

**EVALUATION OF INTERNAL CONTROL OVER SALES,
ACCOUNT RECEIVABLE AND CASH RECEIPT SYSTEMS
OF PT ABC**

SKRIPSI

By

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Presented to

The Faculty of Economic, President University

In partial fulfilment of the requirements

For

Bachelor Degree in Economics, Major in Accounting



President University

Cikarang Baru – Bekasi

Indonesia

2012

PANEL OF EXAMINERS

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Herewith, the Panel of Examiners declare that the skripsi entitled **“EVALUATION OF INTERNAL CONTROL OVER SALES, ACCOUNT RECEIVABLE AND CASH RECEIPT IN PT ABC”** submitted by Alexius Julio Brian majoring in Accounting, Faculty of Economics was assessed and proved to have passed the Oral Examination on (day and date of defense)

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Cikarang, Indonesia, January 27, 2013

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DECLARATION OF ORIGINALITY

This thesis entitled “**EVALUATION OF INTERNAL CONTROL OVER SALES, ACCOUNT RECEIVABLE AND CASH RECEIPT SYSTEMS OF PT ABC**” prepared and submitted by Alexius Julio Brian 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. I therefore recommend this thesis for Oral Defense.

Cikarang, Indonesia, January 25, 2013

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ABSTRACT

The main activities within a company that should be controlled as well as possible in order to help companies obtain the maximum benefit are financial activity, operations and marketing. To maximize these three activities necessary internal controls were adequate, ranging from the function of sales, accounts receivable, cash receipts, cash disbursements, to the marketing function. The purpose of this study is to investigate and evaluate the effectiveness of internal control over sales, receivables, and cash receipts are applied to the company, determine the possible weaknesses and provide recommendations on the weaknesses found. This type of research conducted by the authors is descriptive qualitative research case study with the object of study PT ABC. Types of data used are primary data and data sources used are internal data. A data collection method which is used by the author is the study of literature and field study. In a field study, the authors conducted observations and interviews. Based on the results of research on the system of internal control over sales, accounts receivable and cash receipts on PT ABC has found a few flaws, namely the lack of segregation of duties between cash accounting functions with functions, secretarial, administration and sales. Based on the weaknesses, the authors recommend that companies implement job rotation, job separating the functions of cash with recording function, secretarial, administration and sales.

Keywords: *internal control, segregation of duties*

ACKNOWLEDGEMENT

First of all, I would like to deliver gratitude to Jesus Christ for His never ending bless which giving me power and strength, therefore I am able to finish my final paper, thesis.

This, final paper is dedicated to all people who have given such a great opportunity to learn experience in understanding about the internal control and also to those who have contributed their support for me during thesis making.

- My Mom and Dad, Freddy and Lina, who always motivated me when I was down, for all care, supports and love.
- Feranni, my yesterday, my now, my tomorrow, thank you for being a lovely commitment partner in an unconditional love, faith and prayer, no matter what it takes.
- Mr. Misbahul Munir, thank you for being my Dean of Accounting during my internship period and for my lecturer in President University.
- Mr. Ahalik, thank you for being my advisor from beginning in searching for the title until finishing this final paper.
- Mrs. Istanti Leonardi as Accounting and Finance Director, thank you for the chance that you gave to me to get my final paper data.
- Mr. Erwin A. Winata and Mrs. Ratna Sari Sihombing, Partner and Manager, who allowed me to have work before finishing my final paper at KAP Hendrawinata, Eddy & Siddharta as Public Accounting Firm.
- Alfian, Kak Tia, Bang Rizky, Derick, Wendy and all of my friends in this public accountant, thank you for being my friend during my thesis making, especially Wendy, for being my partner in my team during our happiness and sadness during the making of final paper.

Last but not least, I would like to thank all people whom I cannot mention one-by-one. Thank you for all your support, so the completion of my final paper possible.

And for those who read this final paper, I wish this final report will be useful for you.

Alexius Julio Brian

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APPENDICES

LOCAL SALES FORMS

EXPORT SALES FORMS

CHAPTER I

INTRODUCTION

1.1 Research Background

In the current market economic situation, many companies established and competed competitively for profit maximization. Generally, company is the production of goods and/or services and a place for production factors are gathered. Production activities are part of the normal cycle of operations which includes production, selling, purchasing and billing. Besides, production factors are resources which include labours, capital, physical resources, entrepreneurship, and information resources. The company needs all of production factors in running the production. Production factors and production activities must go hand in hand to make the company can run smoothly. To support the company's activities needs a consistent with internal control to assist management or board of directors to increase the effectiveness of the company's activities.

