THE EVALUATION OF INTERNAL CONTROL
ON CASH MANAGEMENT
(Case Study: PT KP)

SKRIPSI

By

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PANEL OF EXAMINERS

APPROVAL SHEET

Herewith, the Panel of Examiners declared that the skripsi entitled “THE EVALUATION OF INTERNAL CONTROL ON CASH MANAGEMENT (Case Study: PT KP)” submitted by Prischa Prashanti Munda majoring Accounting, Faculty of Economics was assessed and approved to have passed the Oral Examinations on July 13th, 2012.

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This skripsi entitled “THE EVALUATION OF INTERNAL CONTROL ON CASH MANAGEMENT (Case Study: PT KP)” prepared and submitted by Prischa Prashanti Munda in partial fulfillment of the requirements for Bachelor Degree in Economics Major in Accounting has been reviewed and found to have satisfied the requirements for a thesis fit to be examined. Therefore, we recommended this thesis for Oral Defense.

Cikarang, Indonesia, May 30, 2012

Acknowledge

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DECLARATION OF ORIGINALITY

I declared that this thesis entitled “THE EVALUATION OF INTERNAL CONTROL ON CASH MANAGEMENT (Case Study: PT KP)” prepared and submitted by Prischa Prashanti Munda in partial fulfillment of the requirements for Bachelor Degree in Economics Major in Accounting has been reviewed and found to have satisfied the requirements for a thesis fit to be examined. Therefore, I recommended this thesis for Oral Defense.

Cikarang, Indonesia, May 30, 2012

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ABSTRACT

Internal control is the process designed to ensure reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. The purpose of this thesis is to discuss about internal control, specifically in control environment and activity on PT KP’s cash management.

In conducts this research, the writer uses qualitative method and also some procedures that can be used to collect the data. As a like do an audit, the data is collected and processed through audit procedure. The audit procedures used in the research are inquiry of the client, observation, and documentation.

The thesis results show that the implementation of internal control on cash management. Based on the negative findings, the writer finds that the company does not have written Standard Operating Procedures (SOP), job descriptions, a policy regarding the rotation of its employees, there are paper documents stacking on the desk, does not prepare cash flow budget, the documents (forms) used in the company has not been printed in pre-number, and Head of Accounting Department does not do physical examination on cash balance periodically and suddenly.

The study purposes some recommendation to overcome the absence of control which are: create Standard Operating Procedure (SOP), set up written job description, set up the rotation of its employees, file the documents properly, prepare budget of cash, train its employees, add some employees for Accounting and Finance Department, do physical examination on cash balance, and all documents should have be pre-numbered.
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CHAPTER I
INTRODUCTION

I.1 Research Background

Currently, in development of world economy and the increase of competition in world trading, every company is required to have a competitive advantage, as well as the effectiveness and efficiency in its operations. Every company has its own internal control to ensure that its business is running in an appropriate way. Internal control activities can support and improve the operation of the company.

Cash is one of the most important elements in the structure of assets since all activities will be ended at the payment of cash. If the company does not manage its cash properly, it can fall in the problem of liquidity. Liquidity is the ability of an asset to be quickly converted into cash. Management is responsible for managing the company’s cash: cash receipts and disbursements. The sources of cash receipts are from cash sales and collection of receivables. Cash disbursements can be made with two (2) ways, that are paying through bank and paying in cash. Without proper management and control of cash, operating a successful business can be extremely difficult. Cash management is one of the functions of management in planning and controlling cash.

PT KP is a manufactured company in East Jakarta. The Finance Department is one of the important departments in the company that must be considered. The Finance Department is the unit that manages the company
sources of funds. Cash is a very liquid asset that is easy to be transferred, so the incoming and outgoing of cash will be easily misused. Therefore, internal control system on cash is really important to ensure that all cash is managed properly. It can be known.

Based on the description above, writer is interested in doing a research about how the internal control implemented in cash management of the company. Therefore, the writer chooses the title "The Evaluation of Internal Control on Cash Management (Case Study: PT KP)".

1.2 Problem Identified

Cash is a payment tool for all activities done by the company. All transactions done by company within the parties in the company and with outside parties finally will be ended on the payment of cash. Therefore, the company needs to set-up a proper internal control system on cash management. With the proper internal control, the company can control its cash receipts and disbursements properly. With good internal control of cash, the company can be prevented its cash from excessive or shortage. Excessive on cash may cause the idle cash resulting in opportunity cash. While the shortage on cash could disturb daily company’s operations.

Based on the description above, the writer formulates the problems statement as follows:

1. How is the internal control of cash implemented in the company?
2. How does the company manage its?
3. What are weakness that may be found and need to be overcome?

I.3 Research Scope and Limitation

Scope and limitations of the research to make the perception about the title of the research between the writer with those who would use the results of this research. The writer limits the scope of the problem of this research as follows:

1. The company which become the object of research is the manufacturing company, in this case is PT KP.

2. This research only to evaluates two elements of cash management, which are planning and controlling of cash. For planning, the writer only evaluates the process of cash budgets applied by the company. And then, for controlling, the writer will compare the monitoring of actual activity between actual with planned (budget) and will discuss about the structure of internal control of cash management in the company.

3. In cash disbursements, the writer only focus evaluates on purchase and account payable payments.

4. The internal control can be reviewed by looking at internal control structure, which are control environment and control activities. For control environment, the writer only evaluates organization structure and assignment of authority & responsibility. For control activities, the writer only evaluates proper authorization of transactions & activities and segregation of duties.
5. The writer only get general information on the processes and procedures of the company.

I.4 Research Objective

The research objectives of the internal control on cash management as follows:

1. To get information how the implementation of internal control on cash management in the company,
2. To find out how the company manages its,
3. To find out whether there is any weakness on the internal control of cash of the company, and
4. To formulate recommendation to overcome the weaknesses.

I.5 Research Benefits

The research is expected to provide benefits as follows:

1. For companies

    The results is expected to be used as the feedbacks that can be considered regarding the risk of material weaknesses in internal control cash management. And can also be a comparison that is positive and a step further to make decisions in order to solve a problem that is expected.
2. **For Researchers**

   This research is expected to be an opportunity for researchers to apply the theories acquired in college and compare them with practices that occur within the company.

3. **For others**

   As reading material to increase knowledge about concepts, procedures and techniques of operational audits of cash management.

I.6. **Research Method**

   The writer used qualitative method (case study research). The writer came to the company and got primary data by using types of evidence instruments which were inquiry of the client, observation, and documentation. Inquiry of the client is the obtaining of written or oral information from the client in response to questions from the writer. Observation is a method of data collection in which the situation of interest is watched and the relevant facts, actions and behaviors are recorded. And, documentation is the writer’s inspection of the client’s document and records to substantiate the information that is, or should be, included in the financial statements.

   The secondary data is gathered from literature review to get references or relevant theories from textbooks, internet and other scientific sources including previous researches. These references are used as the criteria to assess the existing condition which is the facts obtained from field research and to give recommendation.
Along with the increasing extent and complexity of the company’s operation activities, leader of the company faces with the reality of limitations to monitor all activities related to its responsibilities. It is therefore necessary to have a good internal control system to ensure that all activities have been done properly to achievement the company’s goals and objectives.

II.1 Definition of Internal Control

Elder, Beasley, and Arens (2012) stated that, “Internal control is a system that consists of policies and procedures designed to provide management with reasonable assurance that the company achieves its objectives and goals. These policies and procedures are often called controls, and collectively, they make up the entity’s internal control.” (p. 290)

Harrison, Horngren and Oliver (2012) mentioned that, “Internal control is the organizational plan and all the related measures designed to accomplish by safeguard assets, encourage employees to follow company policy, promote operational efficiency, and ensure accurate, reliable accounting records.” (p. 356)
Needles, Power, and Crosson (2010) defined that, “Internal control is a process designed by a company to establish the reliability of the accounting records and financial statements in accordance with generally accepted accounting principles (GAAP) and to ensure that the company’s assets are protected. Management must assess its needs for internal controls, establish its responsibility for them, and engage auditors of them, if required.” (p. 320)

Romney and Steinbart (2003) said that, “Internal control is a plan and methods of a company to safeguard assets, provide accurate and reliable information, improve operational efficiency, and improve allegiance to company’s managerial policies.”

