

**EVALUATING ON THE INTERNAL CONTROL OVER
INVENTORY PURCHASING AND STORING
(A CASE STUDY AT PT.SANSICO NATURA RESOURCES)**

SKRIPSI

By

Liu Kangpei

008201000118

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PANEL OF EXAMINERS APPROVAL SHEET

Herewith, the Panel of Examiners declares that the skripsi entitled “Evaluating on the Internal Control over Inventory Purchasing and Storing (A case study at PT. Sansico Natura Resources)” submitted by Liu Kangpei, Accounting Study Program, Faculty of Business, has been assessed and proved to pass the Oral Examination on Feb 19, 2014.

Chairman, Panel of Examiner,

Misbahul Munir, MBA., Ak., CPMA

Examiner 1

Dr. Fahruzzaman, SE., MDM., AK., CA

Examiner 2

Drs. Umar Subandijo, MBA.

RECOMMENDATION LETTER OF SKRIPSI ADVISER

The skripsi prepared and submitted by:

Name : Liu Kangpei

Student ID : 008201000118

Faculty : Business

Study Program : Accounting

Kripsi Title : Evaluating on the Internal Control over Inventory Purchasing
and Storing at PT. Sansico Natura Resources

has been reviewed and found to have satisfied the necessities for Oral Defense as partial fulfillment of the requirements for a skripsi for Bachelor Degree in Business - Major in Accounting, fit to be examined. Therefore we recommend this skripsi Oral Defense.

Cikarang, Indonesia, 27 January 2012

Acknowledge

Skripsi Advisor,

Dr. Sumarno Zain, SE, MBA, AK

Misbahul Munir, MBA., Ak., CPMA

Head, Accounting Study Program

DECLARATION OF ORIGINALITY

I hereby declare that the skripsi entitled “**Evaluating on the internal control over inventory purchasing and storing (a case study at PT. Sansico Natura Resources)**” is originally written by myself based on my own research and has never been used for any other purpose before. I, therefore, request for Oral Defense of the skripsi.

Cikarang, Indonesia, 27 January 2014

Researcher,

LIU KANG PEI

(008201000118)

EVALUATING ON INTERNAL CONTROL OVER INVENTORY PURCHASING AND STORING (A CASE STUDY AT PT. SANSICO NATURA RESOURCES)

ABSTRACT

Inventory is the core resources to generate revenue in PT Sansico Natura Resources. So the inventory management involved the inventory sales and inventory purchase activities is the most important issue for the company, with the development of the company business, some weaknesses of the management system start to make big difference to the company and the company management is also taking measurment to solve it. The writer's objective is to find out what and how the internal control over inventory purchasing and stroing implamentate in the company and give writer's recommendation to imporve the system.

The writer choses the qualitative method to do the research and analyze the internal control over the inventory purchasing and storing by conducting the interviews to respondents, inquire with person related to the activities as well as documentation the working procedures and job description of each related employees.

During the research, the writer found out some improper behaviors related to inventory managment. Such as PT.XYZ facing surplus of inventory, fails to handle its customer's compalins properly, procedure of receiving return product is not problemed, and purchase inventory is not at best price.

Based on the findings and the analysis of the causes and effects, the writer recommend the company to create a prudent sales plan and do cost and benefit analysis, to handle customers' complains within two days, to evaluate their procedure of receiving return goods, and to make at least three vendors' comparison.

Key Words: *Inventory, Internal Control, Puchasing, Storing.*

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Warm regards,

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TABLE OF CONTENTS

SKRIPSI TITLE	i
PANEL OF EXAMINERS APPROVAL SHEET	ii
SKRIPSI ADVISERRE COMMENDATION LETTER	iii
DECLARATION OF ORIGINALITY	iv
ABSTRACT	v
ACKNOWLEDGEMENT	vi
TABLE OF CONTENTS.....	vii
CHAPTER I : INTRODUCTION	1
I.1 RESEARCH BACKGROOUND.....	1
I.2 PROBLEM IDENTIFICATION AND STATEMENT.....	2
I.3 OBJECTIVE.....	3
I.4 RESEARCH SCOPE AND LIMITATION.....	3
I.5 BENEFIT OF THE STUDY.....	4
I.6 RESEARCH METHOD.....	5
CHAPTER II : LITERATURE REVIEW	6
II.1 INTERNAL CONTROL.....	6
II.1.1 DEFINITION OF INTERNAL CONTROL.....	6
II.1.2 OBJCTIVE OF INTERNAL CONTROL.....	7
II.1.3 COMPONENTS OF INTERNAL CONTROL.....	8
II.1.3.1 CONTROL ENVIRONMENT.....	8
II.1.3.2 RISK ASSESSMENT.....	11
II.1.3.3 CONTROL ACTIVITIES.....	12
II.1.3.4 INFORMATION AND COMMUNICATION.....	14
II.1.3.5 MONITORING.....	14
II.1.4 TEST OF INTERNAL CONTROL.....	15
II.2 INVENTROY PURCHASING AND STORING.....	17

II.2.1 DEFINITION AND TYPES OF INVENTORY	17
II.2.2 INVENTORY PURCHASING AND STORING.....	18
II.2.2.1 DEFINITION OF PURCHASING AND PURCHASING DEPARTMENT.....	18
II.2.2.2 PURCHASING PROCESS.....	19
II.3 CONTROL OBJECTIVES & PROCEDURES OVER PURCHASING AND STORING.....	22
CHAPTER III : DATA PROCESSING METHOD AND COMPANY’S EXISTING CONDITION.....	24
III.1 DATA COLLECTING AND PROCESSING.....	24
III.1.1 DEFINITION OF QUALITATIVE METHOD.....	24
III.2 COMPANY’S EXSITING CONDITION.....	29
III.2.1 HISTORY OF THE COMPANY.....	29
III.2.2 LEGAL FORM OF COMPANY.....	29
III.2.3 COMPANY STRUCTURE AND JOB DESCRIPTION.....	29
III.2.4 COMPANY’S OPERATION.....	32
CHAPTER IV : ANALYSIS AND EVALUATION.....	36
IV.1 ANALYSIS ON EXISTING CONDITION OF PURCHASING AND STORING ACTIVITIE.....	33
IV.2 COMPANY IS FACING SURPLUS OF INVENTORY.....	37
IV.3 COMPANY FAILS TO HANDLE ITS CUSTOMER’S COMPLAINS PROPERLY.....	38
IV.4 COMPANY DAMAGED GOODS MISPLACED OR LOSS.....	40
IV.5COMPANY DOES NOT PURCHASE INVENTORY AT THE BEST PRICE	41
CHAPTER V : CONCLUSION AND RECOMMENDATION.....	43
V.1 CONCLUSION.....	43
V.2 RECOMMENDATIONS.....	45

BIBLIOGRAPHY (REFERENCES)

COMPANY ORGANIZATION STRUCTURE

COMPANY'S CONFIRMATION LETTER

CHAPTER I

INTRODUCTION

I.1. Research Background

The basic financial purpose of an enterprise is to optimize of its value. Inventory management can be a tool to realize this fundamental aim. The management of inventory is one of the key concerns of all businesses. Inventory is an asset that is held by a business to be sold to customer or to support production activities. Inventory, includes raw materials, work in process and finished goods, and represents one of the most important assets that most businesses possess to generate revenue. For a trading company, in the situation that inventory is not available, sales and profits will decrease as customers can go somewhere else to buy what they need.