Monitoring and controlling are essential for a company to be either small or large firms. In small companies, leaders can intervene directly in the control and oversee every part of the company, so they can know all of the company's condition. If the company has developed into a large, partially, leadership duties and powers delegated to someone else, then leaders need tools to hold control and supervision in order to know how the development of the company. For companies which need an information

system, is important for helping to see the wisdom that has been run, so the decision making can run smoothly.

A good accounting system is very dependent on a good internal control and thus is a way of working that is efficient, effective and economical which are intended to reduce to a minimum errors and fraud within the company.

PT ABC is a company that is engaged in trading company of haematology reagent and distributor from application program and laboratory reagensia. Sales activity, account receivable and cash receipt are interrelated components inside gave the contribution to the profitability of the company which will ultimately help for determining the availability of funds for the company.

According to the statement above, the writer will research about the method of revenue and expenses recognition. The writer takes a title, **‘Evaluation of Internal Control over Sales, Account Receivable and Cash Receipt Systems of PT ABC’**. The writer hopes with the implementation of revenue and expenses recognition method properly can affect to the fairness of financial statements and useful for parties to get any accurate information.

1.2 Problem Identification and Statement

In the company, sales are the important area, because it can give impact for the business activities of the company, so internal control for sales systems is needed to monitoring the sales. Besides, the internal control of sales, account receivable and cash receipt systems is interrelated components which need to be controlled and monitored.

From the statement above, it can be stated problems or obstacles that companies face in relation with internal control to sales, billing and cash receipt systems. The formulation of research problems are:

- a. How does internal control over sales, account receivable and cash receipt system in PT ABC?
- b. How does the internal control over sales, account receivable and cash receipt systems in PT ABC according to COSO Internal Control Framework?

1.3 Scope and Limitation

- a. This research was conducted on PT ABC, so cannot be generalized to other companies.
- b. The evaluation is emphasized to control activities of sales activities, account receivable, and cash receipt in PT ABC according to consideration of the business process taken based on interviewing the process owner. It will not take area of tax, inventory, bad debts, and sales return.
- c. The analysis of internal control is using COSO Internal Control Framework (Committee of Sponsoring Organization).

1.4 Research Objectives

- a. To know how the system of sales, account receivable and cash receipt of PT ABC
- b. To know the implementation of internal control to the sales, account receivable and cash receipt system in PT ABC.

1.5 Research Benefit

In this research, the benefits are:

- a. For the company, as an input and consideration for the company who becomes the object of thesis research on internal control systems over sales, account receivable and cash receipt.
- b. For scholar, as the knowledge supplement and understanding of the internal control over sales, account receivable and cash receipt systems.
- c. For readers, as source of reading and information regarding to the description of internal control over sales, account receivable and cash receipt systems.

1.6 Research Method

Methodology used for this research is qualitative research where the researcher does the inquiry of the client by doing interview with the process owner of each business process related to sales, account receivable and cash receipt system using COSO Framework. Beside the information gathered from interview, also the documents that company give to the researcher to help the research.

CHAPTER II

LITERATURE REVIEW

2.1 Accounting System

In a company, the leaders play an important role in formulating corporate goals and appropriately allocating economic resources to achieve company goals.

In small companies, where the owner as the president of the company, the implementation of planning and controlling functions without involving others and without the need to set forth in the written form because all aspects of the company is still in the range of capabilities that the owner and leader of the company, or in other words, the planning process and control over the company's plan of action can still be carried out informally by its owner.

If the company has developed into large company, where most of the duties and powers delegated leadership to other people, the planning and controlling of the business can no longer be done informally as the small enterprise above. Leadership requires a good system and procedures and appropriate for the company to safeguard company assets, data accuracy, and efficient ways of working in accordance with the previously outlined.

For this purpose, the leader needs plan accounting systems and well-executed.

Before the writers discuss the definition of the accounting system, it is essential to discuss the definition of the systems and accounting itself. According to Romney, Steinbart, a system is a series of two or more interrelated components for achieving a

goal. It means systems are almost a set of procedures which are related each other and well-integrated into a structure for executing the company's activities.

Whereas, the definition of procedures itself is a sequence of operations, usually involving several people in one or more Departments, established to ensure the handling of recurring business transaction. It means procedure is the continuity of job listing which involved several people in one division or more with the aim for ensuring uniformity in completing corporate continuity transactions.

Besides, accounting definition according to the American Accounting Association is identification process, measurement and delivers the economic information to enable decision making and judgement based on the information by the user of information itself.