Another source (May 6, 2012) explained that, “Internal control is broadly defined as a process, effected 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: Effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations, safeguarding of assets.” (www.udel.edu/Treasurer/intentrldef.html)

Heintz and Parry (2011) listed that, “Internal control is a system developed by a company to provide reasonable assurance of achieving (1) effective and efficient operations, (2) reliable financial reporting, and (3) compliance with laws and regulations.” (p. 267)
Moeller (2009) assumed that, “Internal control is any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.” (p. 25)

Kieso, Weygrandt, and Warfield (2008) stated that, “internal control is a system of checks and balances designed to prevent and detect fraud and error.” (p.15)

Rittenberg, Jhonstone, and Gramling (2010) defined internal control based on COSO (Committee of Sponsoring organizations of the Treadway Commission) Internal Control Integrated Framework as follows, “A process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding to the achievement of objectives in the following categories: (1) reliability of financial reporting, (2) compliance with applicable laws and regulations, and (3) effectiveness and efficiency of operations.” (p. 226).

Based on the above definitions, it can be concluded that internal control is the process designed to ensure reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. Safeguarding assets against theft and unauthorized use, acquisition, or disposal is also part of internal control. Internal control plays an important role in how management meets its stewardship or organization responsibilities. The more the company grows up, the more difficult the company controls its operational activities. With a good internal control, the management can be easier to detect
the possibility of misappropriation assets in their business activity and to find
the solutions. They can prevent the company from loss or waste in processing
resources, and can also provide information about how to assess company’s
performance, and provide information that will be used as guidance in planning.

II.2 Internal Control Objectives

Warren, Reeve, and Duchac (2011) described that, “The objectives of
internal control are to provide reasonable assurance that:

1. Assets are safeguarded and used for business purposes.
2. Business information is accurate.
3. Employees and managers comply with laws and regulations.

Internal control can safeguard assets by preventing theft, fraud, misuse,
or misplacement. A serious concern of internal control is preventing employee
fraud. Employee fraud is the intentional act of deceiving an employer for
personal gain. Accurate information is necessary to successfully operate a
business. Business must also comply with laws and regulations, and financial
reporting standard.” (p. 316)

Arens, Elder, and Beasley (2012) defined that, “Management typically
has three broad objectives in designing an effective internal control system:
Reliability of financial reporting, Efficiency and effectiveness of operations,
Compliance with laws and regulations.” (p. 290)
The objectives of internal control can be described further as follows:

1. **Efficiency and Effectiveness of Operations**

   Arens, Elder, and Beasley (2012) said that, “Controls within a company encourage efficient and effective use of its resources to optimize the company’s goals. An important objective of these controls is accurate financial and nonfinancial information about the company’s operations for decision making” (p. 290)

   Internal control in operational activities is needed to make the company reach the goals. Internal control encourages management to have effective and efficient systems. An effective and efficient system would help company to optimize its performance.

2. **Reliability of Financial Reporting**

   Arens, Elder, and Beasley (2012) mentioned that, “Management is responsible for preparing statements for investor, creditors, and other users. Management has both a legal and professional responsibility to be sure that the information is fairly presented in accordance with reporting requirements of accounting frameworks such as GAAP and IFRS.” (p. 290)

   Internal control is supposed to produce a reliable of financial reporting. Management has responsibility to prepare the financial statement to those who need (investors, creditors, bank, and other users). They must present reliable information according to the reporting requirements and create internal control that maintains good financial report with standard such as GAAP and IFRS.
3. **Compliance with applicable laws and regulations**

Arens, Elder, and Beasley (2012) explained that, “Section 404 requires management of all public companies to issue a report about the operating effectiveness of internal control over financial reporting. In addition to the legal provisions of section 404, public, nonpublic, and not-for-profit organizations are required to follow many laws and regulations. Some relate to accounting only indirectly, such as environmental protection and civil rights laws.” (p. 290)

Every internal control that is designed has to be in line with an existed laws and regulation. Management has obligations to make sure if the implementation of the rules and policies of the company are in accordance with the laws and regulations in that environment.

II.3 **Internal Control Components**

Quoting COSO Internal Control Structure, Arens and Loebbecke (2009) stated that, “Internal control includes five categories of controls that management designed and implements to provide reasonable assurance that management controls objectives will be met. There are called the components of internal control are:

1. Control Environment
2. Control Activities
3. Risk Assessment
4. Information and Communication

5. Monitoring” (p. 274)

Heintz and Parry (2011) explained that, “Several internal control frameworks have been developed that are consistent with this definition. The most widely accepted framework in the United States contains the following five components:

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication system
5. Monitoring processes.” (p. 267)

Each component includes several policies and procedures control necessary to achieve corporate objectives in all three categories of the purpose of internal control; the reliability of financial reporting, compliance with applicable laws and regulations, and the effectiveness and efficiency of operations.

The elements of internal control can be described as follows:

1. **Control Environment**

   Rittenberg, Johnstone, and Gramling (2010) stated that, “The control environment is the policies, procedures, and attitudes of the top management and owners of the business.” (p. 210)
Dull, Gelinas, and Wheeler (2012) explained that, “Control environment is 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.” (p. 224)

Horngren, Harrison, and Oliver (2012) said that, “The control environment is the “tone at the top” of the business.” (p. 358)

The control environment creates a control atmosphere within organization and affects awareness of organization personnel about the control. Control environment is the foundation for all other internal control elements.

Control environment has several key elements such as:

a. **Integrity and Ethical Values**

Rittenberg, Johnstone, and Gramling (2010) defined that, “Sound integrity and ethical values, particularly of top management, are developed and set the standard of conduct for financial reporting.” (p. 211)

Integrity and ethical value are set in order to establish behavioral and ethical standards that encourage employees from engaging in acts that would be considered dishonest, unethical, or illegal. The top management who creates the policies and procedures must tie up with the integrity and ethical values. The integrity and ethical values set the behavioral standard and entity’s ethical in the company, including how it is communicated
and reinforced in practice to all organizational levels in order to prevent employee’s deception.

b. **Commitment to Financial Reporting Competencies**

Rittenberg, Johnstone, and Gramling (2010) explained that, “The company retains individuals competent in financial reporting and related oversight roles.” (p. 211)

Competence is the knowledge and skills necessary to accomplish tasks that define the individual’s job. Commitment to competence includes management’s consideration of the competence levels for particular jobs and how those levels translate into requisite skills and knowledge.

c. **Human Resources Policies and Practices**

Rittenberg, Johnstone, and Gramling (2010) mentioned that, “Human resource policies and practices, including compensation programs, are designed and implemented to facilitate effective internal control over financial reporting.” (p. 211)

The company is also very important to have competent employees in order to create a good control environment. Therefore, the company needs to have a method or a good policy in hiring employees, develop their competencies, assess achievements, and provide compensation for their achievements.
d. **Authority and Responsibility**

Rittenberg, Johnstone, and Gramling (2010) described that, “Management and employees are assigned appropriate levels of authority levels of authority and responsibility to facilitate effective internal control over financial reporting.” (p. 211)

Authority and responsibility relate the organization’s structure. Everyone in the organization has some responsibility for the effective operation of internal control.

e. **Management’s Philosophy and Operating Style**

Rittenberg, Johnstone, and Gramling (2010) clarified that, “Management’s philosophy and operating style support achieving effective internal control over financial reporting.” (p. 211)

Management’s philosophy and operating style can significantly affect the quality of internal control, because the process from establishing, maintaining, and monitoring the internal control’s company itself will visible there.

f. **Board of Directors or Audit Committee Participation**

Rittenberg, Johnstone, and Gramling (2010) stated that, “The board of directors understands and exercises oversight responsibility related to financial reporting and related internal control.” (p. 211)
The Board of Directors or Audit Committee affects a control unit. Independent Audit Committee given the responsibilities to oversee the financial reporting includes internal controls, compliance with laws and regulations that have been set in order to be effective, and maintain good communications with the human resources of the company.

g. Organizational Structure

Rittenberg, Johnstone, and Gramling (2010) said that, “The organizational structure supports effective internal control over financial reporting.” (p. 211)

Well-controlled organizations have clearly defined lines of responsibility, authority, and accountability. A well-designed organizational structure provides a basis for planning, directing, and controlling operation. Organizational structure shows a clear visibility about business function and how the entity implements control. It shows from who is in charged for planned, executed, controlled and monitored.

