EVALUATION OF INTERNAL CONTROL ON CREDIT SALES STUDY CASE AT CV. ABADI SEJAHTERA

SKRIPSI

By

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PANEL OF EXAMINERS

APPROVAL SHEET

Herewith, the Panel of Examiners declare that the skripsi entitled “Evaluation of Internal Control on Credit Sales (Study Case at CV. Abadi Sejahtera)” submitted by Muhammad Noer Alim Majoring in Accounting, Faculty of Economics was assessed and proved to have passed the Oral Examination on

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This skripsi entitled “EVALUATION OF INTERNAL CONTROL ON CREDIT SALES STUDY CASE AT CV. ABADI SEJAHTERA” prepared and submitted by Muhammad Noer Alim 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 skripsi fit to be examined. We therefore, recommend this skripsi for Oral Defense.

Cikarang, Indonesia May 30th 2012

 Acknowledge

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RECOMMENDATION LETTER

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Head of Accounting Study Program

Misbahul Munir, Ak., MBA
DECLARATION OF ORIGINALITY

I declare that this thesis, entitled “Evaluation of Internal Control on Credit Sales (Study Case at CV. Abadi Sejahtera)” is, to the best of my knowledge and belief, an original piece of work that has not been submitted, either in whole or in part, to another university to obtain a degree.

Cikarang, Indonesia, May 30\textsuperscript{th}, 2012

Writer,

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EVALUATION OF INTERNAL ON CREDIT SALES (STUDY CASE AT CV. ABADI SEJAHTERA)

ABSTRACT

To achieve the company’s goal in obtaining maximum profit to meet its liquidity, the company runs its business activities by selling their product on credit and in cash. Credit sales creates a problem since there is possibility that the customers may not pay their debt. It can be very risky for the company if the customers have delayed the payment or even completely unpaid.

The research used qualitative research which is case study approach, through procedure that produces descriptive data from the company. The writer gathered data by using types of evidence which are inquiries to the client, observation, and documentation. The writer also gathered theories from text books and some other references from the library and internet. Literature review is used to evaluate the existing condition of sales in the company. The results from the analysis and evaluation provide recommendation that is useful for the company.

From the analysis and evaluation that the writer has conducted, there are some findings occur in the company. The company does not have standard operating procedure. It is because this company is a developing company, and also all employees of this company had been working for long time on this company, so management thinks SOP would not been necessary. There is no written job description. It is because management considers the employees have understood the details of their work, and often employees are just waiting for orders from his superiors to do the job. The company does not have attendance list for employees on industry. It is because The company just relies on the attendance report from head of the Manufacturing Department, and a report from the head of the Manufacturing Department was satisfactory. Thus, they do not need to improve the treatment for labor attendance. The Company does not make its documents in pre-numbered, especially the invoice and delivery order issued. This happens because the Outsourcing & GA Departments did not know the function of pre-numbered is, so they think it is unnecessary for now.

From the findings above, the writer recommends solution for the company to overcome those problems. The company needs to issue a written SOP as a guideline to ensure and control the activities among the employees. The company needs to provide a written job description in order to make every function know and understand about their authority and responsibilities. The company should provide such as digital fingerprint attendance to control the presence of absence or attendance time recorder (punch card machine). The company should make all documents printed in pre-numbered.
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The writer realizes that this thesis is far from perfect due to the limited resources that the writer had to do with, as well as the limited knowledge and insight. Therefore, criticisms and suggestions are necessary in order to set better performances for the writer in the future.

Cikarang, May 2012,

Muhammad Nur Alim
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CHAPTER I
INTRODUCTION

I.1 Research Background

Economy is the most important and plays a full part in maintaining the viability of a company. Each company has its own characteristics and goals in maintaining its viability, but all companies have the same application which is selling the product to get big profits.

Generally, companies are divided into three types: small, medium and large companies. The activity in small companies generally can be managed by the owner. Since it is a small company, the owner commonly serves as manager of the company. However the bigger a company, the greater the volume and level of production and sales of the company will be. Owner will be more difficult to supervise directly all activities of the company, problems and risks. Therefore, the company should implement a standard or internal control in order to make the operation run properly. In sales, a profit earned by the company comes from two sources, the profits from sale in cash and profits from sales on credit. In credit sales, receivables are a very crucial, since the collection of outstanding receivables will effect on cash flow. Therefore, it is important that a company to set up proper internal control system on management of credit and account receivable collections.

Internal control is very important, not only to control the flow of procedure of activities but it also can minimize risk and problems that come from internal and to external. Internal control can also be as preventive system to protect company from
fraud. Good internal control has to fulfill each of control environment, risk assessment, control procedure, monitoring, information and communication, which are the elements of internal control itself.

CV. Abadi Sejahtera is a company operates in manufacturing business. Generally, the company’s sales process occurs on credit. This creates a very high risk. The main risk is the bad debt risk and liquidity risk. Based on the description above, writer is interested in doing a research about how the internal control implemented in Credit Sales of the company. Therefore, the writer chooses the title “Evaluation of Internal Control on Credit Sales (Study Case at CV. Abadi Sejahtera)”.

1.2 Problem Identification and Statement

Based on the description above, the company is operates in manufacturing business, most of the sales transaction is often done in credit. In credit sales, some problems might occur, such as failing in collecting accounts receivable, sending wrong product, errors in assess of qualification of customers, and implementing wrong price.

In order to maintain the sales transaction process properly, the management should have these three objectives of internal control on credit sales which are reliability of financial reporting, and compliance with applicable regulations and laws, and safe guarding of assets.

On this research, writer wants to ensure that the company has implemented all of the internal control objectives. Therefore, writer defines the problem statements as follows:

1. How is the internal control of credit sales implemented in the company?
2. What is the weakness of internal control credit sales?
I.3 Research Scope and Limitation

In this study, the scope of writer is an internal control on Credit Sales. Writer monitored the flow of Credit Sales and analyze it. Furthermore, this research is conducting only to test whether the company has successfully reach the objectives of internal control which are reliability of financial statements (accuracy, completeness, and occurrence) and compliance with the rules and regulations. To make sure they have those two objectives, the company should follow the COSO Internal Control which is control environment and control activities.