After discussing the definition of system and accounting, the other is accounting systems. According to Romney, Steinbart, accounting system is systems which collects, records, stores and process the data for producing any information for the user of the information or for the decision makers. The characteristics of useful information are relevant, reliable, complete, timely, understandable, verifiable and accessible. First, the information called to be relevant if it reduces uncertainty, improves decision makers' ability to make predictions, or confirms or corrects the decision makers' expectations. Second, the information called to be reliable if it is free from errors or bias and accurately represent the activities of the company. Third, the information called to be complete if it does not omit important aspects of the company activities. Fourth, the information called to be timely if it is provided in time for making a decision. Fifth, the information called to be understandable if it presents useful information with an intelligible format. Sixth, the information called

to be verifiable if two knowledgeable people are independent to the information. Last, the information called to be accessible if it is available to users when they need it and it can be used by using the same format.

From that definition, it can be concluded that the systems are really needed for the company operations to handle the transactions cycles for giving assurance that:

1. All transactions are appropriate authorized.
2. All transactions are already recorded and classified accurately and immediately complete after the transactions are completed.
3. All transactions are already processed and reported accurately, complete and can be reliable until the owner uses the systems in the timely manner.

The preparation of accounting information systems must emphasize both the development and improvement in the quality of information, such as completeness, accuracy, validity and timeliness of the presentation, so that it can be useful basis for management or other stakeholders for decision making.

With the preparation of the accounting system, it is expected to further increase the security of corporate property and other economic resources of the company, i.e., with emphasis on internal control and internal inspection is more appropriate because it would minimize the opening of opportunities for doing fraud and cheating that resulted losses for the company.

Preparation of the accounting system is also useful to increase savings or efficiency of the operating costs, which by eliminating steps or stages of work execution, forms or documents, records and reports were deemed unnecessary. In addition, it could also hold various changes in order to save, time, labour, and

equipment and labour necessary to simplify the processing and presentation of information so it can be more easily understood and this will reduce the possibility of misunderstanding.

2.2 Internal Control

Internal control is an important and need attention from every company; otherwise the business also has increased attention to internal control. This is caused by several factors that will be itemized as follows:

1. Development of the space and the size of the company have led to a complex organizational structure and wide, so as to effectively oversee operations, management depends on the confidence in the various report and analysis.
2. The primary responsibility for protecting corporate assets, prevent errors and fraud and finding lies in the management, so management should establish appropriate internal control system to fulfil these responsibilities.
3. Supervision by more than one person is the hallmark of the internal control system to cover the deficiencies that exists in humans, so that errors or fraud can be detected immediately.

All these factors encourage management to strive to establish an appropriate system of internal control and appropriate for the company, so as to protect and prevent as early as possible to deliberate fund, as well as on human weaknesses.

Internal control is often translated as internal supervision; help the company in achieving its objectives in the short and long term.

According to Warren, internal control can be described as the procedures and processes used by a company to safeguard its asset, process information accurately

and ensure compliance with laws and regulations. Besides, in the books of Accounting Information Systems by Romney and Steinbart, internal control is process implemented by the owner of the company or board of directors, management and others to provide reasonable assurance. It is process because it is imbibe an organization's operating activities and is an integral part of basic management activities.

There are three important functions of internal control. First, preventive control, it deters problems before they arise, such as hiring highly qualified personnel; appropriate segregation of duties. Second, detective controls, are needed to search the problems as early as they arise, such as duplicate checking of calculations and preparing bank reconciliations. Last, corrective controls is a rectify of the problems that have been discovered. The example of its is maintain back-up copies of transaction files and master files and adhering to procedures for correcting data entry errors, as well as those for resubmitting transactions for subsequent.

There is framework that has been developed to help companies to develop good internal control, which is COSO Internal Control Framework. COSO is derived from The Committee of Sponsoring Organizations. COSO is a private sector group, consists of The American Accounting Association, The AICPA, The Institute of Internal Auditors, The Institute of Management Accountants and The Financial Executives Institute.

There are five interrelated components of COSO's internal control model.

1. Control environment

The control environment, sets of an organization style which influencing the control consciousness of its people. The control environment is the foundation for all of the components of internal control, providing discipline and structure. The control environment includes integrity and ethical values, commitment to competence, participation of the board or the audit committee, the organizational structure, giving authority and responsibility and the policy of human resource practices.

The others are organizational structure and personnel policies. The organizational structure is the framework for planning and controlling operations. It influences the control environment. For the personnel policies, it affects the control environment because it involves the hiring, training, evaluation, compensation and promotion of employees. In additions, job description, employee code of ethics and conflict-of-interest policies are also part of the personnel policies.