2. Control Activities

Arens, Elder, and Beasley (2012) stated that, “Control activities are the policies and procedures, in addition to those included in the other four components, that help ensure that necessary actions are taken to address risks to the achievement of the entity’s objectives … The control activities generally fall into the following five types, which are discussed next:
1. Adequate separation of duties
2. Proper authorization of transactions and activities
3. Adequate documents and records
4. Physical control over assets and records
5. Independent checks on performance.” (p. 298)

Dull, Gelines, and Wheeler (2012) explained that, “Control activities is the policies and procedures that help ensure that management directives are carried out.” (p. 224)

Control activities are the specific policies and procedures that management uses to achieve its objectives. Control activities are designed to minimize risk that may affect to company’s performance. The most important control activities involve adequate separation of duties, proper authorization of transactions and activities, adequate documents and records, physical control over assets and records, and independent checks on performance. A short description of each of these control activities appears bellow:

- **Adequate Separation of Duties**

  Arens, Elder, and Beasley (2012) said that, “Four general guidelines for adequate separation of duties to prevent both fraud and errors are especially significant for auditors.

  a) Separation of the custody of assets from accounting.

  b) Separation of the authorization of transactions from custody of related assets.
c) Separation of operational responsibility from record-keeping responsibility.

d) Separation of IT duties from user departments.” (p. 298)

Adequate separation of duties requires that different individuals are to be responsible for different elements of related activities, particularly those involving authorization, custody, or recordkeeping. That is so risky for the company.

- **Proper authorization of transactions and activities**

  Arens, Elder, and Beasley (2012) explained that, “Every transaction must be properly authorized if controls are to be satisfactory.” (p. 299)

  Proper authorization of transactions and activities help to ensure that all company activities was approved by the responsible. Transaction happens must be authorized by the person who has responsible of that transaction. If the company does not have a proper control of authorization in transaction, the company would have problems such as fraud and misuse.

- **Adequate documents and records**

  Arens, Elder, and Beasley (2012) defined that, “Documents and records are the records upon which transaction are entered and summarized” (p. 299)
Controls are designed to ensure adequate recordkeeping include the creation of invoices and other documents that are easy to use and sufficiently informative; the use a pre-numbered, consecutive documents; and the timely preparation of documents. Company should provide an adequate documents and records in order to make easier and faster to process the documents into file.

- **Physical control over assets and records**

  Arens, Elder, and Beasley (2012) mentioned that, “To maintain adequate internal control, assets and records must be protected.” (p. 300)

  Physical control over assets and records protect the company’s assets. These control activities may include electronic or mechanical controls (such as a safe box, employee ID cards, fences, cash registers, fireproof files, and locks) or computer-related controls dealing with access privileges or established backup and recovery procedures.

- **Independent checks on performance**

  Arens, Elder, and Beasley (2012) described that, “The last category of control activities is the careful and continuous review of the other four, often called independent checks or internal verification.” (p. 300)
After all activities done by the company, the activities should be reviewed by independent checks in order to keep the good performance continuously. Independent checks on performance are carried out by employees who did not do the work being checked, help to ensure the reliability of accounting information and the efficiency of operations.

3. **Risk Assessment**

Rich, et. al (2010) stated that, “Risk assessment procedures (also called Enterprise Risk Management or ERM) are designed to identify, analyze, and manage strategic risks and business process risks.” (p. 181)

Whittington and Pany (2003) said that, “Risk assessment is used to describe management’s process for identifying and responding to business risks faced by organization and the results of that process.” (p. 236)

Dull, Gelinas, and Wheeler (2012) explained that, “Risk assessment is the entity’s identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.” (p. 224)

Risk assessment for financial reporting purposes is the identification, analysis, and risk management entities related to preparation of financial statements in accordance with generally acceptable accounting principles. Risk assessment management for financial reporting purposes is the risk assessment contained in certain assertions in the financial statements and the design and implementation
of control activities aimed at reducing those risks to a minimum, taking into account the costs and benefits.

4. **Information and Communication**

Dull, Gelinás, and Wheeler (2012) quoted that, “Information and communication is the identification, capture, and exchange of information in a form and timeframe that enables people to carry out their responsibilities.” (p. 225)

Boynton, Jhonson and Kell (2003) explained that, “The information system relevant to financial reporting objectives, which includes the accounting system, consists of the methods, and records established to identify, assemble, analyze, classify, record and report entity transaction (as well as events and conditions) and to maintain accountability for the related assets and liabilities. Communication involves providing a clear understanding of individual roles and responsibility pertaining to the internal control structure over financial reporting.” (p. 263)

Communication is the process of understanding of individual roles and responsibilities related to internal control to financial statements. Communication is usually made based on policy guidelines, guidance accuracy, accounting and financial reporting guidelines, the list of accounts, and the memo is also a component part of the information and communications in the internal control structure. Communication can also be made verbally and through action taken by management.
5. **Monitoring**

Dull, Gelinas, and Wheeler (2012) explained that, “Monitoring is a process that assesses the quality of internal control performance over time.” (p. 225)

Trenerry (2003) said that, “Monitoring is usually an ongoing process with the internal audit function reviewing in turn all areas of the business regularly.” (p. 14)

Whittington and Pany (2003) quoted that, “Monitoring is a process to assess the quality of internal control performance over time.” (p. 239)

Monitoring is defined as a process that provides feedback on the effectiveness of the other four components of internal control. Monitoring can be done through outgoing activities or separate evaluations. Ongoing monitoring procedures are built into the normal recurring activities of an entity. Internal auditors, customers, and regulators can all contribute to the monitoring of internal controls.

II.4 **Definition of Cash**

Warren, Reeve, and Duchac (2011) stated that, “Cash is the asset most likely to be stolen or used improperly in a business. For this reason, businesses must carefully control cash and cash transactions” (p. 363)
Another source (May 10, 2012) explained that, “Cash is legal tender or coins that can be used in exchange goods, debt, or services. Sometimes also including the value of assets that can be converted into cash immediately, as reported by a company.”

(http://www.investopedia.com/terms/c/cash/asp#ixzz1tpSEhamk)

Kimmel, Weygandt, and Kieso (2011) described that, “Cash is the one assets that is readily convertible into any other type of asset. It also is easily concealed and transported, and is highly desired. Because of these characteristics, cash is the asset most susceptible to fraudulent activities.” (p. 346)

Based on the definitions above, cash is assets of the company that are always rotatory to all the operations of companies. Cash consists of cash in the company that is in the petty cash and other cash such as cash receipts and the checks that has not been deposited to the bank, it means that can use as a media of exchange or can accept as deposits. Every company needs cash to run its business activities either as a media of exchange in obtain goods or services and as an investment in the company. Cash also became so important that individuals, corporations, and even the governments should maintain an adequate position of liquidities that they must have sufficient some money to pay its obligations to relevant entities can operate. Adequate supply of cash that the company will operate smoothly especially in the cash disbursement activities which includes the purchase of goods and services, the right to own property, pay the debt, finance the operations and other activities.
II.5 Definition of Internal Control of Cash

Nikolai, Bazley, and Jones (2010) stated that, “Since cash cannot be traced easily, internal control over cash is enhanced by routine reviews of the accuracy of recorded cash transactions and by separation of employee duties.” (p. 318)

Kimmel, Kieso, and Weygandt (2011) said that, “Cash is the one asset that is readily convertible into any other type of asset. It also is easily concealed and transported, and is highly desired. Because of these characteristics, cash is the asset most susceptible to fraudulent activities. In addition, because of the large volume of cash transactions, numerous errors may occur in executing and recording them. To safeguard cash and to ensure the accuracy of the accounting records for cash, effective internal control over cash is critical.” (p. 3346)

Internal control on cash requires a good internal control between receipts and cash disbursements. Because it is easily to be transferred and cannot be proven the owner, it is very easy embezzled cash. Therefore, the company needs to place strict controls over cash. In general, an internal control of cash will separate the functions of storage and recording of cash to minimize the misuse of cash. A company's internal control will be different from other companies, because of different the shape and type of companies. Internal control on cash there are two types of internal controls over cash receipts and internal control over cash disbursements.
Smith and Skousen (2003) stated that, “The basic characteristics of a system of a cash control are listed and described bellow:

1. Specifically assigned responsibility for handling cash receipts.
2. Separation of handling and recording cash receipts.
3. Daily deposit of all cash received.
4. Voucher system to control cash payments.
5. Internal audit irregular interval.
6. Double record of cash bank and books with reconciliation performed by someone outside that accounting function. (p. 270)

Internal control of cash, which is part of the overall internal control within an organization, will also determine or influence the effectiveness of the achievement of organizational goals, so that the internal control of cash in an organization must be done effectively.

II.6 Objective of Internal Control on Cash

Kimmel, Kieso, and Weygandt (2011) stated that, “Cash resources that consists of coins, currency, checks, money orders, and money on hand or on deposit in a bank.” (p. 324)

Based on statement above, cash is the most liquid asset that used for financing the company’s operation and easily to misuse. Cash could be cash on hand and cash in bank. The task of the management company to design an effective internal control to cash can be protected from theft and embezzlement.
One of the objectives of internal control on cash is to detect fraudulent activities in the cash account. However, internal control on cash cannot eliminate the error or fraud in total, rather lead to the efforts to minimize the consequences of errors or fraud it.