In control environment writer will discuss about organization structure, assignment of authority and responsibility, and human resources policies and practices. Meanwhile on control activity limited only to adequate documents and records, adequate specification of duties, and proper authorization of transaction and activities.

Sales transactions made by the company is done on domestic and exports, but the discussion is limited on domestic sales only. The procedure that usually done by the company are sales orders, credit approval, shipping procedures, billing procedures, and recording of credit transaction. The sources of this research are collected data of credit sales and interview the parties who have connection in this section. Writer has difficulty in collecting confidential data that should not be given to people outside the company and also the lack of time given to complete this research.

I.4 Research Objectives

In this research there are several objectives that writer would like to arise, they are:
1. To find out how the company implement its internal control on credit sales and Account Receivable.

2. To identify any weakness on the internal control of credit sales.

3. To formulate recommendation to overcome the weakness.

1.5 Research Method

This research is a qualitative research with case study approach. All data is gathered through literature review and filed research.

1. Literature review

This step writer search literatures from text books and articles related to topic discussion and use it as secondary data in the research.

2. Field research

In this steps writer go to company to collect primary data and information. The process of collecting and evaluating the data/information is done through types of evidence as follows:

a. Inquiries, by conducting interviews to the authorities and those responsible in the field, also writer makes some questions that related to the case study, this step include interview.

b. Observation, writer observed the research objects such as seeing how the flow of cash collection in account receivables then analyzed it.

c. Documentation, in this step writer took a few samples such as delivery order and invoice.
I.6 Research Benefits

1. For writer, to increase knowledge and insight in internal controls, particularly those associated with efficacy in one company and also it can be implementation of what writer got in class in the fieldwork.

2. For company, this research can be accepted as input in order to improve internal controls, especially on the receivables.

3. For others writer, hopefully this research can be as reference for those interested in studying the internal control especially in receivables.
II.1. Definition of Sales

Kwok (2005) explained that, “Sales are gross inflows of economic benefit from buyers to sellers and transfers of the significant risks and rewards of goods or service deliverables from sellers to buyers.” (p. 46)

Based on PSAK no.23 (2009) "Penjualan adalah Arus masuk bruto dari manfaat ekonomi yang timbul dari aktivitas normal perusahaan selama satu periode bila arus kas masuk itu mengakibatkan kenaikan ekuitas, yang tidak berasal dari kontribusi penanam modal." (p.23.3) The translation is “The sale is the gross inflows of economic benefits arising from the company's normal activities during a period as if incoming cash flows result in the increases in equity, which is not derived from the investor's contribution.”

From the definitions above, it can be drawn a conclusion that the sales are the gross inflows of economic benefits arising from either in cash or credit activities done by a company. Sales in cash, are sales by which customer should pay for receiving product/service delivered by the seller. While, credit sales, are sales done no in cash. Customers will pay later for the product/service they purchased.
II.1.1. Documents of Credit Sales


The documents stated above can be described as follows:

a. Customer Sales Order
   A document contains the information about what a customer requests including the details of the types and quantities of products or services ordered by the customer.

b. Credit Approval Form
   Credit Approval Form is a document that contains information about the result of investigating conducted on a client/customer order.

c. Open-order Report
   Open-order Report is a report that contains information about all customer orders that have not been completed yet.

d. Shipping Document
   A shipping document is a document for when goods that are shipped. This document generally serves as a bill of loading and contains information about the type of products shipped, the quantity shipped, and other relevant information.

e. Sales Invoice

Sales invoice is used to bill the customer. The sales invoice contains information on the type of product or service, the quantity, the price, and the terms of trade.

f. Sales Journal

Sales journal are journal that recording the sales of company by debiting accounts receivable and crediting various sales account. Sales journal may contains of any information such product line and related parties.

g. Customer Statement

Customer statement is the document that contains all information of purchases transaction of customer such as credit memorandum and cash receipt. That document will be send by seller to customer monthly.

h. Remittance Advice

Remittance advice is the document that contains of information regarding which the customer is paying invoices. This document usually forwarded to seller to inform which payment has been processed.

i. Cash Receipts Journal

This journal is used to record each of the entity’s cash receipts.

j. Write-off Authorization

Write-off authorization is an authorization that given to credit department to write-off the uncollectible accounts.
II.1.2. Procedures on Credit Sales

Accounts receivable occurs when the process of selling is conducted in credits. Credit sales have high level of risk, which is the possibility of unpaid accounts. Therefore, the company needs to create a procedure of credit transactions to ensure that the risk is manageable. Procedure on credit sales is steps of administration activities done by two or more people to ensure the transaction is done properly (sequentially).

Hall (2008) stated that, “Sales procedures include the tasks involved in receiving and processing customer order, filing the order and shipping products to customer, billing the customer at proper time, and correctly accounting for the transaction.

According to the definition above, it can be described as follows:

a. Receiving customer order

If the company received a purchase order from the customer, then sales department must approve the purchase order. If the goods ordered have ready, then the purchase order serves to inform warehouse department to release it.

b. Filing and shipping the order

Staffs who deal with the finished goods must match the delivery order with the purchase order. After the cost for shipping freight is added, then the purchase order copy is returned to the invoicing department.
c. Billing the customer

Invoicing staff compares purchase order and copy of purchase order received from the shipping department. Invoicing staff makes and sends the original invoice to the customer, whereas the copies are archived along with the purchase order for sales or marketing department and one will be sent to the bookkeeper.

d. Correctly accounting for the transaction

Customers make payments directly or by wire transfer to the company's bank account and will be recorded to bookkeeping. ” (p. 154)

From the description above, the stages of the procedure have been determined consist of receiving and processing customer order, filing the order and shipping products to customer, billing the customer at proper time, and correctly accounting for the transaction. Stages of the sales procedure is a standard that must be owned by the company for the continuity and discipline of sales system.

II.2. Term and Definition of Internal Control

II.2.1. Definition of Internal Control

Kieso, Kimmel, and Weygandt (2009) defined, “Internal control is a system of checks and balances designed to prevent and detect fraud and error.” (p. 15)
Moeller (2008) explained that, “Internal control comprises the plan of enterprises and all of the coordinate methods and measures adopted with a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.” (p. 84)

Arens, Beasley, and Elder (2011) mentioned that, “A system of internal control 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)

According to Messier et al. (2008) “Internal control is designed and affected by an entity’s board of directors, management, and other personnel to provide reasonable assurance about the achievement of the entity’s objectives in the following categories: (1) reliability of financial reporting (2) effectiveness and efficiency of operations, and (3) compliance with applicable laws and regulations.” (p. 192)

Rittenberg, Johnstone, Gramling, and Schweiger (2009) defined that 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).