2. Control activities

Control activities are the policies and procedures which help to ensure the necessary measures to address the risks in the achievement of entity objectives are implemented.

Control activities have various objectives and are applied at all levels of organization and function. Generally, control activities that may be relevant to the audit could be classed as a policy and procedure for dealing with

things, such as the review of performance, information processing, physical controls and segregation of duties.

3. Risk assessment

Risk assessment is the identification of entities and analysis of relevant risks to achieve its objectives, forming a basis for determining how the risks should be managed.

Risk relevant to financial reporting include events and internal and external circumstances that may occur and adversely affect the ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Risk can arise or change due to circumstances change in the operating environment, new personnel, new information system or repaired, new technologies, product lines or new activities, the restructuring of cooperatives, foreign operations and new accounting standards.

4. Information and communication

Information and communication are the identification, capture and exchange information in a form and time that allows people carry out their responsibilities.

The information system relevant to financial reporting objective, which includes the accounting system consist of methods and records established to record, process, summarize and report entity transactions and to maintain accountability for assets, liabilities and equity are concerned. Quality of the information generated from the system may impact management's ability to

make appropriate decisions in controlling the activity of the entity and prepare reliable financial statements.

Communications include providing an understanding of individual roles and responsibilities pertaining to internal control of financial reporting. The auditor should obtain sufficient knowledge of information systems relevant to financial reporting to understand the classes of transactions in the operation of an entity's that is significant to the financial statements, how the transaction was initiated, accounting records, supporting information and specific accounts in the financial statements included in processing and reporting of transactions and processing of accounting transactions covered since starting to be included in the financial statements, including computers and electronic data interchange are used to transmit, process, maintain and access the information.

5. Monitoring

Monitoring is the process that determines the quality of internal control performance over time. This monitoring includes determination of the design and operation of control and taking timely corrective action. This process is carried out through the activities that take place on an ongoing basis, evaluating separately, or with various combination of the two. In various entities, internal auditors or personnel performing similar work in monitoring activities contributing entity. Monitoring activities may include using information from communications with external parties, such as customers complaints and comments from the regulatory agencies that can provide clues about problems or areas requiring improvement.

2.3 Limitations of an Entity's Internal Control

Internal control system cannot be considered as well as possible because of the limitations inherent in the system of internal control. These limitations are:

1. Errors in judgments.

Frequently, management and other personnel can be wrong in considering business decisions or to perform routine tasks because of inadequate information, time constraints, or other stresses.

2. Disorders.

Disturbances in the control set can occur because of personnel who have misunderstood the order or make a mistake or negligence, inattention or fatigue. Temporary or permanent changes in personnel or in agency systems and procedures can also cause interference.

3. Collusion.

Action with some individuals for evil purposes is called collusion. Collusion can result in internal control that is built to protect the wealth of the entity and the non-disclosure of irregularities or fraud detected by internal control designed.

4. Neglect by management.

Management can ignore policies or procedures that have been established for the purpose of such unauthorized personal benefit managers, excessive presentation of financial condition, or pseudo-compliance.

5. Cost benefit opponent.

Costs are required to operate the internal control should not exceed the expected benefits of such internal control. Because of precise measurement both costs and benefits are usually not possible, management must estimate and consider both quantitative and qualitative in evaluating the costs and benefits of an internal control.

2.4 Internal Control of Sales, Account Receivable and Cash Receipt

The cycle of sales, account receivable and cash receipt are critical points for company. This cycle begins and ends at customer request changes to the goods or services to trade and ultimately into cash.

Basically, a good internal control for each of the above components, namely sales, receivables and cash receipts is the implementation of a requirement of a good internal control as mentioned above, but it must be remembered that internal control should be implemented as an integrated system into the company. Internal control is only applied to one component while the other components are not, will lead to the persistence of a gap that can be exploited by the makers of fraud.

Therefore, it would need to discuss internal control over the three related components to reduce to the minimum of fraud occurrence and mismanagement in a company.

1. Internal control in sales

In a company, the sale is a critical element for the survival of the company. The size of the sale can be realized greatly affect to the size of the profit that will be listed on the financial statement and this will also determine the amount of

dividend to be distributed to the shareholders. Therefore, the existence of a good system of internal controls over sales is absolutely necessary.

Purpose of the application of good internal controls on the sales of which is to determine that:

- All sales have been approved and recorded appropriately and accurately.
- All expenditure of merchandise sold has been well controlled.
- Collection of receivables result of the customers has been treated appropriately.
- Sales returns have been approved and have been carefully controlled.

