accounting department as an archived.

The Result Of Procedure Accounting System On Raw Materials On Tiara Handicraft

![Diagram](image)

Figure 4: Tiara Raw Material Accounting System Procedure (recommended)

1. The purchase procedure starts from the purchase department in the company on inventory of raw materials to meet the needs and requirements of the company's production. At this stage the purchasing will receive order and make received order receipt. Production department will receive job order, therefore design process and received report. 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.

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 and will be counted together with goods. 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 is kept by receiving department as an archive.
   - The third sheet is given to the warehouse department.
   - The four sheets are given the accounting department as an archive.

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, on purchasing department gave a letter ordering it to parts accounting department to be approved and known. The ordering letter to be 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 keep by purchasing department as an archived, and the third sheet will be given to the warehouse department, and the last sheet will be given to the accounting department to keep on 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 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 departments 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 purchasing 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.

CONCLUSION AND SUGGESTION

Conclusions

Based on the results of the research, literature review, and the analysis have been 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. A system that made and implemented in the company that has been effective and provides 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 department 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. 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 department but are composed of several departments.

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 receiving department, advisable receiving department 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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