Management of inventory is very tricky. If a company's inventory balance is too low, it is a risk as it can delay in fulfilling its customer's orders and lose potential sales/market as well. On the other hand, high inventory balance with low inventory turnover may mean that the organization is using their money inefficiently. Therefore managers should be able to manage its inventory efficiently and effectively to make company optimize its profit.

PT. Sansico Natura Resources is a trading company which running a business in selling LED lighting products. The company established since 2010

as a small company. Based on preliminary survey done by researcher, as the time goes by, with the increase of the orders, inventory purchasing and storing activities become more complicated and problems, some indications show that there are customer complains that their orders were not delivered in time. In addition, some of the inventories in warehouse are defected, some other are slow moving inventories. Those problems make the company's needs to assess internal control system to find out the weaknesses then overcome them as soon as possible to prevent it from greater losses.

Based on the above description, researcher is interested in evaluating how the internal control over inventory purchasing and storing at PT. XYZ.

I.2. Problem Identification and Statement

As a role of purchasing grows significantly for the company, the Purchasing Department is being charged with even more responsibilities and higher requirements in PT. Sansico Natura Resources, the company management is trying to develop and improve a good and proper Internal Control to achieve a maximum effectiveness of purchasing.

Based on the describe above, this reasearch problems are formulated as follow:

- 1) Is there any weakness in the purchasing process in PT. SNR compared with the framework of internal control theory?

- 2) How is the real condition, what should be the criteria for the condition, what is the cause for the condition, and what is the effect for the condition?

I.3 Objective

The purpose of the present research is in order to obtain the data that has to do with the company's internal control over inventory purchasing and storing, then process and analyze. Objectives to be achieved by the researcher of the study are as follows:

1. Understanding how internal control over inventory purchasing and storing is being implemented at PT. XYZ;
2. Identifying weaknesses in its internal control over inventory purchasing and storing at PT. XYZ;
3. Defining recommendations to overcome the weaknesses.

I.4 Research Scope and Limitation

The internal control covers whole company's policies and activities in all departments. However, the scope of this study is only to evaluate inventory purchasing process and storing process related with the LED indoor lighting products which are for resale purposes. From the internal control view, the researcher focuses on control environment and control activity, which are

organizational structure, assignments of authority and responsibility, segregation of duties, performance reviews, and proper physical controls.

Researcher is limited to access confidential data of the research objective, so there will not be figures or numbers related to inventory balance.

I.5 Benefits of the study

There are several benefits can be obtained by doing the research, the company been researched, the researcher, and also reader of this research:

1. Research benefits for management of the company to be researched:
 - 1) Feedback about the weakness;
 - 2) Recommendation that can be considered to implemented;
2. Research benefits for by the researcher:
 - 1) Better understanding about inventory management by case study at PT. XYZ;
 - 2) Improving the skills in gathering and analysing practical data for research purpose;
3. Research benefits for other researchers or reader:
 - 1) This research could be used as a reference for other researcher who wants to conduct the related research in the same topic and provide a additional opinion regarding inventory management.

I.6. Research Method

In collecting data, this research used two methods that are field research and library research:

1. Literature review – collecting information from references, including textbooks, journals, and internet resources, used as criteria for assessing the existing condition journalized value.
2. Field research – collect data and information directly to the company, through:
 - 1) Inquiry of the client – oral interview or discussion with managements or staffs of the company. Questions and answers to all related parties including Purchasing Department, Sales Admin, and Logistic of PT. XYZ in order to collect the data which can be used to the author's needs.
 - 2) Observation – collection of data primer to get the necessary information and conduct direct observation to the company which is the object of the thesis and being research located in Jakarta.
 - 3) Documentation – gather all documents that related to inventory which start from customer order till the goods deliver to customer.
 - 4) Physical examination –a process of checking or computing physically on a tangible asset.

CHAPTER II

LITERATURE REVIEW

II.1 Internal Control

II.1.1 Definition of Internal Control

COSO (Committee of Sponsoring Organization of the Treadway Commission) (2002) defined, “internal control as a process, affected by an entity’s board of directors, management and other personnel. This process is designed to provide reasonable assurance regarding the achievement of objectives in: 1) effectiveness and efficiency of operations; 2) reliability of financial reporting, and 3) compliance with applicable laws and regulations.” (p.226)

Warren and Aren (2009) emphasized in Sarbanes-Oxley the importance of effective internal control. It is defined as the processes and procedures in a company to: 1) safeguard its assets; 2) process information accurately; 3) ensure compliance with laws and regulations. (p. 353)

In conclusion internal control is a process set by the organization to achieve company’s goal and purpose. The physical substances of internal control can be company’s policies and regulations, but not merely that. All people of the company are involved in implementing it. Sarbanes-Oxley requires company’s independent accountants to report the effectiveness of the company’s internal

controls. The purpose of Sarbanes-Oxley is to deter fraud and prevent misleading in preparing financial statement.

III. 1.2 Objective of Internal Control

Hall (2010) wrote that, “The internal control system comprises policies, practices and procedures employed by the organization to achieve four broad objectives such as to safeguard the assets of the firm to ensure the accuracy and reliability of accounting records and information, to promote efficiency in the firm’s operations, and to measure compliance with management’s prescribed policies and procedures.” (p.128)

As explained above and also from the definition of internal control, the objective of internal control can be summarized into:

- 1) Safeguard assets of the firm;
- 2) Promote efficiency and effectiveness in the firm’s operation;
- 3) Ensure the company’s activities are compliance with government regulations;
- 4) Ensure transparency and accessibility information so that key decision maker has access to the primary data.

It is also important to understand that internal control can provide reasonable assurance to an entity’s management and board, but not absolute assurance.

II.1.3 Components of Internal Control

Based on COSO framework, there are five components of internal control helps to achieve its objectives, which are:

- 1) Control environment,
- 2) Risk assessment,
- 3) Control activities,
- 4) Information and communication, and
- 5) Monitoring.