To achieve the objectives of internal control over sales, it is necessary to consider the following matters:

- There should be a separation between the functions and tasks that sales division, sales records division, expenditure division, delivery goods division and the receipts of the sales proceeds division.
- All sales transactions carried out in accordance with the procedures set forth by the sale of company.
- All sales must be approved by the component authority and upon approval by the credit company, to minimize the risks of uncollectible receivables.
- Sales invoice should be numbered for printing.
- If there is a cancellation of the sales invoice, the original sales invoice or a copy must be attached and marked off on the sales invoice which has been cancelled.

- All sales both cash and credit must be recorded, as well as sales return.
- Each of sales return should be known by the authorities.
- Similarly, the sales discount given to customer must be approved by the authorities.
- All the settlement receivables should be noted by the receipts from separate physical parts store on the redemption proceeds in cash.
- Physical examination must be done on a cash based daily reports on cash and bank, without prior notice.

2. Internal control over account receivable.

One of the company's goals is to increase the number of sales. To increase the number of sales, the company can assign the credit sales policy is certainly causing account receivables. Every increasing amount of credit sales, increasing as well the amount of account receivable and the loan proceeds can be realized as well, we need good system of internal control over account receivables are:

- Managing account receivable function should be separated by other functions, such as billing functions, sales and cash receipts. Other than that should also be separated between the hold of authorization, execution, recording, storage of account receivables.
- Setting credit limits, in the case of credit approvals should be limited to a certain amount and notify the authorities when the limit is reached.
- Organized forms used to record accounting transactions and collect data, which can be produced of reliable accounting information.

- Aging analysis of receivables held regularly in a certain period and the control over receivables are past due or not yet due.
- Setting the billing steps which is sure to slow and deferred receivables.
- There is an agreement on the elimination of receivables that have not invoiced, which was initiated by the credit, though the final approval by the chief financial officer or controller.

In addition to possible fraud guarantees, internal control over receivable should be able to provide the necessary information required by management include:

- Balance due on any debtor at any given moment.
- History of settlement by each debtor.
- Aging of receivables for any debtor at any given time.

With the above information, the management can analyze the degree of reliability of each debtor, be aware of any receivables that are due but not yet paid and the last is for decisions making at the discretion of the credit sales are being implemented.

3. Internal control over cash receipts.

Internal control over receivables is very closely to internal control over cash receipts, since most sources of cash receipts of a company is usually derived from the settlement of receivables from the debtors.

Cash is the most liquid asset in the financial statement and almost all transactions will ultimately affect the company's cash. Thus, it is necessary to create an

adequate internal control of cash that can be controlled and can guarantee minimum curbing fraud.

For it must be applied in the procedure system of internal control of cash receipt as follows:

- Responsibility for handling cash should be formulated clearly and precisely defined, i.e., between the authorization holder, cashier and bookkeeper. So, the cash receipt transaction should not be carried out by cashier from beginning to the end, without knowledge of organizational unit to another.
- All cash receipts must obtain authorization from competent authorities.
- It should be held with listing evidence on each of the cash proceeds in the form of the bill as a receipt, where the first copy is given to the customer and the second sheet as an archived.
- All cash receipts should be paid in wholly on the same day. This procedure also requires an additional sheet from the bank to be used in the examination conducted by the internal auditor.
- Bank reconciliation should be done by those who do not handle cash or bank.
- All employees who handle cash or cash bookkeeping are required to take leave and someone else had to replace during the furlough. As well at times are not specified, the staff had moved to the others to detect or prevent the conspiracy.

2.5 Tools or System Form of Sales, Account Receivables and Cash Receipt

Transactions which occur in a company always connected and use a variety of forms as a tool of accounting records and the tools to follow the implementation of the company's activities.

Some of these forms are made and stored in the company, there were sent to other companies and there are also received from other companies. Through these forms of information on the implementation of the activities or operations collected. Therefore, form is one of the objects of the system in order to improve the quality of information, i.e., in terms of identifying the completeness, accuracy, correctness and validity of forms in favour of transactions.

A form must be well designed. With a good design then:

- Facilitate filling and processing of accounting data with completeness and uniformity.
- Reducing errors rate in filling and transferring the data.
- Saving the cost of procurement and management.
- Shortening or quickening the flow of information from the source to users.

All these are in order to achieve company goals, elements of economic and efficiency.

A. The Sales Procedure Forms

1. Customer order

This is goods from a customers or customer request, based on the printed forms that have previously been sent to all customers or through the salesman as an intermediary.

2. Sales order

This is a form that records details of the amount, price and other information related to the requested goods customers. This form is often used to prove the loan approval has been granted by the competent authority.