Arens and Loebbecke (2009) stated that, “The purpose of internal control over cash to prevent the occurrence of the following:

1. Failure to bill a customer;
2. Billing a customer at a lower price than called for by company policy;
3. A defalcation of cash by interception of cash receipts from customer before they are recorded with the account changed off as a bad debt;
4. Duplicate payment of a vendor invoice;
5. Improper payments of officers personnel expenditures;
6. Payments for raw materials that were not received;
7. Payments to an employee for more hours that he or she worked; and
8. Payments of interest to a related party for an amount in excess of the going rate.” (p. 700)

Wilson and Campbell (2003) explained that, “The objective of internal control over cash purposed by:

1. Proper planning so that requisite are on hand to meet the business needs both short term and long range;
2. Effective mutilation or all times of company funds;
3. Establishment of accountability for cash receipt and sufficient safeguard until the money are places in the depository; and
4. Maintenance of adequate bank balances, where appropriate, to support proper commercial bank relation.” (p. 457)

From the above opinions can be concluded that the purpose of internal control of cash are:

1. Provision of sufficient cash for the company's normal operations for both the short and long term;
2. To ensure that the cash expenditures only for authorized purposes;
3. Independent responsibility for cash receipts and provide protection to the funds deposited;
4. Enough to keep a record;
5. Effective use of company funds at any time;
6. To protect the cash balance of theft or diversion;
7. Maintaining sufficient bank balance to maintain a relationship with a commercial bank.

II.7 Internal Control over Cash Receipts

Weygandt, Kieso, and Kimmel (2008) said that, “Cash receipts come from a variety of sources: cash sales; collections on account from customers; the receipt of interest, rents, and dividends; investments by owners; bank loans; and proceeds from the sale of noncurrent assets.” (p. 297)

The company do internal control activities over cash receipts is to keep the cash coming into the company did not have deviations that can cause the losses for the company itself. Internal control over cash receipts at each
company is different, depending on the size of the company. The big companies would be doing proper internal control in order to secure cash to the company.

“The following internal control principles explained earlier apply to cash receipts transaction as shown:

1. **Establishment of Responsibility** - Only designated personnel (cashiers) are authorized to handle cash receipts.

2. **Segregation of Duties** - Different individuals receive cash, record cash receipts, and hold the cash.

3. **Documentation Procedures** - Use remittance advice (mail receipts), cash register tapes, and deposit slips.

4. **Physical, Mechanical, and Electronic Controls** - Store cash in safes and bank vaults; limit access to storage areas; use cash registers.

5. **Independent Internal Verification** - Supervisors count cash receipts daily; treasurer compares total receipts to bank deposits daily.

6. **Other Controls** - Bond personnel who handle cash; require employees to take vacations; deposit all cash in bank daily.”

(http://www.smccd.edu/accounts/nurre/online/chtr7fa.htm)

### II.8 Internal Control over Cash Disbursements

Kimmel, Kieso, and Weygandt (2011) stated that, “Generally, internal control over cash disbursement is more effective when payments are made by check, rather than by cash, except for incidental amounts that are paid out of petty cash.” (p. 349)
Internal control over cash disbursement made to know the truth of the cash payment transactions of the company. This control aims to prevent the occurrence of the expenses that are not reasonably performed by company employees. Through these control, the management require convincing that the cash out of the company for the benefit of the company in the achievement of company objectives to obtain maximum profit.

“The principles of internal control apply to cash disbursement as follows:

1. **Establishment of Responsibility** - Only designated personnel (treasurer) are authorized to sign checks.

2. **Segregation of Duties** - Different individuals approve and make payments; check signers do not record disbursements.

3. **Documentation Procedures** - Use pre-numbered checks and account for them in sequence; each check must have approved invoice.

4. **Physical, Mechanical, and Electronic Controls** - Store blank checks in safes with limited access; print check amounts by machine with indelible ink.

5. **Independent Internal Verification** - Compare checks to invoices; reconcile bank statement monthly.

6. **Other Controls** - Stamp invoices with “PAID”.

(http://www.smccd.edu/accounts/nurre/online/chtr7fa.htm)
II.9 Cash Management

Talekar (2005) stated that, “Cash management is a core part of working capital management. Management of cash is essential to maintain sufficient cash required to business transaction and to avoid cash shortage.” (p. 143)

Rich, et. al (2010) defined that, “Cash Management is an important function at all companies because business is really a continuous cycle of paying and receiving cash.” (p. 201)

Understanding the statements above, writer concluded that cash management is one of the management functions in planning and controlling cash. Cash management can be considered as an essential function in most companies because cash has a central position in the daily activities of business as well as to support the operation of company. Cash has a high risk because of the characteristic of the cash itself, which is highly liquid. In addition, cash is also as the important element of working capital. The role of cash is very important for a company to run their business so it needs a proper control.

The company's main objectives in managing cash are basically to minimize the risk of the company in insolvency, the situation of company that no longer affords to pay debts on time. In such circumstances, the company can technically be said to be bankrupt.
II.10 Cash Budget

Needles, Powers, and Crosson (2011) stated that, “A cash budget is a projection of the cash that an organization will receive and the cash that it will pay out during an accounting period.” (p. 1058)

Edmons, Edmons, and Tsay (2003) mentioned that, “A cash budget is prepared to advise management of anticipated cash shortages or excessive cash balances.” (p. 289)

Chorafas (2003) quoted that, “Therefore, the cash budget is a basic tool in financial analysis. It assists users in distinguishing between temporary and permanent financing requirements as well as in determining liquid means for meeting obligations.” (p. 164)

Banjerjee (2005) defined, “A cash budget is a projected cash transaction in the future that is utilized for controlling actual receipts and payments by mending for the variances.” (p. 217)

Shim and Siegel (2012) explained that, “The cash budget is prepared for the purpose of cash planning and control.”

Cleverly and Song (2011) said that, “The cash budget is management’s best indicator of the organization’s expected short-run solvency… The cash budget is usually broken down by periods, such as months or quarters, within the total budget period.” (p. 368)
Usually, cash management system started from a good planning for the allocation of cash itself by making cash budget. The benefits of cash budget are to control the flow of cash disbursement and also can expect or estimate the future cash receipt from revenue. The company will use the budget as the tools of control cash receipts and cash disbursement through comparing between the actual cost and budget cost itself.

II.11 Cash Flow

Albright and Ingram (2007) stated that, “The purpose of the statement of cash flows is to identify the primary activities of a fiscal period that resulted in cash inflows and outflows for a company… The statement of cash flows is divided into three sections corresponding to the three primary types of business activities: operating, investing, and financing.” (p. 177)

Spiceland, Sepe, and Tomassini (2004) explained that, “A list of cash flows is more meaningful to investor creditors if they can determine the type of transaction that gave rise to each cash flow. Toward this end, the statement of cash flows classifies all transactions affecting cash into one of three categories: (1) operating activities, (2) investing activities, and (3) financing activities.” (p. 198)

Ruppel (2011) said that, “A statement of cash flows should classify cash receipts and cash disbursements into the following categories:

- Cash flow from operating activities
- Cash flow from non capital financing activities
• Cash flow from capital and related financing activities
• Cash flow from investing activities.” (p. 178)

Cash flow is a revenue or expense stream that changes a cash account over a given period. An accounting statement called the "statement of cash flows", which shows the amount of cash generated and used by a company in a given period. The net cash flow of a company over a period (typically a quarter or a full year) is equal to the change in cash balance over this period. Positive if the cash balance increases (more cash becomes available), negative if the cash balance decreases.

According to statement above, researcher can draw a conclusion about the categories of cash flow statement as follows:

1. **Cash flow from operating activities**

   Albright and Ingram (2007) stated that, “Operating activities are transactions involving the acquisition or production of goods and services and the sale and distribution of these goods and services to customers.” (p. 178)

   Spiceland, Sepe, and Tomassini (2004) explained that, “The inflows and outflows of cash that result from activities reported in the income statement are classified as cash flows from operating activities.” (p. 198)

   Cash flow from operating activities identifies cash received from the sale of goods and services. Also, it identifies cash paid for resources used to provide goods and services. Operating activities include the production, sales and delivery of the company’s product as well as
collecting payment from its customers. It is a transaction that affects the
determination of net income. Cash inflows from this activity are the sale
of products to customers. Cash outflows include cash paid to suppliers
for purchases of merchandise and services as well as wage payments and
salaries.