“Internal control is broadly defined as a process, affected by an entity's board of trustees, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations, safeguarding of assets.” (www.udel.edu/Treasurer/intcntrldef.html, November 17th, 2011)

II.2.2. Objectives 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).

Arens, et. al (2011) explained “There are three objectives of internal control such as effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable regulations and laws. Those three objectives of internal control can describe as follows:
a. **Reliability of financial reporting.** Management is responsible for preparing statements for investors, 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 such as GAAP. The objective of effective internal control over financial reporting is to fulfill these financial reporting responsibilities.

b. **Efficiency and effectiveness of operations.** 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.

c. **Compliance with laws and regulations.** Section 404 of SOX requires 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 of SOX, public, nonpublic, and not-for-profit organization are required to follow many laws and regulations. Some relate to accounting only indirectly, such as, environment protections and civil right laws. Others are closely related to accounting such as, income tax regulations and anti-fraud legal provisions.” (p. 290)
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)

II.2.3. Component of Internal Control

Arens, et al (2011) explained that, “The COSO internal control has five components that management designs and implements to provide reasonable assurance that its control objectives will be met. The COSO internal control components include the following:

a. Control Environment,
b. Risk Assessment
c. Control Activities
d. Information and Communication
e. Monitoring.” (p. 294)
The elements of internal control can be described as follows:

a. **Control Environment**

Rittenberg, et. al (2010) stated that, “The control environment is the policies, procedures, and attitudes of the top management and owners of the business.” (p. 210)

Dull, Gelinars, 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)

Puttick (2008) defined control environment as follows, “Control environment sets the tone in an organization, influencing the control consciousness of its people. It is the foundation for effective control and provides discipline and structure”. (p. 388).

According to Messier, et. al. (2008) “The control Environment 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. 200)

COSO has identified seven elements of an effective control environment. Those seven elements are:
1. The integrity and ethical values of management.

   According to Messier, et. al (2008) “The effectiveness of an entity’s internal controls is influenced by the integrity and ethical values of individuals who create, administer, and monitor the controls. An entity needs to establish ethical and behavioral standards that are communicated to employees and reinforced by day-to-day practice. For example, management should remove incentives or opportunities that might lead personnel to engage in dishonest, illegal or unethical acts.” (p.200)

   Rittenberg, et. al (2009) stated that, “Sound integrity and ethical values, particularly of top management, are developed and set the standard of conduct for financial reporting.” (p. 195).

2. Commitment to Competence

   According to Messier, et. al (2008) “Commitment to competence is an important knowledge and skills needed to accomplish tasks that determine worker’s job description. So management of the company must have a standard competence level and specific requirement for a particular job so the management can know the standard of skill and knowledge required, and measure what workers have to fulfill each specific job.” (p. 201)

   Rittenberg, et. al (2009) stated that, “The Company retains individuals competent in financial reporting and related oversight roles.” (p. 197)
3. The participation of the organization’s board of directors and the audit committee.

According to Messier, et. al (2008) “The board of director has ultimate responsibility to make sure management implements proper internal control and financial reporting processes. The audit committee is a subcommittee of board of directors which are separate from management. An effective board of directors is independent of management, working experience is above average of the management, stay involved in management’s activities, have an appropriate actions to be taken whenever raised a difficulties and solved them with the management, able to interact with internal and external auditor.” (p. 201)

Rittenberg, et. al (2009) stated that, “The board of directors understands and exercises oversight responsibility related to financial reporting and related internal control.” (p. 196)

4. Management’s philosophy and operating style.

According to Messier, et. al (2008) “Through its activities, provides clear signals to employees about the importance of internal control. This activity can affect the quality of internal control, it is about what management do to take any actions toward what is happening recently, how to handle and monitoring business risk, and how is management doing their attitudes and actions in making financial reporting.” (p.201)
Rittenberg, et. al (2009) stated that, “Management’s philosophy and operating cycle support achieving effective internal control over financial reporting.” (p. 196)

5. The structure of the organization.

According to Messier, et. al (2008) “The entity’s organizational structure defines the existing lines of responsibility and authority. It is how authority and responsibility distributed and monitored. So the company should have relevant organizational structure with the area of authority and responsibility and appropriate reporting.” (p. 202)

Rittenberg, et. al (2009) stated that, “The company’s organizational structure supports effective internal control over financial reporting.” (p. 196)

6. Assignment of authority and responsibility.

According to Messier, et. al (2008) “This control is about the way management assigning authority and responsibility then established reporting relationship and authorization hierarchies. The company should have clear and specific organization charts that represent the lines of authority and responsibility. Management should also have job description with control related responsibility.” (p. 202)

Rittenberg, et. al (2009) stated that, “Management and employees are assigned appropriate levels of authority and responsibility to facilitate effective internal control over financial reporting.” (p. 197)
7. Human resource policies and procedures.

According to Messier, et. al (2008) “One of the important aspects in internal control is the people who worked inside the organization. The company must have policies in hiring, orienting, training, evaluating, counseling, promoting, compensating. So before hiring the new workers the human resource department must concern about the educational background, working experience, commitment and trustworthiness in order to get the most qualified person to be hired.” (p. 202)

Rittenberg, et. al (2009) stated that, “Human resource policies and practices are designed and implemented to facilitate effective internal control over financial reporting.” (p. 197)

b. Control Activities

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

Messier, et. al (2008) explained that, “Control activities are the policies and procedures that help ensure the management’s directives are carried out and are implemented to address risks identified in the risk assessment process. Control activities may be either automated ir manual. Those control activities that are relevant to the audit include performance reviews, information processing control, including authorization and
document based controls, physical controls, and segregation of duties.” (p.206)

Arens, et. al (2011) 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 are records
5. Independent checks on performance.” (p. 298)

A short description of each of these control activities appears bellow:

1. Adequate Separation of Duties

   Arens, et. al (2011) 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)

According to Messier, et. al (2008) “it is important for an entity to segregate the authorization of transactions, recording of transactions, and custody of the related assets.” (p. 206)

2. Proper authorization of transactions and activities

Arens, et. al (2011) explained that, “Every transaction must be properly authorized if controls are to be satisfactory.” (p. 299)

3. Adequate documents and records

Arens, et. al (2011) defined that, “Documents and records are the records upon which transaction are entered and summarized” (p. 299)

4. Physical control over assets and records

Arens, et. al (2011) mentioned that, “To maintain adequate internal control, assets and records must be protected.” (p. 300)

According to Messier, et. al (2008) “these controls include the physical security of assets. Physical controls include adequate safeguards, such as secured facilities, authorization for access to
computer programs and data files, and periodic counting of assets such as inventory and comparison to control records.” (p. 206)

5. Independent checks on performance

Arens, et. al (2011) 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)

C. 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, et. al (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)

According to Messier, et. al (2008) “an entity’s risk assessment process is its process for identifying and responding to business risks. This process includes how management identifies risks relevant to the preparation of financial statements, estimates their significance, assesses the likelihood of their occurrence, and decides on how to manage them.” (p. 204)
d. **Information and Communication**

Dull, et. al (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 and Jhonson (2002) 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)

Moeller, et. al (2009) explained that, “The quality of information includes ascertaining whether the content of reported information is appropriate, the information is timely and available when required, the information is current or at least the latest available, and the information is accessible to appropriate series.” (p. 139).

According to Messier, et. al (2008) “an information system consists of infrastructure (physical and hardware components), Software, people, procedures (manual and automated), and data. The information system relevant to the financial reporting objective includes the accounting system and consists of the procedures (whether automated or manual) and records established to initiate, authorize, record, process, and report an entity’s
transactions and to maintain accountability for the related assets and liabilities.” (p. 204)

e. Monitoring

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

Trenerry (1999) 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, et. al (2003) said that, “Monitoring is a process to assess the quality of internal control performance over time.” (p. 239)

Messier, et. al (2008) explained that, “monitoring of controls is a process that assesses the quality of internal control performance over time. To provide reasonable assurance that an entity’s objectives will be achieved, management should monitor controls to determine whether they are operating effectively.” (p. 207)

II.2.4. Types of Control

Hall (2011) stated “Internal control shield is composed of three levels of control: preventive controls, detective controls, and corrective controls …
Weakness of internal control can cause a lot of problems such as destruction of asset, theft of assets, fraudulent and any other misappropriation of assets. Therefore, it is better for the company to take early actions to avoid something bad happen. Generally management can avoid weaknesses in internal controls by:

- Preventive controls. This is the first action should be taken by management; it can be used as a defense to protect the control structure. By become preventive it can reduce errors and irregularities from something happen and also can reduce undesirable events to be occurred. This action is far more effective in terms of cost rather than two others control (detecting and correcting). Through preventive action it can block undesirable events since the beginning of problems arise.

- Detective controls. This is the next step taken after being preventive, in this control actions produced and designed a procedure, technique, and device to find out and shows undesirable events. In the other hand, detective control is designed to find errors or irregularities after they have occurred.

- Corrective controls. Corrective are actions taken to respond the effects of errors detected in the detective controls. While detective control is identify the discrepancies and make the management aware of the problems. Corrective controls actually fix the problems that arise and detected before” (p.144-146)
II.2.5. Limitations of Internal Control

Warren, et. al (2009) explained that, “Internal control systems can provide only reasonable assurance for safeguarding assets, processing accurate information, and compliance with laws and regulations. In other words, internal controls are not guarantee; this is due to the following factors:

a. The human element of controls

b. Cost-benefit considerations.” (p. 363).

It can be conclude that, in the performance of control procedures, errors may result from human error such as, misunderstanding instructions, mistakes of judgment, carelessness, or other personal factors. The benefits of control must be considered in relation to their cost. Establishing particular control for reducing the risk of loss may cost more than is warranted by the benefit derived.

II.2.6. Internal Control over Sales

II.2.6.1. Procedures to Obtain Understanding of Internal Controls

Rittenberg, et. al (2009) stated that, “The following elements are understanding company operations and risk assessment, and obtain an understanding of the accounting processes.” (p. 208).
II.2.6.2. Internal Control for Sales

Internal control procedures must be established to ensure that the amount of sales revenue is correct, since it has a significant effect to company’s net income.

Rich (2010) stated that, “these controls normally involve the following documents and procedures in sales revenue:

a. Accounting for sales begins with the receipt of a purchase order or some similar document from a customer. The order document is necessary for the buyer to be obligated to accept and pay for the ordered goods.

b. Shipping and billing documents are prepared based on the order document. Billing documents are usually called invoices.

c. A sale and its associated receivable are recorded only when the order, shipping, and billing documents are all present.” (p. 238).

II.2.6.3. Control Objectives of Sales

The control objectives must be obtain in order to evaluate or assess the internal control implemented by the company.
Trenerry (1999) stated that, “The control objectives of sales are as follows:

a. To ensure that all transactions are recorded. All valid transactions should be accurately recorded in the sales journal.

b. To record only transactions that is valid. This is achieved by ensuring that a customer order is received.

c. To authorize only valid transactions. This objective is met by ensuring that customer order is received. This will protect the records from unauthorized transactions by requiring proof of delivery or receipt.

d. To value transaction correctly. This is achieved by ensuring that credit approvals are correctly assessed.

e. To classify entries correctly in accordance with the chart of accounts or other categorizing requirements. This is to ensure that sales or other stock movements are identified and recorded accurately in the correct account.

f. To record transaction in a timely manner so as to minimize errors caused by a delay between the transaction and its recording.

g. To include all transactions in the relevant subsidiary ledgers and post them to the relevant ledger accounts. This is to ensure that all sales
transactions are correctly analyzed for the relevant subsidiary ledger and posted to debtor ledgers.” (p. 59).
CHAPTER III

METHOD OF DATA PROCESSING AND COMPANY EXISTING CONDITION

III.1. Data Collecting and Processing

This research conducted by using primary data. Primary data is data derived from fieldwork that processed and analyzed. There are instruments or steps on collecting data that writer must do to assure the data is valid or true. These instruments are interview (inquiries of client), documentation, and observation. The data collected is data related with internal control over credit sales. The writer did data collection started from April 16th until April 30th 2012.