3. Shipping order

This form has the following function:

- Shipping copy is a copy being sent to the building in order to be prepared the items which is to be sent. These items and a copy are submitted to the warehouse of the shipping.
- Credit copy is a copy submitted to the credit Department for approval of credit sales.
- Advice or acknowledgement copy is a copy that is sent to the buyer as a notice that the order has been received and when the delivery will be made.
- Bill of lading copy is a copy that contains the same information to warrant delivery could make a copy of a letter or made a separate delivery orders. Bill of lading is usually prepared in triplicate, the two

sheets submitted to the carrier, a single sheet is requested a signature to the carrier as goods receipt.

- Packing slip is a copy, is included in the package of goods that shipped to buyer.
- Register copy is a copy that is stored with the sequence number. Archive copies are stored until shipment is received back from the shipment.
- Unfilled order copy is a copy that is stored alphabetically buyer's name is used as a record to determine which orders cannot be fulfilled.

4. Sales invoice

This is a form containing details and quantity of goods sold, price, including freight costs, insurance, payment terms and other relevant data.

Invoices are usually made with several copies, each of which has the following functions:

- Customers copy is first sheet and one or two copies, depending on the buyer's request.
- Receivable copy is used as the basis for debiting account receivable subsidiary ledger.
- Distribution copy is used for crediting the sale in accordance with the details qualification, calculate cost of goods sold and counting of salesman commission.

- Advice copy is given to the salesman as a notification that the invoice has been sent, so the salesman can calculate how much commission will be received.

5. Credit memos

It is showed a reduction number of credit notes to be paid by the customer due to the return of the goods.

6. Remittance advice

It is the form, accompanies the sales invoice and is sent to the customers that allow immediate cash payment to be saved in the bank.

B. The Account Receivable or Billing Forms

1. Account receivable statement of letter.

It is showing the amount of customer's receivables in a specific date or period. Each company must first determine whether to send to all customers or only to customers that have a material amount of debt.

2. Form of receivable estimates or account receivable records.

It is a record that indicating the amount of receivable for each customer.

Note is structured, so it can be seen:

- Credit history every transactions.
- The maximum amount of credit.
- Other particulars required.

These become the basis of the credit for decision making.

3. List analysis of aging receivables.

It is used to access the success of the credit policy that is run and also as a basis for evidence memo for record losses of receivables.

4. Authorization form of uncollectible receivables.

It is used internally that gives authority to remove uncollectible receivables.

C. The Cash Receipt Forms

1. Document (evidence) supporting each original receipt of money.

- Notification of remittance advices.
- Receipts of the money that was given the serial number printed, made by the cashier for receiving money directly.
- Sales cash register tape.
- Notice of redemption, salesman sales list, and others.

2. Daily data collections or summary shows correct receipt of money.

- Evidence deposited into the bank.
- List of daily cash receipts.
- Summary cash register.
- Proof tapes.

3. Books of originality.

- Cash receipts journal.
- Combination proof sheet with money that receipts of journal.

CHAPTER III

DATA PROCESSING AND COMPANY'S PROFILE

3. Data Processing

3.1 Introduction

In this chapter, the writer will discuss about the research methodology. Here, the writer used Donald R. Cooper and Pamela S. Schindler on the books Business Research Methods. Research design is based on six perspective which are level problem definition, methods of data collection, the writer of the control variables of the study, research objectives, scope of topics, as well as environmental research.

Second, the writer will explain about the research object which contains of a brief overview of what you would like to meticulous the writer, of what will be studied, who were the material to be studied, to relevant data what are the ingredients that help writers in the study.

Furthermore, we will discuss data collection techniques used by the writer. In this case I divide it into two, the first through library research. Here the writers studied from books or other literature as a theoretical basis for the writer to discuss the problem, other than that the second through field research, the writer was faced with the fact the company. The writer will get the required data by interview, observation and documentation. Last thing to be discussed is the data analysis techniques used by the writer in response to the formulation of the problem.

3.2 Research Methods

In this research, the approach will be used to consider a variety of perspectives by Donald R. Cooper and Pamela S. Schindler (2011 : p.140), are

1. Based on the level problem formulation

The research, which are undertaken, is a formalized study, in which, the research is intended to be able to answer any problems.

2. Based on data collection methods

This study used observational data collection method, in which data are collected, compared and processed to obtain the information needed. The required data are the primary data because the data directly obtained from divisions related to other research. Moreover, the writers also conducted interviews with the Accounting Manager, PT ABC

3. Under the control of the writers of study variables

The research for this study conducted by using *ex post facto* because the variables selected for the study already included, so the writer has not been able to manipulate the variables used in this study.