II.1.3.1 Control Environment

Refer to William (2007) Control environment is a foundation for all other components because how the implementation of it will influence the effectiveness of the other components. It sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

Seven elements identified by COSO for an effective control environment:

a) Integrity and Ethical Values

Through carrying out the policy, codes of conduct, examples, company can communicate with company employees of integrity and ethical values. The top management who create the policies must tie up with them to set a behavioral standard to all people. As well as to reduce the incentive and temptations that might make a person behaves improperly.

b) Communication to Competence

Management of company should have the competence, one of the competence mentioned above, which is the knowledge and skills necessary to accomplish tasks that define an individual's job. For example, management should consider of the competence levels of a specific job.

c) Board of Director or Audit Committee Participation

Board of Director (BOD) is important for effective corporate governance because it has ultimate responsibility to make sure management implement proper internal control. Audit Committee as a subcommittee of BOD which is separates from management. An effective BOD is independent from management, stay involved in management's activities, and their working ability is above the average of management so they can take action whenever difficulties raise and solve difficulties with management, and able to interact with internal and external auditors.

d) Management's Philosophy and Operating Style

Many characteristics may form a part of management's philosophy and operating style and have an impact on the control environment. Those characteristics are:

- Approach to taking and monitoring business risk.
- Reliance on informal face-to-face contacts with key managers versus a formal system of written policies, performance indicators, and exception reports.
- Attitudes and actions toward financial reporting....

Management, through its activities, builds clearly signals to employees about the importance of internal control. Those activities including all the actions of management take towards company's operation, business risks, or the attitudes and actions of management in making financial reporting.

e) Organizational Structure

The Company's organizational structure supports effective internal control over financial reporting. To understand organizational structure means a lost for internal or external auditors. Internal auditors as part of the organizational structure which can provide independent assessment on other controls such as the effectiveness of company's risk management. External auditors can perceive how the company management is and what functional elements of business are by understanding the organizational structure of client.

f) Assignment of Authority and Responsibility

Authority and Responsibility is a further expansion of the organizational structure. Usually company will has clearly job description to allocate resources and relive the responsibility in the organization to achieve overall goals.

g) Human Resource Policies and Procedures

Human resource is one of the most important aspects of internal control. Company must have policies in hiring, orienting, training, evaluating, counseling, promoting, compensating employees. If employees are trustworthy, this will help to result a reliable financial reporting.

II.1.3.2 Risk Assessment

According to Arens, Elder, and Beasley (2004) stated that, “Risk Assessment for financial reporting is management’s identification and analysis of risks that might happen when the preparation of financial statements in conformity of appropriate accounting standards.” (p.297)

The company risk assessment for financial reporting is doing some identification and analysis the significance and possibility to occur of risk relevant to the preparation of financial report according to the accounting standard applied. Then, company can take action wisely to reduce the likelihood of risk to occur.

If auditors assess risk in a company operation, for example fraud and errors, then they will know what types of evidences they need to collect.

Hall (2011) said that, “Risk can arise or change from:

- Change in the operating environment that needed new or change competitive pressures of the organization.
- New worker who have a different understanding of internal control;
- New person who handle information system that may affect transaction processing;
- The implementation something new like technology into the production process or information system that has impacts on transaction processing;
- The introduction of new product or activities that the organization has little experience;

- Organizational restructuring resulting in the reduction or reallocation of worker that have impacts in operations and transactions.
- Entering into foreign markets that may impact operations, such as the risks associated with foreign currency transactions.
- Adoption of new accounting principle that impacts the preparation of financial statements.” (p.133)

Obviously that risk raise form internal and external events. And its circumstances that can affect the company’s ability to prepare and report he financial statement.

II.1.3.3 Control Activities

Messier (2003) explained that, “Control activities are the policies and procedures that help to ensure that necessary actions are taken to address the risks involved in achieving the entities objectives. Those control activities that are relevant: segregation of duties, information processing controls, physical controls, performance reviews.” (p.412)

a) Adequate separation of duties

Authorization process must be separated with recording process, and safeguard the related assets. This activity can reduce the possibility and opportunity from one person who handles all to commit fraud and conceal errors because he/she is the only one who handles it, so he/she can do whatever to cover the fraud and error. There are two types of authorization: general and specific.

Under general authorization, management will establish policies and subordinates are unstructured to implement these general authorizations by approving all transactions within the limits set by the policy. For example, issuance of price list, credit limit of customer, etc.

Specific authorization applies to individual transaction, for example, sales manager sign on the quotation to be issued.

b) Adequate documents and records

Documents and records should be:

- Pre-numbered consecutively to facilitate control over missing documents and important for the completeness transaction related audit objective.
- Prepared at the time a transaction takes place, or as soon as possible thereafter, to minimize timing error.
- Designed for multiple uses, when possible to minimize the number different forms.
- Constructed in a manner that encourages correct preparation.

This can be done by providing internal check within the form of record.

c) Physical control over assets and records

Make sure company provides secured facilitate, authorization of access accounting program and data to count the physical assets periodically. Both assets and records need to be protected; otherwise, they will be stolen, damaged.

d) Performance reviews

At this activity, company using accounting software to check the actual accountant's actual performance with budgets, forecast, prior period performance, financial data with analysis, investigation of unexpected differences, corrective actions and reviewing activity performance.

II.1.3.4 Information and Communication

The information and communication system in company included all infrastructures that help management in making a financial statement. It consists of physical and hardware components such as printers, computers, copy machines, and also software systems as excel, word etc.

The purpose of information and communication system is to initiate, record, process, and report the operating activities.

II.1.3.5 Monitoring

According to Messier (2003) stated that, "Monitoring is a process that assesses the quality of internal control over time." (p.229)

This activity is dealing with ongoing process and periodic assessment to know quality of internal control down by management. By studying the existing internal control, internal auditor reports, expectation reporting on control activities, reports by regulators such as bank regulatory agencies, feedback from operating personnel, and complaints from customers about billing charges will used to test

the performance of company's internal control. Then, usually the internal audit department will take measurement to improve it.

II.1.4 Test of Internal Control

Arens writes that there are several steps that must be done to test the internal control. Those steps are:

- 1) Obtain and document understanding of internal control design and operation

Three methods usually used by auditors to obtain and document an understanding of the design of internal control which are:

- a) Narrative

It is a written description of client's internal control. A proper narrative includes four characteristics which are the origin of every document and record in the system, all processing that take place, the disposition of every document and record in the system, and an indication of the controls relevant to the assessment of control risk.

- b) Flowchart

An internal control flowchart is a diagram of the client's documents and their sequential flow in the organization. An adequate flowchart includes the same characteristic as narrative. It is advantageous because it provides a concise overview of the company's system.

- c) Internal control questionnaire

Internal control questionnaire is a series of questions about the controls in each area as a mean of uncovering aspects of internal control that may be inadequate. In most cases, questionnaire requires a “yes” or “no” response, with “no” response indicates potential internal control deficiencies. By using questionnaires, management or auditors cover each audit reasonably quickly. The primary disadvantage is that individual parts of the company’s system are examined without providing an overall view. In addition, a standard questionnaire is often not applicable to some organization, especially the smaller ones.

In order to evaluate the operation of internal control the following methods used:

- a) Make inquiries of company’s personnel;
- b) Examine document and records;
- c) Observe entity activities and operations;
- d) Perform walkthrough of the accounting system.