III.1.1. Inquiry of the client

The Data retrieved by doing interviews to employee that related in credit sales. By doing Inquiry, writer got data and information related to credit sales, the flow of credit sales, employee’s job description, and people who have right to authorize in the company.

Although considerable evidence is obtained from the management of the company through inquiry, it usually cannot be regarded as conclusive because it is not from an independent source and may be biased in the management’s favor. Therefore, when the writer obtain evidence through inquiry, it is normally necessary to obtain corroborating evidence through other procedures.
Problem Identification from this study uses as a benchmark interview which conducted by the writer. Previously, writer determines what can affect the problem identification of the research is happening. Writer has been given authority to come and investigate for 2 weeks at the company and the first thing the writer did was to conduct interview.

Interview took place on Tuesday, April 17, 2012, writer conducted interviews to all the parties relating to sales and accounts receivable, since the organization structure of this company is small; it can be done during one day. All the interviewees are Head of Accounting & Finance (Mr. Ramdani Bakti), Accounting & Finance Staff (Mr. Andi Irawan), and Outsourcing & GA Head (Mr. Ahmad Suparto).

Before conducting the interview, writer already prepared the questions. Interviewer (writer) read the questions to the respondents and wrote the answers of the interviewee. Interview was conducted directly and personally.

Interview conducted on Tuesday, April 17 2012, the interviewees were Head of Accounting &Finance Department, Accounting & Finance Department staff and Outsourcing & GA Head. Through this interview writer collects information as follows:
Objectives: Control activates and nature of the company, business process

Place: CV Abadi Sejahtera Main Office

Time: Tuesday, April 17, 2012, from 9:00 PM – 13:00 PM

Results and conclusions for interview:

a. Not all sales are in credit. The due date for collecting account receivable mostly less than 30 days.

b. The person who authorized in approving credit sales is the Director of the company itself. CV Abadi Sejahtera doesn’t have any written procedures in approving the credit sales; it is only based on the director judgment and past experience.

c. There is no written job description in the company. Employees understand the duties and procedures applicable to their jobs without written job description.

d. Person in charge of delivery goods is an employee who under Outsourcing & GA Department. Delivery of goods as well as with the invoice.

e. Raw Material (rattan) are not only used as a material for the production of goods, but also polished and sent to a foreign country and Java.

f. Formerly CV. Abadi Sejahtera is a rattan polish company to CV. Putra Tunggal Surabaya which is their parent, during a subsidiary of CV Putra Tunggal Surabaya, CV. Abadi Sejahtera has many
experiences in polishing and handcrafting, and after three years formerly CV. Abadi Sejahtera is not CV. Putra Tunggal Surabaya subsidiary anymore.

The interview results above are including all activities in company, other such company profile and history will describe briefly on company existing section.

III.1.2. Documentation

Document is physical evidence that can be monitored and controlled by the company in doing the transaction. Documentation of data collection is carried out by requesting sales invoices and documents and information of the company that should be in the financial statements. Documentation is the process of finding traces of the sale to obtain the evidence, whether the evidence is inside or outside the company. In the examination of documents writer need to know what documents are the subjects of research, what the function of the document is, who the person that responsible for the document is, and where the documents are distributed.

Documents to be used as study materials are a document used by a management of the company in their business. Usually every stage of the transaction will be supported with at least one document in order to control the evidence of a transaction. Therefore,, writer took samples of the documentation of business transactions that are material and according to the writer can result fraud and error in the document recording the transaction.
Writer gathered/collects all the documents from the company that related to this research, such as:

- Structure Organization of CV Abadi Sejahtera
- Delivery order (DO)
- Invoice

### III.1.3. Observation

Observation is the process of data collection by observing (seeing, hearing, and feeling) the company's activities. In observation, the writer should be alert and careful in looking at the activities of the company. Through this activity, writer obtains some information such as the employment situation of enterprises, sales credit approval process, as well as other activities concerned with receivables.

In observing management of the company (CV. Abadi Sejahtera) the writer watch perform of production to determine whether the person performing it properly. Observation is rarely sufficient by itself because of the risk of the management personnel changing their behavior because of the writer’s presence. They may perform their responsibilities in accordance with the company policy but resume normal activities once the writer is not in sight.

The writer conducting observation on April 24 & 26, 2012, writer observes on the activity of each employee that is in the main office and factory. After 4 hours observation, writer found that:
a. Rattan that CV. Abadi Sejahtera received from the suppliers/farmers will be stored in a warehouse then will be into for selection process. The rattan that not fulfills the standard will be store in a warehouse again or burn, and then the product that fulfills the standards will be in process of production and also other export demand.

b. All documents such as copy of sales invoices, copy of delivery orders, customer order, and other are properly maintain/keep by Finance and Accounting Department.

c. Credit properly authorized before a sale takes places; goods shipped after proper authorization; and prices including base terms and freight costs.

d. The company store products in the neat warehouse.
III.2 Company’s Existing Condition

A company of the subject of this research is a company engaged in the manufacturing industry processing especially the earth source where it is rattan, the company named CV. Abadi Sejahtera. The firm was founded in 2008 and previously had only one office that is used as administrative offices and production. Before 2008, CV. Abadi Sejahtera is the subsidiary of the CV. Putra Tunggal Surabaya, since the CV. Abadi Sejahtera capable in administration and production, company formed to handle sales and production in Palu and be a part of KOPINKRA Kota Palu. CV. Abadi Sejahtera Has 82 employees including 55 workers and daily workers and 28 administrative staffs. The main office and production offices of CV. Abadi Sejahtera respectively located on:

- Main Office

  The main office was formerly located on jalan Zebra IV at which time the company is still small. Since a few years later the company developed into high-medium company and moved the main office which is now
located at the Perumahan Metro Permata Palu in Central Sulawesi. Main office serves to regulate the administration of the company such as, the labor and hiring staff, dealing with farmers, storing the goods, checking the quality of products, and other activities.