4. Based on the research objectives

This study classified as descriptive because it aims to provide an overview of the internal control of sales, billing and cash receipt systems of PT ABC.

5. Based on the scope of the topics

The research was seen as a study because it carried out directly on the internal control of sales, billing and cash receipt systems of PT ABC.

6. Based on the research environment

This study entered into the field of research because the data, which are used, were taken and asked directly to the company as the research object.

3.3 Research Objectives

The writer takes the research objectives for this research is PT ABC. Therefore, in this study, the writer wanted a discussion that focused on internal control of sales, billing and cash receipt systems of PT ABC. The discussion will be useful for the company because it helped to reduce errors and shortcomings and made the employees became more effective and efficient. The data used by the writer, in the form of direct explanation by one of its employees as well as from documents related.

3.4 Research Variables

The writer used variables during research. The variables are the internal control of sales, account receivable and cash receipt systems of PT ABC, purchase order and others data as document for research.

3.5 Methods of Data Collection

The writer used methods for data collecting which are:

1. Research Literature

The writer collected, read and studied the materials for explaining and analyzing tools of the research problem from textbooks and literature as a theoretical basis in conduct the research.

2. Field Research

The writer comes directly to the research object to get the data and information. Besides, There are also data which are sent by email or by phone. In order to collect the data, the writer did:

a. Observation

This is a technique by directly observe the research object. The technique is done by looking directly to how the company's operations and to see a clear picture of the generating income process. Not only of its activities, the writer also observed the employees whether they work as of their job description and accounting policy in journalize, especially in the revenue.

b. Interview

The following data collection techniques by performing direct questions and answers by the employee. Part of Accounting Manager of PT ABC is taken as the object of discussion. This methods help the writer more quickly in determine the company conditions.

c. Documentation

This technique is done by collecting and analyzing the documents related to internal control of sales, billing and cash receipt systems of PT ABC.

3.6 Company's History

3.6.1 PT ABC, Jakarta

PT ABC is a private company that was founded in the year 200 in Jakarta, Indonesia, with business scope in the field of medical devices, particularly diagnostika the reagents required to produce by means spring and fully automated hematology in clinical laboratories for the examination of samples (human blood) in order to present the results of tests laboratory as a material for physicians to diagnose disease more patients.

PT ABC, has the technology to produce reagents with the supervision of Diagon, LTD., Which is a multinational company in Europe. Currently, PT ABC is the only company in Indonesia which produce hematology reagents for a variety of hematologic tools both semi and full automatic.

Our products spread all over Indonesia and exported to various countries like China, Malaysia, Vietnam, Thailand, India, Pakistan, Taiwan and others through our distributors that are within and outside the country.

We have a mission that is a world class manufacturer supplying leading hematology reagents at competitive prices for the global market diagnostic laboratories and offers the best option for laboratories to implement or procurement of diagnostic products with a more affordable cost for the laboratory and the patient. We also have a motto is Solutions beyond Imagination.

PT ABC always evaluates the company targets to get success in dynamic market. Target changing and needs supporting to achieve the target for supervision,

implementation and realization in company. Management will ascertain their sources in order to achieve the target.

Every company personnel realize that the high quality is as a basis for market penetration and influencing the company future. The company will pay attention to the implementation of quality standardize and environmental management system.

3.6.2 PT ABC Sales and Account Receivable Procedure

In PT ABC, the sales of the company are using credit sales. The credit period is given depend on the agreement. The director is prepared the price of goods and approved by management. Each giving the selling price for distributor or customer must fill the enquiry sheet form and signed by the director and will be distributed to:

1. Customer
2. Accounting
3. Marketing
4. Sales Administration

The selling price for each distributor and customers is different. The selling price list for each distributor and customer is placed in the ordner and each of them are given name. All price list must be signed by the division each form.

- **Local Sales**

Local sales are happened when; there is purchase order receipt directly from customer by comparing price into the price list. The customer usually ordered via facsimile or phone. After compare the price, order is inputted into system and appropriate to the management given price and examine and signed by the

accounting Department. Sales order consists of in duplicate where the first is for administration and the second one is for accounting. Sales order is not sent to customer. Sales order is signed by administration, accounting manager and sales Department. Afterwards, the sales Department published picking list, is a command from the warehouse to expend the goods. This picking list is signed by warehouse, sales, manager and principal director. It is only one sheet.

After picking list issued to the logistics, the logistics supply goods required and if the logistics do not have a stock of goods notify to the industry and the logistics required producing the goods again. Then, preparing for the logistics and after palletizing, inspection completed by the Exim / logistics, warehouse, where each recorded catalog, item name, lot number and quantity.