2) Access control risk

According to William (2007), the first step is to access whether the entity is auditable. Two factors that affect the audit ability are the integrity of the management and the adequacy of accounting records.

The next step is to make the preliminary assessment of control risk. It is a measure of the auditor’s expectation that internal control will neither prevent material misstatement from occurring nor detect and correct them if they have occurred.

3) Design, perform, and evaluate test of control

William stated that (2007): “Test of control is the procedure to test effectiveness of controls in support of a reduced assessed control risk. It is only applied when the assessed control risk has not been satisfied by the procedure to obtain and document understanding the procedures are the same with the procedure to obtain and document understanding of internal control operations.” (p.294)

II.2 Inventory Purchasing and Storing

II.2.1 Definition and Types of Inventory

Inventory is the materials and goods held by an organization to support production (raw material, subassemblies, work in process), for support activities (repair maintenance, consumables), or for sale or customer service (merchandise, finished goods, spare parts).

Thus, it can be concluded that inventory is a current asset that been held by organization to support production, or for support activities, or intend to sale or customer service. There are three types of inventory that are concern to managers:

- Raw materials & purchased parts are substances or materials that are used in the manufacturing of finished goods.

- Partially completed goods called work-in-process or semi-finished goods that material that is in the production process, but is not yet a finished good.
- Finished goods – (manufacturing firms) or merchandise (retail stores) items that are in stock and that await sale to your customer. They have completed the manufacturing process and are ready for sale. The proper management of Finished Goods Inventory is a key concern to many businesses.

II.2.2 Inventory Purchasing and Storing

II.2.2.1 Definition of Purchasing and Purchasing Department

Refer to Journal of Operations Management 22 (2004), “There are two basic types of purchasing: purchasing for resale and purchasing for consumption or transformation. The former is generally associated with retailers and wholesalers. The later is defined as industrial purchasing.” (p.505)

The Purchasing Department in a company is responsible for determining the organization’s requirements, selecting n optimal source of supply, ensuring a fair and reasonable price (for both the purchasing organization and supplier), and establishing & maintaining mutually beneficial relationships with the most desirable suppliers. In other words, purchasing department determines what to buy, where to buy, how much t buy, and ensure its availability by managing the contract and maintaining strong relationships with suppliers.

II.2.2.2 Purchasing Process

Hall (2007) explained that, “Purchasing Procedures include the task involved in identifying inventory needs, placing the order, receiving the inventory, and recognizing the liability.” (p.232) Here list down the process of purchasing:

- 1) Initiating purchase.
- 2) Receipt of goods
- 3) Recording liabilities

- 1) Initiating purchase.

The request by an entity for a transaction with another entity, including:

- a) Placing Vendors on an Authorized Vendor List

William (2007) explained that, “The process of approving vendors for the delivery of goods and services is an important control, particularly in accounting systems that rely on computer controls. If management, typically the purchasing department, establishes strong controls over putting authorized vendors on an authorized vendor list, it is difficult for employees to initiate transactions with fictitious vendors.” (p.701)

- b) Request goods and services

According to Hall, the processes of purchasing start from preparing the Purchase Request (PR). The PR is a written request for goods or services by an authorized individual or department to the purchasing department. It is a basis

for purchasing department to prepare a purchase order (PO). Information usually includes as follow:

- Department name
- Date
- Account code to be charged
- Requisition number
- Desired delivery date
- Description, model number, or specifications of required purchases
- Quantity required
- Authorized signature

The number of copies required can range from an original for the purchase department, and a copy for user's file, and a three-part form (adding a copy for bookkeeping).

c) Preparing purchase orders

William (2007) explained that, "The purchasing department should have the authority to issue purchase orders (PO) only on the receipt of properly approved purchase requisitions." "Purchase orders should contain a precise description of the goods and services desired, price, and vendor name and address. Purchase orders should be pre-numbered and accounted for. PO should be signed by authorized purchasing staff (or authorized individual if purchase orders are generated in a department)." (p.704)

The original PO is sent to the vendor, and copies are distributed internally to the receiving department (usually without quantity information), the account payable department, and the department that submitted the requisition. The quantity ordered is generally obliterated on the receiving department copy, so that receiving clerk will make careful counts when goods are received.

2) Receipt of goods.

The physical receipts or shipment of a product, including:

a) Receiving the good

William (2007) explained that, “A valid PO represents the authorization for the receiving department to accept goods delivery by vendors. The receipt of goods usually evidences the completion of a transaction and the establishment of a liability. Receiving department personnel should compare the goods received with the description of the goods on the PO, count the goods, and inspect the goods for damage. A pre-numbered receiving report should be prepared for each order received to document that goods have been received and that a liability should be established.” (p.704)

The Receiving Report is an important document in supporting the existence or occurrence assertion for purchase transaction.

b) Storing goods received for inventory

William (2007) stated in his book that “..... upon delivery of goods to stores or other requisitioning departments, receiving clerks should obtain a signed

receipt. Obtaining initials on a copy of the receiving report serves this purpose and provides further evidence for existence and occurrence assertion for the purchasing transaction.....” (p.705)

c) Returning goods to vendors

After receiving clerk inspects the condition of goods received, if any defection found, defected goods will return to vendors. A return note will be created manually or electronically. The Return Note will be an important evidence for the existence and occurrence assertion for the liability to vendors.

3) Recording liabilities including preparing the payment voucher.

II.3 Control Objectives & Procedure over Purchasing and Storing

The major objectives of purchasing are to (1) maintain the quality and value of a company’s products, (2) minimize cash tied-up in inventory, (3) maintain the flow of inputs to maintain the low of outputs, and (4) strengths the organization’s competitive position.

A comprehensive list of objectives for purchasing and supply management personnel would include:

- To support the firm’s operations with an uninterrupted flow of materials and services;

- To buy competitively and wisely (achieve the best combination of prices, quality and service);
- To minimize inventory investment and loss;
- To develop realizable and effective supply sources;
- To develop and maintain healthy relations with active supplies and the supplier community;
- To achieve maximum integration with other department, while achieving and maintaining effective working relationships with them;
- To keep up with market trends;
- To train, develop and motivate professionally competent personnel;
- To avoid duplication, waste and obsolescence;

CHAPTER III

DATA PROCESSING METHOD

AND COMPANY'S EXISTING CONDITION

III. 1. Data Collecting and Processing

III.1.1 Definition of Qualitative Method

This research will apply qualitative method, which requires the writer to get involved with the participants or the public so that the researcher also gains a more comprehensive picture about the local situation.

Creswell (2008) found that qualitative research method is one approach to explore and understand a central phenomenon (p.7). To understand the central phenomenon, researcher should do interview by asking general questions such as the company condition at that time. The information collected need be analyzed. In this study, the researcher use descriptive qualitative because this research wants to explore and describe the inventory management at PT. XYZ. It gives the opportunity for the researcher in interpreting and analyzing the result of the observation during the research process.

1) Inquiries of the client

In this procedure, researcher asks for oral (through interviews and discussion) information from the management/staffs of the company being researched.