2. Cash flow from financing activities

   Albright and Ingram (2007) said that, “Financing activities are
transactions between a company and its owners or creditors.” (p. 181)

activities relate to the external financing of the company. Cash inflows
occur when cash is borrowed from creditors or invested by owners. Cash
outflows occur when cash is paid back to creditors or distributed to
owners.” (p. 200)

   The financing activities section reports only the cash flow effects
of transactions associated with borrowing or repaying debt and
investments by owners. Cash from transactions affecting equity and debt
from an activity, including getting funds from owners and give them a
result or their investments (dividends), and borrow money from the
lender and pay back the loan amount (debt repayments). Cash inflows
from financing activities are usually derived from expenditure shares,
bonds and long-term bank loans. Cash outflows from financing activities
include payments of cash dividends, repayment of long-term debt and
buy back shares already outstanding (treasury stock).
3. Cash flow from investing activities

Albright and Ingram (2007) explained that, “Investing activities involve acquisition or sale of long-term assets and financial investments during a fiscal period.” (p. 180)

Spiceland, Sepe, and Tomassini (2004) described that, “Cash flows from investing activities include inflows and outflows of cash related to the acquisition and disposition of long-term assets used in the operations of the business (such as property, plant, and equipment) and investment assets (except those classified as cash equivalents).” (p. 199)

Cash flow for investing activities occurs when fixed assets purchased or sold, not when these assets are depreciated. Cash flows from transactions affecting investments in non-current assets or long-term, such as giving and receiving repayment from loan, acquire and sell investments in bonds and equities and fixed assets. Cash inflows from investing activities are usually derived from sale of fixed assets, long-term investments and intangible assets. Cash outflows from investing activities came from the payment for the acquisition of fixed assets, long-term investments and intangible assets.
CHAPTER III

METHOD OF DATA PROCESSING

AND

COMPANY’S EXISTING CONDITION

III.1 Data Collection and Processing

In this case study, the writer does the research as alike doing an audit. All research data is collected and processed through audit procedures or processes such as inquiries of the client, observation, documentation, confirmation, analytical procedure, re-performance, and physical examination. For this research, the writer only uses several methods to collects and processes the data through 3 types of evidence: inquires of the client, observation, and documentation.

The writer makes an agreement with the management to do this research start from April, 9 until April, 27 2012. Management had provided any data and information needed related to internal control over cash management. Belows are the process of gathering data done by the writer.

1. Inquiries of the client

Inquiry method consists of seeking information from knowledgeable persons both written and oral. In this procedure, the writer may get quick, high and clearly response from interviewee, and reduce the misunderstanding of the questions being asked. Inquiry method is a procedure that is used extensively throughout the process and
often is complementary to performing other procedures, because the information is not from an independent source and may be biased in the client’s favor. The writer does inquiries of the client through interviews and discussion with the Finance Manager, Head of Accounting Department, staffs of Accounting Department, staffs of Sales Department and Purchase Department of PT KP. The writer gets the data and information related to this research that is internal control of cash management.

Interview took place on April 10, 2012. The writer conducts interviews to all the parties related to cash management. Since the organization of this company is small, it can be done during one day. They were Finance Manager, Head of Accounting Department, three staffs of Accounting Department, two staffs of Sales Department and two staffs of Purchase Department.

Before conducting the interview, the writer had already prepared some questions. Interviewer read the questions to the respondents and wrote the answer of the interviewees. Interview was conducted directly and personally. During the interview, the writer asks additional questions out of the question list, it depends on interviewees’ response of the question.

Interview conducted on April 10, 2012. The interviewees were Finance Manager, Head of Accounting, staffs of Accounting Department, staffs of Sales Department and Purchase Department.
Through this interview, the writer collects information below:

Interviews with Finance Manager, Head of Accounting, staffs of Accounting Department, staffs of Sales Department and Purchase Department are as follows:

Objectives: Nature of the company, business process and control activities.

Palace: PT KP Main Office

Time: April 10, 2012, from 9.00 PM – 12.00 PM

Results and conclusions for interview:

a. Director has sufficient knowledge and industry experience.

b. Accounting staffs doesn’t have experiences in accounting field.

c. Employees understand the duties and procedures applicable to their jobs based on verbal (oral) instruction or direction from their superiors. Since the company still doesn’t have job description well through it has written organization structure.

d. Since the company does not have written job description, so employee job responsibilities and authorities are not clearly established.

e. The Head of each Department assesses performance of each employee.

f. PT KP doesn’t have any written procedures (SOP); it is only based on the director instructions and past experience.

g. Report of cash receipt and disbursement has been prepared periodically by the Accounting Department.
h. Daily report of petty cash (cash receipts and disbursements) is prepared by Cashier and checked by the Accounting Department.

i. If the money from sales cannot be reached the specific limit is Rp. 5,000,000 or deposited to the Bank that it is late (Bank has closed), the money would be kept in cash box and deposited in the next morning or after reached the specific limit.

j. Recording of cash receipts and disbursements transactions is carried out with computerized system (General Ledger program) by Accounting Department. Cashier also does record of cash receipts and disbursements manually. He/She records the transactions based on “Bukti Penerimaan Uang” (BPU).

k. The person authorizing to approve any payment voucher is the Head of Finance of the company.

l. The company doesn’t prepare any cash budget.

m. Head of Accounting Department doesn’t examine cash periodically and suddenly.

2. **Observation**

Observation is the process of gathering data by seeing, smelling, hearing, tasting, and feeling to assess certain activities. Observation means collecting data directly from the field. The observed data can be either a picture of the attitudes, behaviors, actions, the overall of interaction between people.

In observation, the writer watches individuals performing accounting task (especially for cash receipts and cash disbursements) to
determine whether the person assigned has responsibility in performing it properly. The writer could obtain information such as process of cash receipts and cash disbursements, the application from several procedures, organization structure, and working environment of the company. By looking at the process of cash management especially in cash receipts and cash disbursements transaction, the writer can detect the problems and factors that caused the problems itself.

The writer conducted observation on April 16, 2012, on the activities of each employee in the main office and factory. Results of observation are as follows:

a. The ones who deposit the cash (money) to the bank is Cashier or staff of Accounting Department.
b. The ones who can access the safe deposits box is Cashier and Director of the company.
c. The computers used by Head and staffs of Accounting department are equipped with the General Ledger Program.
d. All employees of Accounting Department and Cashier always come on time.
e. The company has a machine card clock for recently the attendance of the employee. It is placed in the front of receptionist desk.
f. In warehouse, there has security staffs who guard the warehouse.
g. In the Accounting staff room, there are paper documents stacking on in the desk.
h. The Accounting Department has its own transport to support of daily activities such as to send a "Surat Tagihan Piutang" to customers and deposit the cash / money to the Bank.

3. Documentation

Documentation is the process of tracking down evidences either internal or external evidences of transactions or activities being researched. Documentation is collecting the evidence that need to support a transaction. Documentation is examining documents that support the transactions of cash receipts and disbursements.

Documentary data includes what and when an even or transactions, and who involves in the transactions. Documents that the writer gathered are all documents relating to the cash management procedure, such as:

- BPU (Bukti Penerimaan Uang – Document of Cash Receipt)
- BKK (Bukti Kas Keluar – Document of Cash Disbursement)
- SPPK (Surat Permintaan Pengeluaran Kas – Letter of Cash Disbursement Request)
- Sales Invoice
- Purchase Order (PO)
- Delivery Order (DO)

The writer gets some information that the company has no written standard operation procedures.
III.2 Company’s Existing Condition

Based on the above procedures, the writer can draw a conclusion about the company’s existing condition as follows:

- **Background of The Company**

**History of the company**

PT KP is a manufactured company produces Ideal socks’ brand. It is established to catch the opportunity as the prospect of shock demand in Indonesia especially in Jakarta is good. The company locates in East Jakarta. Occupying about 3680 m square land, the company centralizes the manufacture and the office there. It is meant to control the company activities easily.

PT KP produces various kinds of socks for all-purpose. It produces socks for adult men, adult women, teenagers, kids, and babies. It also produces sports and health socks. To produce socks, the company needs raw materials such as cotton thread, acrylic, lycra, nylon, spandex, and rubber. And also, supporting material such as plastic, label, sticker, cartoon, glue, ribbon, bend, hanger, small clipper and stapler.