- Production Plant

  Office of the production itself is located in Industrial Area Palu (jalan Trans Sulawesi). The production office is where the processing of operation of rattan manufacture. Which is the location of the production is more easily accessible from raw material suppliers as being in the suburbs of Palu. Since this is a medium production company, the company has only a rattan production area of 1,200 m².

**III.2.1. Company Vision and Mission**

**III.2.1.1. Philosophy of Company**

CV. Abadi Sejahtera implement a corporate philosophy that was adopted by the Company - a leading company in the world, called the 7 (seven) the principle of the company, as follows:
CORPORATE PHILOSOPHY (7 PRINCIPLE)

1. Contribution to Society

Doing things - things that in accordance with the basic objectives of management at all times, faithfully carrying out the responsibilities of the industry to the communities in which it resides.

2. Fairness and Honesty

Do a proper and correct in all business dealings and personal action. Although talented and knowledgeable, without our personal integrity will not get respect from others, or add our own self-respect.

3. Cooperation and Team Spirit

Collect all the ability to achieve common goals. Although we are a talented individual, without the cooperation and spirit of our team will be the company's only a simple name.

4. Untiring Effort for Improvement

Keep working hard to develop the ability to contribute to society through our business activities. Only with continuous efforts we will achieve the basic objectives of management and help create a lasting peace and prosperity.
5. **Courtesy and Humility**

Always happy and humble. Respecting the rights and needs of others in order to strengthen the healthy social relationships and develop the quality of life in society.

6. **Adaptability**

Always adjust your thinking and actions to adjust the conditions are always changing around us, acting in harmony with nature to ensure the goals and success in business.

7. **Gratitude**

Grateful to all the benefits that have been received convinced that this attitude will be a source of joy and vitality that is not limited to, allowing us to overcome all obstacles that we encounter.

**III.2.1.2. Vision and Mission**

"CV. Abadi Sejahtera is a rattan processing industry based communities that promote the use of local labour around the factory and are committed to high ability to produce a quality product."
III.2.1.3. Company Short-term Objective

1. Achieve sales target of Rp. 2 trillion / year (two trillion rupiah per year), calculations based on data received.
2. Achieve the target net income of at least 20%.
3. Lowering the cost of production (for sale) to 50%.
4. Improve product quality by pressing reject a maximum of 5%.
5. Achieve on-time delivery by 95%.
6. Improve human resource capacity in the processing of rattan.

III.2.2. Production of Company

CV. Abad Sejahtera understands that high quality product comes from good raw material, good treatment, good handling, and a well delivery arrangement. This is the reason they are implementing strict quality control at all levels of processing; starts from selection of the rattan, separation and selection of another material, quality control of products, and packing. To achieve the high quality of their products, they properly manage storage in their warehouse that can maintain rattan properly, while the products in another warehouse and neatly manage.

CV. Abadi Sejahtera also has shelf to put another material like paint, paint brush, thinner and other material to make a products, it is very large shelf and separate with main material and also they check it and maintain it every month to make sure there is not a fraud and the raw material still can use. During the delivery between island and country CV. Abadi Sejahtera has contract with
some a company that engaged in the transportation of goods through the ocean business to make sure all goods been treated well during loading and shipping to destination.

III.2.3. Product of Company

All of their products are the best-selected fresh and fine rattan, from rattan farmer at Palu. They are work with many well-trained, experienced and educated farmers who understand the export standard quality's products.
To maintain their products quality standard stays at its highest grade, they maintain relationship with farmers and train them to make sure the products are well treated and grown at their best. CV. Abadi Sejahtera applies chain management as the standard quality treatment for each of their goods, starting from plantation field to their warehouse and from their warehouse to port of departure. They have large pickup truck that can maintain more than 50 tons / days of rattan. To maintain the domestic delivery they use small pickup (open cap) because Palu actually a small town that can easily reach in no time.

III.2.4. Finance and Accounting Department

Finance and Accounting department in this company only has 2 employees which are head of department and staff, which also handle the accounting department. Finance and Accounting department handles all the supplies and expenses, such as Accounts Payable, Tax, Bank Reconciliation, and Balance Sheet report.

III.2.5. Markets of CV. Abadi Sejahtera

It is obvious that CV. Abadi Sejahtera is a company engaged in the manufacturing industry, especially of rattan. In the CV Abadi Sejahtera processing rattan is not just make a table or chair in production, but some useful stuff in life like food hoods, shelves, baskets, etc. Due to the price of the production results of CV Abadi Sejahtera one of those affordable for the small
people, so the target of CV Abadi Sejahtera market is a small and middle peoples and is also considered that the goods made from rattan more durable and cheaper, but since the quality of the output CV Abadi Sejahtera rapidly increasing the number of requesting by government agencies of Palu began to enter into agreements or contracts to supply all items such as desks and chairs for the office of the institution. In addition the CV Abadi Sejahtera has a contract out of the country which is export to china. Therefore, we can conclude that the target markets of the CV Abadi Sejahtera are not just for middle-low people but also upper-middle people as well as government agencies. This could ensure that the viability of this company will be better in the future.
III.2.7. Job Descriptions CV. Abadi Sejahtera

CV. Abadi Sejahtera doesn’t have any written documents for job descriptions. So the job/duties for the staff every day not sure yet, they perform their task/job based on the instructions from their manager.

III.2.8. Accounting System and Practices in CV. Abadi Sejahtera

III.2.8.1. Information about Activities and Accounting Practices in CV. Abadi Sejahtera

CV. Abadi Sejahtera operates from Monday to Saturday, and shipping activity performed/conducted on Wednesday and Saturday. CV. Abadi Sejahtera implemented “accrual accounting”; accrual accounting records the effect of each transaction as it occurs. Based on the policy of the company, CV. Abadi Sejahtera recognizes all their revenues at point of sales and expenses when it’s incurred. CV. Abadi Sejahtera using weighted average method in inventory costing, they use weighted average method because the characteristic of inventory itself. CV. Abadi Sejahtera adopted FOB-Destination in shipping process. Finance & Accounting Department in CV. Abadi Sejahtera consist of 2 people, one head of department and one staff, Outsourcing & GA Department consist of 5 people, one head of Outsourcing & GA Department and four staffs.