There are two forms of interview: structured interview and unstructured interview. In structured interview, researcher has prepared the list of questions before the interview is held. The questions asked are related about the inventory management condition, and shared to staff at Purchasing, Logistics and Accounting Department; unstructured interview will be conducted as a conversation.

By doing interview, researcher collected the information about the S.O.P of every department, files of daily activities such as Purchase Order, Supplier Files, Returned Goods File, Delivery Order, and actual activities and processes, existing problem/condition in the procedures, and company's policies and regulation. Then, writer can also identify the strengths and weakness occurred during the process.

2) Observation

Observation is the process of gathering data by seeing, smelling, hearing, tasting, and feeling to assess certain activities. Through observation, researcher can obtain information such as process of production, the recording process of employee attendance, warehouse condition, application of certain procedure, and organization or working environment.

By attending at the workplace, and joining their daily operation, especially activities at Purchasing Department. Observation was started from November 26th up to December 6th, 2013. It is about two weeks period on every Tuesday, Wednesday, and Saturday.

Researcher takes photos of the physical inventory and warehouse condition, checks the files of Purchase Order, Price Book, Supplier files, etc. and try to see whether documents was recorded compliance with standards, and whether all the activities compliance with company's S.O.P, regulations and policies. And also do testing on the files by tracking the price and one example of purchasing and delivery.

3) Documentation

Documentation is the process of tracking down evidences either internal or external evidences of transactions or activities being researched.

Researcher gathered all the documents from the company, such as:

- Company History of PT. Sansico Natura Resources, the company history given directly from management under acknowledge of Ms. Deasy as a Human Resources Manager;
- Organizational Structure Chart of PT. Sansico Natura Resource, which collected from Ms. Deasy as a Human Resources Manager;

And also documents that related with purchasing activity:

- Purchase Requisition, a form requesting materials need to be purchased. This form is made by Logistics Department to be sent to Purchasing Department evenly. Logistics will fill with detail information including specification, amount, and delivery date. Then process it to Production Department to get the authorization afterwards to Purchasing Department.

- Purchasing Order, which is a form for ordering material. It made after Purchasing Department received Purchase Requisition from Production Department. Purchaser make the order based on information in PR, then check with Supplier File under acknowledge of Purchasing Manager. Purchaser should process the PO to Finance Department to check the price discussed with supplier. Further step is getting the approved from Purchas Manager, then send the PO via email or fax.
- Goods Received Note, which is a form made by Logistics (warehousing) staff as statement when/where/how actual amount they received the order. This is made based on the packing list and physical goods received by Logistics. Finally this form will send to Accounting Department.
- Delivery Note, a form made by Logistics under acknowledge of Purchasing, Accounting, Sales manager. It states the receiver, shipper, date, amount, specification and signature.
- Packing List, a form from Supplier, states the receiver, shipper, shipping date, product specification, amount, volume, weight information. Logistics will receive the copy one and attached with Receive Note sent to Accounting Department.

4) Confirmation

Confirmation is the process of getting verification about certain information from third party. Usually auditor will request the oral or written verification of

the accuracy of financial information of the entity to third party. And auditor is the one to decide whether or not to take this action depending on the need of the situation.

In present research, writer does not perform this process to fulfill the internal control evaluation since the time is not available, and the client of company to be researched is too scattered.

5) Re-performance

Re-performance is a procedure of rechecking a sample of the computations and transfer of information made by a client. Re-performance can also be a tracing back the process that has been done in order to get the real picture of how a transaction was being processed.

During the research, researcher re-computers and re-performs the process of Purchasing Activity, and Physical Examination Activity to Logistics. Also recalculate the quantity and price of inventory by taking some samples of invoice, packing list with related documents at Accounting and Logistics Department.

6) Physical examination

Physical examination is a process of checking or computing physically on a tangible asset. This type of evidence is often used to audit on cash and inventory.

In this study, researcher chooses one sample of product and checking whether the balance is correct and product is in good condition.

III. 2 Company's Existing Condition

III.2.1 History of the Company

PT. Sansico Natura Resources (beow says PT. SNR) was established in 2010, which belongs to Sansico Groups, as a trading company that specified in electronic compenents. The company acts as distributor or sole distributor in Indonesia by importig goods from China, Taiwan, Hong Kong, Italia. The company is growing quickly because the ability to provide diversified product, and the good development of LED products. PT. SNR has already built a good and stable relationship as a LED lighting provider with BCA, Shangri-La Hotel, Alfa Mart, etc.

III.2.2 Legal form of the Company

The legal form the company is public company which is PT. Snasico Natura Resources that sells LED Lighings and spare parts.

III.2.3 Company Structure and Job Description

PT. Sansico Natura Resources has 30 permanent employees, which are allocated into 7 department: Sales Department, Marketing & Promotion, Fianacing & Accounting, Purchasing Department, Human Resource Department

& General Administration, Warehouse & Logistics, and Technical Support Department.

Job Description:

The Job Descriptions below are explained orally by the head of HRD, which is Ms. Deasy,

1) Director (Mr. Rudy)

Director of PT. SNR is the owner who invest and control the business, the responsibilities are:

- Sets the policy and procedures for the company in order to achieve the general goals and objectives;
- Approves Work Plan, Budget, Investment Expenditure;
- Signs the giro/check/Purchase Order/Annual Report/EXIM documents;
- Monitors the performance of employees including evaluate the work of General Manager;
- Conducts meeting with customers, suppliers;
- Resolves vendors' and contractors' grievances, and also claims against vendors for product issue, such as quality, and development.

2) General Manager (Mr. Hartono)

- Supervise the operation of the company;
- Conduct meeting at Indonesia with all customers;
- Plans, leads, organizes, controls and coordinates the overall activities in company and implement the plans set by the Director;

- Assesses the performance of all suborbinators and report to Director;

3) Financing & Accounting (Ms. Nuraini)

- Helps to achieve the company's financial objectives by preparing financial statements in timely and accurate;
- Assists Director to complete data for short-term and long-term plans;
- Oversees the Purchase and Sale activities in company;
- Monitors the tax declaration monthly;
- Engages the cash payment and cash received in company;

4) Marketing & Promotion (Ms. Ester)

- Updates the new products by adding on Website, and create brochure;
- Updates the news of LED products;
- Updates the news of PT. SNR promotion activities;

5) Sale (Mr. Deddy)

- Organizes and control the products sales to achieve the sales target;
- Creates sales targets;
- Provides accurate and up to date market information to company;
- Supervises the activities of sale staffs
- Coordinates with other Department to achieve the company's objectives and goals.

6) Purchasing Department (Ms. Anita Zendi)

- Provides the appropriate orientation for new staffs as well as the old staffs who take new responsibilities;

- Lists daily work schedules to purchase staffs and guide them;
- Checks the purchasing documents created by related staffs such as Purchase Order, Invoice, Packing List, Delivery Order, etc.
- Makes purchase plan and monitor it to achieve the goals;
- Communicates with vendors' and forwarders as function as EXIM.