There are two ways in doing its marketing. Those are direct and indirect. Direct marketing is a marketing by opening shop in certain place, while indirect marketing is a marketing by pointing distributors in some places with a certain agreement.
**Legal Form of PT KP**

The company was established on October 7th 2000 by Notarial Deed No. 200 (C2-8649 HT.01.01-year 2001) of Richardus Nangkiah Sinulingga, SH., a notary in Jakarta.

**The Company’s Operation**

- **Working Time of The Company**

  Employees at PT KP divided into two, which are operational and non-operational employees. Operational employees are employees who worked at the plant/ factory, such as the design, the knitting, the sewing, the setting, the packaging, and the screen-printing. Non-operating employees to work from at 08.00-16.00 every Monday-Friday with a break one time is at 12.00-13.00, while on Saturday they worked from 08:00 to 12:00.

  Operational employees working in three shifts from Monday to Friday. The first shift works from 7:00 to 15:00 pm with a break at 12:00 to 13:00 pm. The second shift works from 15:00 to 23:00 pm with a break at 18:00 to 19:00 pm. And, the third shift from 23:00 to 7:00 am with a break at 03:00 to 04:00 am. On Saturday, the knitting permanent employees are working in three shifts, but with different time divisions. The first shift works from 07:00 to 12:00 pm without break. The second shift works from 12:00 to 17:00 pm without a break. The third shift works from 17:00 to 22:00 pm without a break. Other parts of the plant employees to work from 07:00 to 15:00 pm.
• The Resulting Products

The resulting products of PT KP are baby socks measuring 9-10 cm and 11-12 cm, kids socks size 13-14 cm, 15-16 cm, 17-18 cm and 19-20 cm, and adult socks size 21-22 cm, 23-24 cm, and 25-26 cm. Consists of adult socks for sports socks, socks for women, and socks for men. There is also a school socks for kids and adults.

In addition to stocking the usual design, the company also produces socks for health care where there are small spots on the inside of the socks are useful for reflexology. It also produced anti-skid baby socks by using screen-printing on the soles of the feet so that your baby is learning to walk to avoid falling.

In addition that also produced a thick sock-like towel of materials, stocking socks, and double soles socks for men. The difference only lies in type of yarn used.

Organization Structure and Job Description

Organization is a form of cooperation between two people or more in achieving the goal. It means there is always a kind of relationship between person or groups called the leader and person or groups called employee.

The organizational structure is the description of the company organization in the form of chart showing the divisions and jobs description. Every division activity supports another in order to achieve the goal. A proper organization structure will ease coordination,
communication and control all of the company’s activity in order to achieve the goal.

PT KP organization structure is lead by President Director, supported by Purchasing Manager, Finance Manager, Marketing Manager, HRD and Manufacture. Every department is lead by a manager. The organization structure of PT KP is enclosed.

Company does not have any written documents for job description, so the job description for the staff everyday not sure yet, they perform their task/ job based on the instructions from their manager.
Figure I. Organizational Structure PT KP
III.3 Processes and Procedures of Internal Control Cash Management

PT KP

Processes and procedures are the series of administrative activities which usually involve a few people to achieve unity of action in conducting transactions that often occur. Processes and procedures are a sequence of jobs, usually involving several people in one or more parts, and ordered to through a compact of treatment in the company transactions that occur.

Processes and Procedures of Cash Receipt

Processes and procedures for cash receipts involve several parts of the company that cash receipts transactions do not focus on just one part of the Finance Manager and Accounting Department.

- Cash Receipt from Collection of Receivables

Cash receipts from collection of receivables is the business activities, where the company has cash receipts from customer receivables. In this case, the company has a large number of customer receivables that later due date do billing. If the customers pay account receivable more than the over due, the company can determine the interest expenses to be paid by the customer. However, if the customer pays the debt before the due time, the customer can get the discount according to the provisions of the company.

Procedures cash receipts from account receivable:

The Accounting prepares the list of receivables due date. Based on the list of receivables due date, the Accounting makes the “Surat Tagihan Piutang”
(STP), to be signed by the Head of Accounting. After create and sign, the STP will continue to the Finance Manager for review and require the approval and return back to the Accounting for proceed to the customer. Accounting Staff bring the STP for billable to the customer.

The Customer receives the STP and makes payments via transfer cash deposit to the Bank assigned by the company. The customer informs the payment to the company. The Accounting receives information the payment via telephone and fax (Bank Receipt) from customer and checks on the Bank Statement. The accounting gives the Bank Receipt (BR) to the Cashier. The Cashier accepts the Bank Receipt (BR) and makes the “Bukti Penerimaan Uang” (BPU) for 2 copies, the copy of #1 to the Accounting with Bank Receipt (BR) and the copy of #2 to the customer.

The Accounting accepts the BPU and BR then records and posts the transaction on General Ledger. The Accounting makes the Report of Cash Receipts from receivables in 2 copies, the copy of #1 to the Finance Manager for the report and evidence of cash receipts from receivables while the copy of #2 keeps as an archive. The Finance Manager receives the report of cash receipts.

According to explanation above, the writer can draw the current process of cash receipts from collection of receivable as follows:
Figure II. Flowchart of Cash Receipts from Collection of Receivables
- **Cash Receipts from Sales in Cash**

  Cash receipts from cash sales is the business activities, where the company receives cash receipts from cash sales are conducted in normal business. In this case, the source of cash receipts held by the company from cash sales, where the customer makes payment in cash and does not make purchases on credit. The customer to be one source of cash receipts from cash sales.

  Procedures cash receipts from sales in cash:

  The marketing receives the Purchase Order (PO) from the customer. The Marketing makes the Sales Invoice for 2 copies and the Delivery Order (DO) for 2 copies. The Sales Invoice and Delivery Order (DO) are signed by the Head of The Marketing then given to the customer. The customer makes payment and gives the Sales Invoice to the Cashier. The Cashier receives the Sales Invoices much as 2 copies and the cash. The Cashier makes the “Bukti Penerimaan Uang” (BPU) for 2 copies as well as signed and stamped “Lunas” on the Sales Invoices as a sign of already paid. The cashier gives the copy of #1 the Sales Invoice and BPU to the customer for taken to the Warehouse and the copy of #32 the Sales Invoice to the Accounting, while the copy of #2 the BPU for keep as an archive.

  The customer gives the Sales Invoice, BPU, and DO much as 2 copies to the Warehouse. The Warehouse receives the Sales Invoice, BPU and DO then prepares the goods and records on the Stock Card based on the Sales Invoice. The customer signs the DO as a sign of the goods already deliver. The Warehouse delivers the goods, Sales Invoice, BPU and the copy of #1 DO to the customer, while the copy of #2 DO to the Accounting.
The Accounting receives the Sales Invoice from the Cashier and the DO from the Warehouse then records and posts on General Ledger. The Accounting makes the Report of Cash Sales for 2 copies, the copy of #1 to the Finance Manager for the report and proof of cash sales and the copy of #2 keeps as an archive.

According to explanation above, the writer can draw the current process of cash receipts from cash sales as follows:
Figure III. Flowchart of Cash Receipts from Cash Sales
Processes and Procedures of Cash Disbursement

Cash disbursements are the business activities and data processing operational related with the purchases and payments. The main objective of cash disbursements is to minimize the total cost of obtaining and maintaining inventory, equipment and various services needed to work by an organization.

Each cash disbursement must be made with proof of handover receipts or vouchers or checks that have been signed and stamped by the authorities. In general, the cash disbursement in the company made in order to finance operations, marketing, and public administration. Processes and procedures of cash disbursements also included some parts of the company with the intention that the Sales that occur can be monitored closely.

- Cash Disbursements for Purchases on Cash

Procedures cash disbursements for purchases on cash:

The Accounting receives the Sales Invoices from the supplier. Based on the Sales Invoice, The Accounting checks with DO and PO then makes the “Surat Permintaan Pengeluaran Kas” (SPPK) for 2 copies and gives to the Finance Manager with the Sales Invoice. The Finance Manager receives the SPPK much as 2 copies and Sales Invoice. Based on these, the Finance Manager approves and checks the SPPK with the Sales Invoice and returns back to the Accounting. The Accounting receives the SPPK approved much as 2 copies and Sales Invoice. The Accounting submits the copy of 2 the SPPK approved to the Cashier while the copy of #1 the SPPK approved and Sales Invoice keep as a temporary file.
The Cashier receives the SPPK approved and makes the “Bukti Kas Keluar” (BKK) for 2 copies, the copy of #1 to the Accounting and the copy of #2 keeps as an archive. The Supplier makes “Surat Pelunasan Pembayaran” (SPP) for 2 copies to the Cashier. The Cashier receives the SPP much as 2 copies then makes payment to the Supplier. The Cashier signs the SPP as a sign of already pay, the copy of #1 to the Accounting and the copy of #2 to the Supplier.