CV. Abadi Sejahtera classified their inventory into two categories raw materials (direct materials) and indirect materials (packaging
materials). All sales in CV. Abadi Sejahtera are in credit and mostly, all of their accounts receivables collected within 30 days or less. In case if there is any uncollectible accounts receivable they used direct write-off method for recording uncollectible accounts receivable.

The direct write-off method records the bad debt in the period in which CV. Abadi Sejahtera determines that it cannot collect a specific receivable. No entry is made until a specific account has definitely been established as uncollectible. Then the loss is recorded by crediting accounts receivable and debiting bad debt expenses.

CV. Abadi Sejahtera has cooperation/contracts with the farmers around the company, so farmers as suppliers that prepare/supply the products. Main product (rattan) that CV. Abadi Sejahtera received from the suppliers/farmers must be selected first (the selection process held in production department) before sell it. The product that not fulfills the standard product will be return back to the suppliers (if the condition not possible to re-sell it) or they sell to local market (if the condition still good but not fulfill the quality standard), and then the product that fulfills the standards will be storage to the warehouse.

CV. Abadi Sejahtera is using Microsoft Excel in recording all transactions due it is still low-mid Company. CV. Abadi Sejahtera is using Microsoft Excell in recording all transactions. In approving credit sales CV. Abadi Sejahtera doesn’t have any written procedures and the person who authorized in approving credit sales is the Director of the company itself. Billing activity is handling by Finance & Accounting
Department, recording account receivables is handling by Finance & Accounting Department too, and also for cash receipt is handling by Finance & Accounting Department and their customer automatically transfers the money to their bank account and once they transferred the money they will inform the Finance & Accounting Department and then the staff will record the transaction by debiting cash and crediting accounts receivable.

CV. Abadi Sejahtera’s estimation for sales return from customer is 2% from total gross credit sales. CV. Abadi Sejahtera has problems in managing claims from customer for goods that not fulfill the standard. Customer make claim for products which are not in a good condition when they received the products. In this case CV. Abadi Sejahtera has to credit their A/R and debit loss from claims. CV. Abadi Sejahtera not sure whether claim from the customer is fictitious claim or not, based on interviews with the CV. Abadi Sejahtera’s Finance & Accounting head not all claims was able to claim.

CV. Abadi Sejahtera doesn’t have internal verification of the inclusion of all sales invoices in the sales journal and internal verification of footing the journal and posting totals to the general ledger; luck of internal verification for the possibility of sales invoices being recorded more than once, lack of internal verification of footing, posting of journals, and there is no reconciliation between accounts receivable master file with general ledger on a monthly basis and independent comparison of dates on shipping documents to date recorded. CV. Abadi
Sejahtera’s Finance & Accounting staffs don’t have background and experiences in accounting field. He is majoring in management, based on the writer observation and interviews he is not competent enough in accounting filed.

III.2.8.2. Credit Sales Process in CV. Abadi Sejahtera (based on flowchart)

Based on the flow of documents that represent in the flowchart, as follow:

- CV. Abadi Sejahtera received a purchase order from the customer (by phone, email or come to main office).
- Then, the General & Administration department making invoices as much as two.
- Invoices given to Director for credit approval. If invoices not acceptable director give it back to General & Administration Department for confirmation, if acceptable director give it to general & administration department for the next process.
- One of approved invoices given to Accounting & Finance Department, and another one is to make delivery order.
- Approved invoice and delivery orders given to Manufacturing Department for processing the goods, once the goods finished or ready to deliver it will be given back to Outsourcing & GA Department for deliver the goods.
• The goods and all documents will be immediately delivered by General & Administration Department.

• The customer that receives delivery goods will sign on delivery orders; customer will receive one delivery orders, invoice and goods. While, another delivery orders will be given to Accounting & Finance Department.

• Accounting & Finance department will crosschecking the Approved Invoice and Signed Delivery Order, if it is match Accounting & Finance Department will journal it as credit sales.
CHAPTER IV
ANALYSIS AND EVALUATION

After collecting the data, writer analyzes the data and concludes the results on this chapter. Writer will explain briefly about the condition of the company, the positive findings which are the company’s strength in doing their activity and already followed proper internal control, negative findings which are the weaknesses of the company that is still needed for improvements, the causes, the effects and the recommendations to overcome the weaknesses.

IV.1. Positive Findings

- The company has training program for their employees

  It is important for every company to have training program for its employee, because training can improve employee’s skills and knowledge. The company has been cooperating with Perindakop Kota Palu that has training programs in handicrafts and processing rattan. The company always sends its employees to the training in order to keep its employees updated with new technology, models and techniques.

  With such skill and knowledge of employees, the employees will be more motivated to do their job, and they make better quality products.
• The company does physical control over assets

Shoop Floor staff is a staff under Manufacturing Department, who is responsible for checking machine and raw material at warehouse. He has routine daily, weekly and semesterly check schedule for the assets. Shoop Floor staff checks air filter, water filter, and oil every day; he checks all oil such hydraulic oil, spindle cooler oil, gear box 4 axis oil every week; and he check machine in order to assess whether there is a machine that needs calibration every semester. Therefore, the production tools are ready for production.

IV.2. Negative Findings

• There is no standard operating procedure in credit sales

The company does not have written standard operating procedures (SOP) in credit sales; the employees do their work by looking the example of how their superior works.

SOP is steps followed by the employees as a guideline to ensure the activity of the company’s is running well and as expected.

CV. Abadi Sejahtera has no SOP because this company is considered as a small company, and also all employees of this company had been working for long time on this company, so management thinks SOP would not been necessary.

Because of not having written SOP, the work process becomes unstandardized, so resulted in less quality of rattan. Rattan occasionally over
dry and make rattan little stiff and less shiny; this occurs when there is a new employees who worked in the draining of the rattan.

Therefore, company need to issue a written SOP for guideline to ensure and control the activities of the employees.

- **No written job description**

  The company does not have written job descriptions; superiors according to the level of management give job descriptions verbally.

  The job description is the most important thing other than SOP in supporting the activities of the company. Job descriptions include what is the responsibility of each department and the limitations of authority granted to each function. Company that does not have a job description will slow the activity of the company.

  The reason that the company does not have job description is because management considers that the employees have understood the details of their function, and often employees are just waiting for orders from his superiors (top management) to do the job.