III.2.4 Company's Operation

1) Types of products: there are four categories of products,

Indoor lightings;

Outdoor lightings;

Expert lightings, and

Others accessories.

2) Main Suppliers:

Luman Environmental Lighting, Lishen, Zhicheng, Zhongyu, Foxconn, Neoneon, Waichi, Huayi, YACG , etc.

3) Main customers:

Halo BCA, Shangri-La Hotel, Alfa Mart, Indomaret, etc.

CHAPTER IV

DATA ANALYSIS AND RESULT INTERPRETATION

IV.1 Analysis on Existing Condition of Purchasing and Storing Activities

The researcher obtains the related information from the interview and observation. Here researcher make a summary of the Standard Operation Procedures of the storing activities and purchase activities of PT. Sansico Natura Resources based on the narrative explanation from the purchasing staffs, purchasing supervisor, and sales manager, accounting staff, and logistics staffs.

1) Inventory Sales

PT. Sansico Natura Resources received the email named "Inquiry" from customer, which offers the information about quantity, any specification required, budget price, or special requirement. Based on the condition of PT. SNR, this email will share with the Purchase Manager, Sales team, General Manager, and the Director.

Inquiry has to be approved by General Manager firstly, then Sales Manager will arrange the Sales Admin to prepare the Quotation letter and send back to customer. Otherwise, if General Manager decides to not take this transaction with notification to Director, then the inquiry will be rejected.

- The procedure of prepare Quotation of product need to copy to Accounting, Sales Manager, General Manager, and of course Director. Sales Manager will

check carefully about the quantity, unit price, total price, product specification, and delivery date. After sales manager confirmed on the Quotation, Sales Admin need to get the approve from Accounting and General Manager respectively by sign on the quotation. Any inconformity will be returned to Sales Admin for revision until correct.

After send the Quotation to customer, Sales need to follow up with customer. If the price and goods are agreed by customer, Sales Admin needs to inform Logistics to prepare goods, and at the same time, inform Accounting staffs to prepare Invoice. Once receive signed PO from customer, Sales Admin will inspect whether the price is correct compared with the issued Quotation. If nothing incompliant then double check with sales team. Once get confirmation from Sales team then can release Delivery Order (DO) attached with the copy PO, and copy Quotation to Logistics and confirm about the deliver date. Then Sales Admin needs to reply customer's email with confirmation of delivery date.

Logistics checks about remain stock with the list goods on the Do, and also the date of delivery, then creates the Delivery Note (DN); Logistics will uses the Delivery Note (DN) and arranges the delivery according to the schedule of Delivery Order from Sales Admin if there are ready stocks; after delivering goods to customer, then one day later the signed DN (attached with copy DO, copy PO, copy Quotation) will be collected by Logistics and sent to Finance Department for creating Invoice. After Logistics submits copy DN, copy DO, and copy Quotation to Finance; Finance staffs will inspect all the documents, if all already

completed, then Finance creates Invoice, otherwise will those documents will be returned to Logistics until everything completed; Finance should call customer for collecting the outstanding bills;

However if the goods the customer ordered not ready after checking by Logistics, then Logistics will create a Purchase Request to Purchasing Department.

2) Inventory Purchase

Purchasing Department receives Purchase Request from Logistics, and confirms the Quotation price and date of delivery same as PO from customer; then purchase staffs ask Quotations and lead times from suppliers. If the lead time cannot catch up with the delivery date dealt with customer. Purchasing Department needs to inform Logistics to reschedule the delivery time with client; Purchasing Department., Logistics, and Sales Admin should coordinate well for the delivery date then inform to customer the final Delivery Date; Purchasing Department will creates a Purchase Order to supplier state the lead time, price, quantity, and payment method; after completed with the Proforma Invoice, Purchasing Department needs to submit the copy of signed PO with authorized people, copy of PI to finance, to process the payment;

At this procedure, PO maker is required to send the copies of approved PO to Purchasing Manager (2 copies), Accounting Department (1 copy), Logistics (1

copy), and Warehouse (1 copy). The copies of approved PO received by purchaser two will send to Vendor and one will be filed as documentation.

3) Inventory Return

Sales team receives returned goods from customer; Sales Admin creates Return Note (RN) according Warranty Label on the product, copy PO, and copy DN; Sales Admin transfers the RN (completed with copy PO and copy DN) to Product Dept; Product Dept. will check whether the defected goods still in warranty term, if it is then Product Dept. can approve the RN. Then all documents will return to Logistics Dept for exchanging the replace goods. Otherwise the Product Dept. must write the clear reason for Sales Admin, in order to give a proper explanation to customer. Logistics Dept. will checks the stock for the replacement for returned goods, and arranges delivery for it; if out of stock, Logistics should coordinate with Purchasing Dept. for purchasing the same goods, and inform to Sales Admin about the date on RN;

4) Inventory Receive and Store

The vendor will informs the purchaser several days before the goods arrived in the company. And goods received will also be along witht the orignal Packing List, and Invoice. Logistics staffs will compare the PL with recieved good as well as the Invoice in quantity, quality, lable number, and secification to make sure the goods received are exact what company ordered. At the same

time, Logistics will compare the previous PO with Vendor PL & INV to make sure there are no differences.

After the physical checking, Logistics needs to inform the Purchase Department about the checking result and send the received goods to warehouse. If anything that difference or mistake, as unqualified goods, Logistics should inform purchaser immediately to contact with vendor by phone or by email. The Invoice and PL should also submit to Purchasing Department and copies to Accounting Department. Surely Logistics needs to file one as well.

After receiving goods from Logistics, Warehouse will compare the products with the copies of PO, goods will be directly stored if it is matched, meanwhile, Warehouse will make proper records and update the books.

Based on the discussion in the previous chapters and summary above, here are analyses from researcher regards to those problems:

Findings

IV.2 The Company is facing Surplus of Inventory

Based on researcher's observation and documentation, there are 382 pcs 38W LED bulb still in warehouse and those inventories were purchased in November 2012. In addition, 10 pcs LED Linku (product name) imported from China at \$ 1250 were found has zero sales since December 2010.

Company has to follow purchasing inventory very closely because there are

costs if just puts such dead inventory there in the warehouse. Purchasing inventory should be based on sales plan in order to prevent from slow moving or even dead stock/inventory.

The reason the company bought huge amount of these products because the company over estimated the sales that they could make.

Those dead items are becoming cost for the company that burdens the company's profit. Besides, the company's capital (funds) becomes stuck on the inventory that later on will become a lost.

In order to overcome the problem, the company should make a prudent sales plan. The sales plan should be made for shorter period in order to have more controllable variables related to sales. Purchasing Department then should purchase according to the plan. The sales plan should revise for new information and then Purchasing Department should also adjust its process accordingly. The company should also consider to do cost and benefit analysis about purchasing with huge amount of inventory in order to get quantity discount, and comparing with the costs that the company must pay for handling and obsoleting inventory.