The Accounting receives the BKK and SPP from the Cashier. Based on the BKK, SPP, Sales Invoice approved, SPPK approved, PO and DO, the Accounting records and posts on General Ledger then makes the Report of Cash Disbursements for 2 copies, the copy of #1 to the Finance Manager and the copy of #2 keeps as an archive. The Accounting records the purchases.

According to explanation above, the writer can draw the current process of cash disbursements for purchases on cash as follows:
Figure IV. Procedure of Cash Disbursements for Purchases on Cash
• **Cash Disbursements for Account Payables Payment**

Procedures cash disbursements for account payables payment:

The accounting receives the “Surat Tagihan Hutang” from the Supplier and checks with PO and DO then makes the “Surat Permintaan Pengeluaran Kas” (SPPK) for 2 copies and gives to the Finance Manager. The Finance Manager receives SPPK much as 2 copies and “Surat Tagihan Hutang”. Based on these, the Finance Manager approves and checks the SPPK with the “Surat Tagihan Hutang” and returns back to the Accounting. The Accounting receives the SPPK approved much as 2 copies and “Surat Tagihan Hutang”. The Accounting submits the copy of #2 the SPPK approved to the Cashier while the copy of #1 the SPPK approved and “Surat Tagihan Hutang” keeps as a temporary file.

The Cashier accepts the SPPK approved. Based on the SPPK approved, the Cashier makes the “Bukti Kas Keluar” (BKK) for 2 copies, the copy of #1 to the Accounting and the copy of #2 keeps as an archive. The Cashier makes payment via transfer cash deposit to the Bank assigned by the Supplier. After the money deposits, the Cashier informs the payment via telephone and fax (Bank Receipt) to the Supplier. The Supplier receives information the payment from the company and checks on the Bank Statement. Based on the Bank Receipt, the Supplier makes the “Surat Pelunasan Pembayaran” (SPP) for 2 copies to the Cashier. The Cashier receives the SPP much as 2 copies. The Cashier signs the SPP as a sign of already pay, the copy of #1 to the Accounting and the copy of #2 to the Supplier.

The Accounting receives the BKK and SPP from the Cashier. Based on the BKK, SPP, STH approved, SPPK approved, PO and DO, the Accounting records and posts on General Ledger then the Accounting makes the Report of
cash Disbursements for 2 copies, the copy of #1 to the Finance Manager and the copy of #2 keep as an archive. The Accounting records the debt repayment.

According to explanation above, the writer can draw the current process of cash disbursements from debt payments as follows:
Figure V. Procedures of Cash Disbursements for Account Payables Payment
CHAPTER IV
ANALYSIS AND EVALUATION

The main points of all business are actually the people, including integrities, ethics, competence and environment of the operation. The factor of control environment is commitment of integrity and moral value. It is a part of the important aspects of management in creating organization structure which stress in integrity.

The results of analysis done on the Internal Control of Cash Management are as follows:

A. Control Environment

1. The company does not have written job descriptions, so employee job responsibilities and authorities are not clearly established.

   The company does not have written job descriptions, so employees job responsibilities and authorities are not clearly established. The superiors describe the job description through verbal (oral) instructions based their own interpretation.

   The company should have written Job description to explain the scope of their authorities and responsibilities of a function. Job description is like a guideline for the employees to do their function.

   The company does not have any written job description because the company thinks that they do not need it. The company also considers that the number of employees is relatively small, the company’s
activities are also still under control and the employees can still be directed verbally (oral) by their superiors in each department.

Without job description, each of employees may do something based on their own way. The possibility when there is no job description is the employees prefer to do their jobs with their own interpretation and nobody wants to do the difficult jobs. Moreover, the employees do not know the limit of responsibilities and authorities they have in doing in their function.

The writer suggests that the company should have and set up a written and clear job description to provide and identify the limitation of responsibilities and authorities of its employees, so the employees know what their authorities and responsibilities.

2. **The company does not have written Standard Operating Procedures (SOP).**

The company does not have any written Standard Operating Procedures (SOP) approved by Director to carry out their activities. The employees will do their jobs based on verbal (oral) instructions/directions from their superiors.

A writing Standard Operation Procedures (SOP) is a very important element for a company to handle specific operational activities. The company must have written Standard Operation Procedures (SOP) so each employee will understand step by step the processes. It is also important for new employee to learn and know the whole company activities.
The company does not have written Standard Operation Procedures (SOP) because the size of the company and number of employees in the company are still considered small. Besides, the management also believes that all employees have understood all the procedures communicated by the Director and Superiors.

Without written Standard Operating Procedure (SOP), the management does not have a standardized procedures in doing activities and the employees do not know whether they have done their work/job properly.

The company should make and have written Standard Operation Procedures (SOP) to control employees’ activities and facilitate the employees with the clear guideline in doing an activity. It will be easier to be understood if the procedures explain step by step to do an activity.

3. **The company does not have a policy regarding the rotation of its employees.**

The company does not have a policy regarding the rotation of its employees. The employees in Accounting Department have been working the same job (journalize transactions) for 3 (three) years.

The company should rotate its employees in order to maintain the independence of employees in performing their jobs, so fraud and collusion among the employees can be avoided. In addition, the rotation of its employees can explored with new knowledge, skill, and experience. The employees can avoid the boredom in their jobs. The
company will have a good internal control and also the efficiency and effectiveness of operational activities will also be getting better.

The company considers that the rotation of its employees can create complexity of working processes since new employees need to learn first before they are able to do the function properly. The company also considers that existing employees can be trusted because they have worked for long time in the company.

Even tough, currently, the writer does not find any problem resulted from the matter, but it can be possible that the lack of employees rotation can made the employees to carry out the collusion and fraud in performing their jobs. Fraud occured because the employee has already know all about the activities carried out everyday. In addition, the employees can feel the boredom at work.

Therefore, the company should rotate its employees regularly in order to increase or developed its employees’ knowledge, skill, and experience. Besides by rotating them, employees can have more motivation in working and be trusted in the company.

B. Control Activities

1. There are paper documents stacking on the desk.

Based on the observation in the Accounting staff room, it is known that there are paper documents such as SPPK (Surat Permintaan Pengeluaran Kas – Letter of Cash Disbursement Request), stacking on the desk without being filed properly.
Staff must have good file to prevent the documents from lost or being read by unauthorized persons.

The condition happens because the staff always files documents periodically, usually at the end of the month.

Eventough, currently, it is not found any problem resulted from that kind of behavior (work practice). However, the condition results in the possibility of the documents could be lost, dirty, or read by unauthorized persons.

The staffs should file the documents properly. The staff should store documents in the filling cabinet to prevent the documents from lost, being dirty or misused.

2. **The company does not prepare cash flow budget.**

   The company does not prepare cash flow budget to control its cash flows. The company does not prepare the allocation of fund (cash) for future cash flows either annually or monthly.

   The company should prepare the cash budget to control its cash flows and to manage its cash inflows and outflows properly. With the cash budget, the company knows how much cash it will receive and pay out during an accounting period.

   The employees do not have enough knowledge about budgeting. They do not know the importance of cash budget to control their cash flow. In addition, the company thinks its budget always the same in each year so they do not need to prepare cash budget.
The company cannot control the cash properly. The company does not know how to anticipate the cash shortage or excessive. Further, the company cannot properly allocate its money in accordance with its priority.

The writer suggests that the company should prepare cash flow budget, especially monthly cash budget to manage cash inflows and outflows properly. In addition, the company also should train its employees, especially those who have responsibility for managing cash.

3. **The documents (forms) used in the company has not been printed in pre-number.**

The documents (form) used in the company, especially BPU (Bukti Penerimaan Uang – Document of Cash Receipt), BKK (Bukti Kas Keluar – Document of Cash Disbursement) and SPPK (Surat Permintaan Pengeluaran Kas – Letter of Cash Disbursement Request) are not printed in pre-number.

All documents used in the company should be pre-numbered in order to facilitate the control process on the use of the documentation.

The company does not provide pre-numbered on the BPU (Bukti Penerimaan Uang – Document of Cash Receipt), BKK (Bukti Kas Keluar – Document of Cash Disbursement) and SPPK (Surat Permintaan Pengeluaran Kas – Letter of Cash Disbursement Request) because it does not understand about the importance of pre-number function.
If the documents are not printed in pre-number, so they will be difficult to be controlled the use of the document and also hard to be tracked down the documents used.

The company should make all documents pre-numbered. Because of the pre-number will increase the company’s internal control by preventing from misuse of the document.