  Employees do not know the job description of their function, so they have less understanding about the duties and responsibilities of their own. As a result, the employee may choose what work they will do and which work they will not do.

  Therefore, it is necessary for the company to provide a written job description in order to make every function know and understand about their authority and responsibilities.
• There is no attendance list for employees on industry

Manufacturing Department only gives employees one paper to write down their name and sign it, then the Head of Manufacturing Department report to the main office each week. In average, there are 55 permanent labors and 10 non-permanent every day.

Employee is an important variable in the company, because they have responsibility to produce goods, if the employees cannot be controlled, the company definitely difficult to deal with sales activity.

The company just relies on the attendance report from head of the Manufacturing Department, and a report from the head of the Manufacturing Department was satisfactory. Thus, they do not need to improve the treatment for labor attendance.

As a result, there are employees who come just to sign attendance listed then leave. Workers can also fill the attendance list for his/her friends who do not come. This is clearly can affect the production of the company and costs.

For this problem, it is good to have system in this company such as digital fingerprint attendance to control the presence of absence or attendance time recorder (punch card machine).
• Delivery order and invoice is not pre-numbered

The Company does not make its documents in pre-numbered, especially the invoice and delivery order issued.

Pre-numbered useful to ensure that there is no missing document, and to find out how much documents has been issued.

This happens because the Outsourcing & GA Departments do not know the function of pre-numbered is, so they think it is necessary for now.

Because of that, sometimes Finance & Accounting Department misses to record transaction and it is hard for the company to track down an old transaction.

Therefore, the company should make all documents printed in pre-numbered.
CHAPTER V
CONCLUSION AND RECOMMENDATION

V.1. CONCLUSION

Based on the discussion on the previous chapters, below are the conclusion drawn by writer as mentioned previously, research done is qualitative research with verification approach. Gathering and processing data were done through audit procedure such as inquiries of the client, Observation and documentation. Findings presented consist of positive findings and negative findings.

V.1.1. Positive Findings

- The company conduct training for their employees

  The company has been cooperating with Perindakop kota Palu, which has training programs in handicrafts and processing rattan. This training is important to maintain and increasing skills and knowledge of employees and achieving company’s objectives.

- The company does physical control over assets

  The company performs routine daily, weekly, semesterly checks schedule for their assets, especially machines. Shoop floor staff is the one that responsible to do the routine check.
V.1.1. Negative Findings

- There is no standard operating procedure

  The company does not have written standard operating procedures (SOP) in credit sales. The employees do their work by looking at the examples of how their superior works. CV. Abadi Sejahtera has no SOP because this company is considered as a small company, and also all employees have been working for long time on this company, so management thinks SOP would not been necessary. Because of not having written SOP, the work process becomes unstandardized, and resulted in less quality of rattan.

- No written job description

  The company does not have written job descriptions; superiors according to the level of management give job descriptions verbally. The company does not have job description is because management considers that the employees have understood the details of their function, and often employees are just waiting for orders from his superiors (top management) to do the job. The employees have less understanding about the duties and responsibilities of their
own. As a result, the employee may choose what work they will do and which work they will not do.

- There is no attendance list for employees on industry

  Manufacturing Department only gives employees one paper to write down their name and sign it, then the Head of Manufacturing Department report to the main office each week. The company just relies on the attendance report from head of the Manufacturing Department, and a report from the head of the Manufacturing Department was satisfactory. Thus, they do not need to improve the treatment for labor attendance. As a result, there are employees who come just to sign attendance listed then leave. Workers can also fill the attendance list for/ his/her friends who do not come. This is clearly can affect the production of the company and costs.

- Delivery order and invoice is not pre-numbered

  The Company does not make its documents in pre-numbered, especially the invoice and delivery order issued. This happens because the Outsourcing & GA Departments did not know the function of pre-numbered is, so they think it is necessary for now. Because of that, sometimes Finance & Accounting Department misses to record transaction and it is hard for the company to track down an old transaction.
V.2. RECOMMENDATION

Based on the conclusion stated above, the writer gives recommendations to be considered as follows:

1. Even the employees have been working long time for the company, company needs to issue a written SOP as a guideline to ensure and control the activities among the employees, so the company can control product quality properly.

2. It is necessary for the company to provide a written job description in order to make every function know and understand about their authority and responsibilities, so the employees will no longer wait for orders and directives from superiors to do their job.

3. The company should provide such as digital fingerprint attendance or attendance time recorder (punch card machine) to control employees who come just to sign attendance listed then leave. Workers can also fill the attendance list for his/her friends who do not come.

4. The company should update the system to prenumbered documents to prevent miss recording transaction and to know how much documents has been issued.
REFERENCES


IAI. PSAK No.23: Pendapatan (revisi 2009). Jakarta: IAI.


www.udel.edu/Treasurer/intcntrldef.html, November 17th, 2011
APPENDICES

• **Question of Interview**

  1. Do all the activities done on credit sales? And how long is usually a grace period of credit collection?

  2. Who is doing the authorities list the purchase order credit customers?

  3. Does the written job description available? And whether employees can do their job the job without description?

  4. Since no Shipping Department, who is responsible for the delivery of the goods?

  5. Is the raw material used only for crafts?

• **Supporting Document**

![Supporting Document Image]
**CV. ABADI SEJAHTERA**
PERUM METRO KOTA PALU
Telp. (+62) 813 41106027

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Petugas | Penanggung Jawab | Mengatuhul,

Iwan Darit | Ahmed Suparto | Nandjar Nugraha

DATE: 23 Januari 2012
• Observation
• Organizational Structure
COMPANY'S CONFIRMATION LETTER

Here with, I am:

Name: Bakti Ramdani
Function: Head of Finance and Accounting
Company: CV. Abadi Sejahtera
Address: Perumahan Metro Permata Kota Palu

Confirms that:

Name: Muhammad Nur Alim
Student ID: 008200800036
Faculty/Major: Economics / Accountancy
University: President University

Has done his research in our company in order to write the skripsi, title: Evaluation of Internal Control on Credit Sales (Study Case at CV. Abadi Sejahtera) since April 16th until April 30th, and has discussed with us the content of his skripsi, including the findings and recommendations.

Palu, April 30th 2012

CV. Abadi Sejahtera

Head of Accounting and Finance