IV.3 The Company Fails to Handle its Customer's Complaints Properly

Based on researcher's observation, during August 2013, the company received at least 5 complaints from customers. Those customers complained that they did not receive their orders in time, and they had called for

several times but no reply. One customer ever gave feedback to the company that he received his order two weeks after due date of delivery. This made him very disappointed because he wanted to use those lights to decorate his shop for the opening ceremony. The another worst case is that there was customer who was angry because when he wanted to talk with somebody who is responsible for his order, he always received same excuses that the person was busy.

The company agrees that every order will send to customer within two weeks when company has stock. If the company does not have enough stock, the company should inform the customer that deliver time will be in two months. And the company should have a standard to handle customers' complains properly.

This condition occurred since the management less control over the performance of Logistics staffs and salesmen. The worst is that the management does not aware this condition is harmful for the company development.

The effect on this condition is that company loss the trust from customers. Furthermore, since customer can go to other place that have similar product, the company will loss the potential sales.

The researcher suggests that the company should create a standard for handling customers' complains. For example, the company should handle customers' complains within one day after receiving their complains. If department or staffs in charge for the complain fails to handle it properly, the management should give a warning or even punishment to them to prevent similar case in the future. The supervisor should also monitor his/her staffs especially

those who are handling sales delivery and sales complain.

IV.3PT.XYZ Damaged Products Misplaced or Loss

Based on documentation, it is found that in August 2013 that there are 8% of total inventory sold was damaged and returned by customers, however most of them misplaced or loss in the warehouse.

All returned sales must be handled and stored properly. Besides, the Head of Warehouse is responsible for the misplaced or loss of returned sales.

The misplaced or loss of returned sales is because the company does not have a proper procedure of receiving return goods.

Because of the misplaced or loss of returned goods, the company loss the chance to check why the goods are damaged, and also the chance to check whether the goods are still under the warranty term. If the damaged goods returned from customer are approved because of the bad quality or defect from manufacturer and they are still within the warranty term, so the company can ask the supplier to replace new ones with the returned one. Since the goods are misplaced, the company needs to take time to look for it, it impacts the effective of operation; and if it is loss, then company will lose money since the company cannot claim to supplier.

The researcher suggests the company to improve the procedure of receiving returned goods, Procedure of receiving returned goods should be like this:

- 1) Salesman receives returned goods from customer;

2) Sales Department make a return note based on warranty label on the product and collect copies of purchase order and delivery note, and then Sales Department should send those documents to Product Department;

3) Product Department examines how the condition, why the product damaged, and whether it is still in the warranty term. If the return note is confirm by Product Department, those documents will send back to Logistics Department for prepare replacement. If the return note is rejected by the Product Department, there must a clear and reasonable reason give to Sales Department, so salesman can explain to customer;

4) Logistics Department should check the stock for replacement, if stock is ready then arrange the schedule of delivery according to return note; if stock is not enough, Logistics should coordinate with Purchasing Department for reorder and inform purchaser about deliver date on return note;

5) Purchasing Department orders the product accordingly;

6) Purchasing Department, Logistics Department, and Sales Department should coordinate with the possible schedule of deliver and inform customer as soon as possible;

7) Replacement should be delivered to customer as stated in return note or as possible schedule that already inform customer.

IV.4The Company Does Not Purchases Inventory at the Best Price

Basd on researcher's documentation, the process in selecting supplier at the

company are : 1)The business owner collects business cards of vendors from different exhibitions; 2) The owner share the cards with purchasing manager; 3) The manager approaches with those vendors and collects information about the product specification, price, lead time, and payment method. Purchasing manager then reports to owner; 4) When there are needs to order inventory, purchasing manager will confirm with the owner which vendor to place inquiry, then assigns purchasing staff to approach the vendor choosen by the owner.

The processing of purchase transaction should be initiated based on Purchase Requisition. Best price is the lowest price a buyer can obtain something for or the highest price a seller can sell something for. The Purchasing Department then should make a comparison among at least three vendors about the price, lead time, warranty... to decide which vendor to use.

The reason why this happened becasue the owner wants to do everything by himself. Therefore, there is no proper procedure of purchasing.

The effect of this practice is that there is no evidence to prove that the company has purchased the inventories with the best price. Besides the company's price will be less competitive in the market. For example, a 8W bulb with the price of Rp. 200,000 can be found at other store with the price of Rp. 100,000.

The researcher suggests that the company should collect Quotations from at least three vendors to compare the product specifications, prices, lead times, quantity discounts, and payment methods offered.

CHAPTER V

CONCLUSION AND RECOMMENDATION

V.1. Conclusion

After discussing in previous chapters, the company have some good practice, for example, the company has a clear written job description to instruct job for every level of employees; in addition, the company has a good functional organization structure that gives the company full authorization to the employee over his or her subordinate under on department, this kind of structure also creates high sepcilization in each department; and also the company has proper authorization on who should sign for the transaction. However, it is found some weaknesses in its implementation of internal control over inventory purchasing and storing activities that can be considered to be overcome as follows:

- 1) Based on researcher's obsavation and documentation, there are 382 pcs 38W LED bulb still in warehouse and those inventories were purchased in November 2012. In addition, 10 pcs LED Linku (product name) imported from China at \$ 1250 were found has zero sales since December 2010. This happended because the company's over estimated on sales. The company is facing slow moving or even dead stock/inventory; and those inventories are becoming cost for the company that burnden the company's profit. Besides, the capital becomes stucked on the inventory that later on will cause loss.

2) The company does not handle customer's complains properly. Based on researcher's observation, during August 2013, the company received at least 5 complains from customers. Those customers complained that they did not receive their orders in time, and they had called for several times but no reply. One customer ever gave feedback to the company that he received his order two weeks after due date of delivery. This made him very disappointed because he wanted to use those lights to decorate his shop for the opening ceremony. The another worst case is that there was customer who was angry because when he wanted to talk with somebody who is responsible for his order, he always received same excuses that the person was busy. The cause is because the company's management less control over the performance of logistics staffs and salesmen. The management does not take serious about the complains from customer and does not aware the importance of improving the customer services. The effect is the company may loss the trust of customer. In addition, since customer can go to other place that have similar products, the company will loss potential sales.

3) Returned goods is misplaced or loss in warehouse. Based on documentation, it is found that in August 2013 that there are 8% of total inventory sold was damaged and returned by customers, however most of them misplaced or loss in the warehouse. Because of the company's improper procedure of receiving returned goods, the company needs to take time to search for

misplaced items, it will impacts the effective of the company's operation; and because of the loss of returned goods, the company will loss money because cannot claim to its supplier.