4. **Head of Accounting Department does not do physical examination on cash balance periodically and suddenly.**

   The company does not do physical examination on cash balance regularly. During the year 2011, the company had only done 3 (three) times physical examination on cash (which were on April 29, 2011, August 29, 2011, and December 30, 2011)

   The company should do physical examination on cash regularly at least once a month which is at the end of the month.

   This is happened because the company has full trust to the Cashier, so it does not need to conduct any physical examination on cash periodically.

   Even tough, currently, the writer does not find any problem resulted from the matter, but it can be possible that the lack of periodic and sudden physical examination on cash can lead to the risk of embezzlement on cash.
The writer suggests that the company should conduct physical examination on cash periodically and suddenly. The Head of Accounting can do that physical eximantion on cash regularly at least once a month especially at the end of the month.
CHAPTER V
CONCLUSION AND RECOMMENDATION

V. 1 Conclusion

Based on the discussion on the Chapter 4, follows are the conclusion about the negative findings of internal control on cash management:

1) **The company does not have written job descriptions.**

   The company does not have written job descriptions, so employees' job responsibilities and authorities are not clearly established. The possibility when there is no job description is the employees prefer to do easier jobs and nobody wants to do the difficult jobs. This is happened because the company considers the employees do not know the limits of responsibilities and authorities in their functions and can still be directed verbally by their superiors. The company also considers that the company’s activities are still under control.

2) **The company does not have written Standard Operating Procedures (SOP).**

   The company does not have any written Standard Operating Procedures (SOP) approved by Director to carry out their activities, so the employees will do their jobs based on verbal (oral) instructions/directions from their superiors. The management also does not have a standardized procedures in doing activities. This is occurred because the
management believes that all employees have understood all the
procedures communicated by the Director and Superiors.

3) **The company does not have a policy regarding the rotation of employees.**

The company does not have a policy regarding the rotation of employees, so the employees can carry out the collusion and fraud in performing their jobs. The employees also can feel the boredom at work. This is happened because the company considers that rotating employees can create complexity of working processes since new employees need to learn first before they are able to do the function properly. The company also considers that existing employees can be trusted because they have worked for long time in the company.

4) **There are paper documents stacking on the desk.**

There are paper documents, such as SPPK (Surat Permintaan Pengeluaran Kas – Letter of Cash Disbursement Request), stacking on the desk without being filed properly in the Accounting staff room, so the documents could be lost, dirty, or read by unauthorized persons. This is occurred because the staff always filled documents periodically, usually at the end of the month.

5) **The company does not prepare cash flow budget.**

The company does not prepare cash flow budget and the allocation of fund (cash) to control its future cash flows either annually or monthly, so the company does not know how to anticipate the cash
shortage or excessive. This is happened because the employees do not have enough knowledge about the importance of cash budget to control their cash flow. The company also thinks its budget always the same in each year, so it does not need to prepare cash budget.

6) **The documents (forms) used in the company has not been printed in pre-number.**

The documents (forms) used in the company, especially BPU (Bukti Penerimaan Uang – Document of Cash Receipt), BKK (Bukti Kas Keluar – Document of Cash Disbursement) and SPPK (Surat Permintaan Pengeluaran Kas – Letter of Cash Disbursement Request) are not printed in pre-number, so they will be difficult to be controlled the use of the document and also hard to be tracked down the documents used. This is occurred because the employees do not understand about the importance of pre-number function.

7) **Head of Accounting Department does not do physical examination on cash balance periodically and suddenly.**

The company does not do physical examination on cash balance regularly. It can be possible that the lack of periodic and sudden physical examination on cash can lead to the risk of embezzlement on cash. This is happened because the company has full trust to the Cashier, so it does not need to conduct any physical examination on cash periodically.
V. 2 Recommendation

According problems above, the writer gives some recommendations for the company as follows:

1. The company should have and set up a written and clear job description to provide and identify the limitation of responsibilities and authorities of its employees, so the employees know what their authorities and responsibilities.

2. The company should make and have written Standard Operation Procedures (SOP) to control employees’ activities and facilitate the employees with the clear guideline in doing activities. It will be easier to be understood if the procedures explain step by step to do activities.

3. The company should rotate its employees regularly in order to increase or developed its employees’ knowledge, skill, and experience. Besides by rotating them, the employees can have more motivation in working and be trusted in the company.

4. The staffs should file the documents properly. The staff should store documents in the filling cabinet to prevent the documents from lost, being dirty or misused.

5. The company should prepare cash flow budget, especially monthly cash budget to manage cash inflows and outflows properly. In addition, the company also should train its employees, especially those who have responsibility for managing cash.
6. The company should make all documents pre-numbered. Because of the pre-number will increase the company’s internal control by preventing from misuse of the document.

7. The company should conduct physical examination on cash periodically and suddenly. The Head of Accounting can do that physical examination on cash regularly at least once a month especially at the end of the month.
REFERENCES


(http://www.investopedia.com/terms/c/cash/asp#ixzz1tpSEhamk)

(www.udel.edu/Treasurer/intentrldef.html)

(http://www.smccd.edu/accounts/nurre/online/chtr7fa.htm)
COMPANY’S CONFIRMATION LETTER

Here with, I am:

Name            : Siti Fatimah
Function         : Head of Human Research Department
Company          : PT KrindoPandu
Address          : Jl. I GustiNgurahRai No. 122 Jatinegara – Jakarta Timur 13930

confirms that:

Name            : Prischa Prashanti Munda
Student ID       : 008200800042
Faculty/Major    : Economics / Accountancy
Universitas      : President University

has done his/her research in our company in order to write the skripsi, title: “THE EVALUATION OF INTERNAL CONTROL ON CASH MANAGEMENT (Case Study: PT KP)” since April 9, 2012 until April 27, 2012 and has discussed with us the content of his/her skripsi, including the findings and recommendations.

Jakarta, April 27, 2012

PT KP

(Siti Fatimah)

Head of HRD
APPENDICES

1. Organization Structure
2. Questions of interview
3. Bukti Penerimaan Uang
4. Bukti Kas Keluar
5. Invoice
6. Purchase Order (PO)
7. Delivery Order (DO)
Questions for Interview

1. Siapa yang berhak menilai hasil kerja tiap karyawan?
2. Siapa yang bertugas mencatat semua transaksi penerimaan dan pengeluaran kas di buku besar?
3. Siapa yang bertugas menyusun laporan penerimaan dan pengeluaran kas?
4. Apakah terdapat tempat khusus untuk menyimpan uang di perusahaan dan siapa yang bertanggung jawab?
5. Siapa yang bertugas menyetor uang ke bank?
6. Apa jumlah yang terdapat dalam buku kas diperiksa kembali oleh kepala bagian akuntansi?
7. Apakah setiap laporan yang diberikan oleh kasir diperiksa kebenarannya oleh manajer keuangan?
8. Apakah formulir yang digunakan oleh perusahaan telah menggunakan bernomor urut cetak?
9. Apakah setiap transaksi yang lunas diberi cap “LUNAS”?
10. Apakah kas yang diterima hari itu disetor ke bank hari itu juga atau selambat-lambatnya keesokan hari kerja?
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**Bukti Penerimaan Uang**

**PT.**

**KASIR**

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KASIR

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Catatan: Pembayaran harap di transfer ke rekening:
Atas Nama:
Bank:
A/C:  
Yang Menerima
Jakarta, 04 Januari 2011

Hal 1 / 1
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Mohon Kiranya dapat dikirimkan Barang-barang / D.O. seperti tersebut di bawah ini

Kota Yth.

Tempat Pengiriman: IP1
Syarat Pembayaran: 11 ujen Invoice

Tandatangan: [Signature]

**RECEIVED**

TGL: 24 Des-10

DILAMPIRKAN PADA FAKTUR PENAGIHAN

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Cikarang, 04 Jan 2011
Hormat kami, mendoalahi, Eko,

Sunarto

[Signature]

Peredopa, [Signature]
# Tanda Terima

--- | --- | --- | --- |
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| 05 | 21.01.11 | Rp. 11,389,989 |
| 07 | 21.01.11 | Rp. 15,102,270 |
| 08 | 04.01.11 | Rp. 6,128,309 |

Jakarta, 16.01.11
Yang menerima,

# Kwitansi

Terima dari

Banyaknya Uang

Untuk Pembayaran

Dengan Perincian

Tagihan | RP | PPN10% | RP | PPN12% | RP | Total | RP
--- | --- | --- | --- | --- | --- | --- | ---

Jakarta 04 Januari 2011

( )