- 4) Basd on reseearcher's documentation, the process in selecting supplier at the company are :
- 1)The business owner collects business cards of vendors from different exhibitions;
 - 2) The owner share the cards with purchasing manager;
 - 3) The manager approachs with those vendors and collects information about the product specification, price, lead time, and payment method. Purchasing manager then reports to owner;
 - 4) When there are needs to order inventory, purchasing manager will confirm with the owner which vendor to place inquiry, then assigns purchasing staff to approach the vendor chosen by the owner. Because the owner of the company wants to do everything by himself, the procudure of the company to select vendor is not proper. Becuase of the improper procedure, there is no evidence to prove that the company has purchased the inventories with the best price. This condition also will makes the company's price becoming less competitive.

V.2. Recommendation

In order to improve the inventory management of PT. Sansico Natura Resources, researcher makes several recommendations as blow:

- 1) In order to overcome the problem, the company should make a prudent sales plan. The sales plan should be made for shorter period in order to

have more controllable variables related to sales. Purchasing Department then should purchase according to the plan. The sales plan should revise for new information and then Purchasing Department should also adjust its process of purchase accordingly. The company should also consider to do cost and benefit analysis about purchasing with huge amount of inventory in order to get quantity discount, and comparing with the costs that the company must pay for handling and obsolete inventory.

- 2) The researcher suggests that the company should create a standard for handling customers' complaints. For example, the company should handle customers' complaints within one day after receiving their complaints. If department or staffs in charge for the complaint fails to handle it properly, the management should give a warning or even punishment to them to prevent similar case in the future. The supervisor should also monitor his/her staffs especially those who are handling sales delivery and sales complaint.
- 3) The researcher suggests the company to improve the procedure of receiving returned goods, Procedure of receiving returned goods should be like this:
 - Salesman receives returned goods from customer;
 - Sales Department makes a return note based on warranty label on the product and collect copies of purchase order and delivery note, and

then Sales Department should send those documents to Product Department;

- Product Department examines how the condition, why the product damaged, and whether it still in the warranty term. If the return note is confirm by Product Department, those documents will send back to Logistics Department for prepare replacement. If the return note is rejected by the Product Department, there must a clear and reasonable reason give to Sales Department, so salesman can explain to customer;
 - Logistics Department should checks the stock for replacement, if stock is ready then arrange the schedule of delivery according to return note; if stock is not enough, Logistics should coordinates with Purchasing Department for reordering and informs purchaser about deliver date on return note;
 - Purchasing Department orders the product accordingly;
 - Purchasing Department, Logistics Department, and Sales Department should coordination with the possible schedule of deliver and inform customer as soon as possible;
 - Replacement should be delivered to customer as state in return note or as possible schedule that already inform customer.
- 4) The researcher suggests that the company should collect Quotations from at least three vendors to compare the product specifications, prices, lead times, quantity discounts, and payment methods offered.

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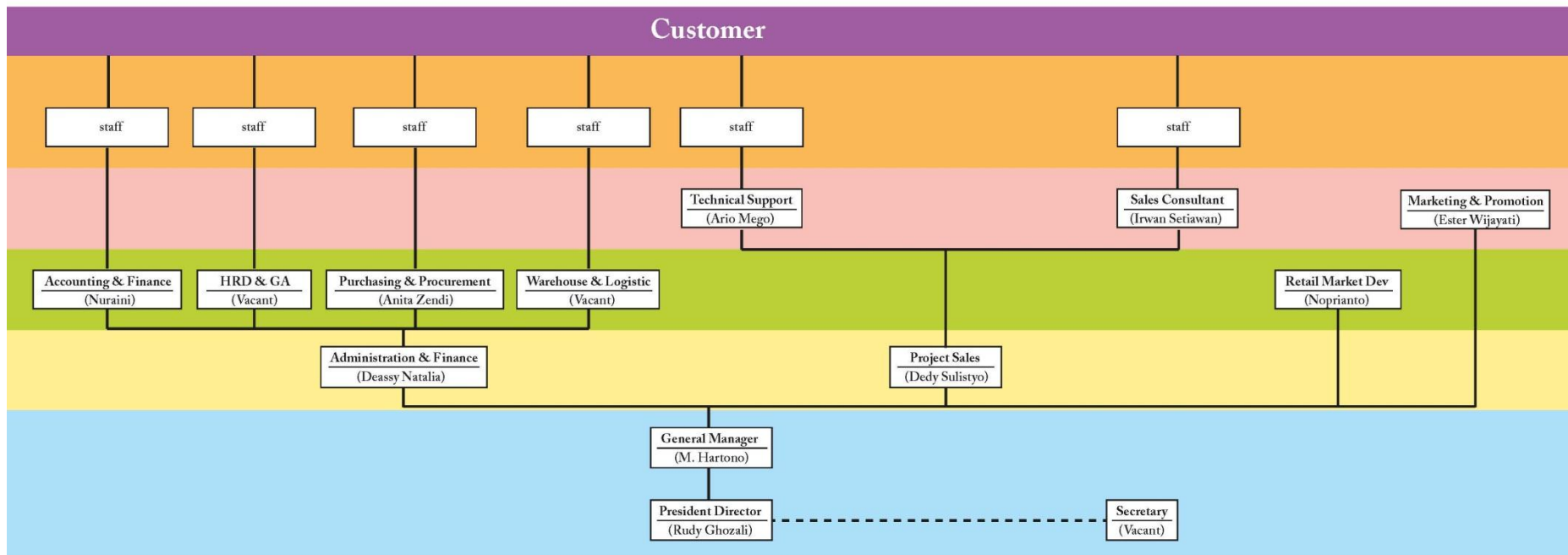
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ORGANIZATION CHART



Arranged by	Approved by	Date :
(M. Hartono)	(Rudy Ghozali)	15 April 2013



PT. SANSICO NATURA RESOURCES

PT.SANSICO NATURA RESOURCES
COMPANY'S CONFIRMATION LETTER

Here with, I am:

Name : Deasy Natalia
Function : General Administration Manager
Company : PT. Sansico Natura Resources
Address : Grand ITC Permata Hijau, Kanto Diamond No.11-12,
Permata Hjiiau, Jakarta Selatan, 11220

Confirms that:

Name : Liu Kangpei
Student ID : 008201000118
Faculty/Major : Economics/Accounting
University : President University

has done her research in our company in order to write the thesis, title :
"Evaluating on the Inventory Management at PT. Sansico Natura Resources"
since 20 January 2013 until 20 October 2013, and has discussed with us the content
of her skripsi, including the findings and recommendations.

Jakarta, January 23, 2013
PT.Sansic Natura Resources

PT. SANSICO NATURA RESOURCES

(Deasy Natalia)

Head Office : Grand ITC Permata Hijau, Kanto Diamond No. 11-12, Permata Hijau, Jakarta Selatan – 12210, Indonesia
Show Room : Kebon Jeruk Business Park Blok A No. 1, Jl. Raya Meruya Ilir No. 88 Meruya – Jakarta Barat 11620
Phone : (+62-21) 58901510, Fax (+62-21) 58901511
[http : //www.sansicolighting.com](http://www.sansicolighting.com) | email : lighting@sansico.com