They contact customers to schedule delivery or pick-up after the checks are finished. Usually one day prior to pick up goods, logistics make delivery order as many as 4 copies for which the original parts for sale, for accounting yellow, red and green logistics to accounting and signed by the sender or recipient of goods, sales and logistics. After the delivery order was made and submitted to the administration. Then, Sales Department makes sales invoice (original and photocopy as many as 4). Sales invoice signed by hand of the directors and sales. Besides, it also makes tax invoice. There are 4 set of tax invoice where the first one is for customer with white color, second is sales with red color and accounting and finance with yellow and green color.

After the above, the documents examined by the finance Department before it signed by the directors. All documents, including documents submitted to the administrative inspection to final approved after the goods shipped and received

the full document from the forwarder. Then, if completed will be returned to the Exim Department. Below is the flowchart for local sales, (Figure 2-2. Local Sales System)

- **Export Sales**

Export sales are happened when; there is purchase order receipt directly from customer by comparing price into the price list. The customer usually ordered via email. After compare the price, order is inputted into system and appropriate to the management given price and examine and signed by the accounting Department. Sales order consists of in duplicate where the first is for administration and the second one is for accounting. Sales order is not sent to customer. Sales order is signed by administration, accounting manager and sales Department. Afterwards, the sales Department published picking list, is a command from the warehouse to expend the goods. This picking list is signed by warehouse, sales, manager and principal director. It is only one sheet. Then, the sales Department make SPK (“Surat Perintah Kerja”).

After picking list issued to the logistics, the logistics supply goods required and if the logistics do not have a stock of goods notify to the industry and the logistics required producing the goods again. Then, preparing for the logistics and after palletizing, inspection are completed by the Exim / logistics, warehouse, where each recorded catalog, item name, lot number and quantity.

They contact the forwarder or nomination (which refers to customer choose the sender by their selves) after the checks are finished. They also ask the customer to schedule delivery or pick-up. Usually one day prior to pick up goods, logistics make delivery order as many as 4 copies for which the original parts for sale, for accounting yellow, red and green logistics to accounting and signed by the sender or recipient of goods, sales and logistics. The next section, Exim division makes shipping instruction to the forwarder, to be notified if a delay by the forwarder.

So, the office does not receive confirmation that the goods have arrived at the place or not.

After the delivery order was made and submitted to the administration, should be submitted with the packing list, but because he did not become part of the letterhead, it is printed by sales Department. Then, sales Department makes sales invoice (original is 1 and photocopy as many as 4). Sales invoice signed by hand of the directors and sales.

After the above, the documents examined by the finance Department before it signed by the directors. Then, the sales Department fax to forwarder to make the Export Declaration (PEB) and examined by the Exim Department. After that PEB is sent via email and checked beforehand by the Exim Department and make an appointment to pick-up items. From the forwarder send Bill of Lading to be examined by the Exim Department and once approved will be sent the original. If the customer requests a document other woods, the Exim Department will provide a Certificate of Origin, Certificate of Analyst, Quality Control and Fumigation. After all, parts of Exim send to the customer.

All documents, including documents submitted to the administrative inspection to final approved after the goods shipped and received the full document from the forwarder. Then, if completed will be returned to the Exim Department.

The account receivable procedure for local and export sales are same. The first step is the accounting department gets two set of sales order from administration division. Afterwards, it will be checked by comparing between sales order and purchase order from customer whether the quantity, catalog number and packaging

already same with the order or not. Besides, it is also checked to the price list whether the price at sales order is already same or not. If already right, the sales order will be signed by accounting and the first sheet is sent to administration for sales invoice making and the second sheet is filed by accounting. Accounting department get sales invoice, delivery order and tax invoice from administration. Sales invoice and delivery order are inputted into system and the recordings of journal are as follows,

Delivery order

Stock suspension of finish goods	XXX
Stock finish goods	XXX

Sales invoice

Account receivable	XXX
Cost of goods sold	XXX
Sales	XXX
VAT-Out	XXX
Stock suspension of finish goods	XXX

Then, accounting is recorded the expenditure of inventories in inventories stock card. Afterwards, accounting is inputted VAT-Out in E-SPT. The last one is sales invoice, delivery order and tax invoice which are in the third sheet is filed by accounting. Below is the flowchart for export sales, (Figure 2-3. Export Sales System)

3.6.4 PT ABC Cash Receipt Procedure for Export Sales

Finance department receives the documents from the administrative departments such as purchase orders, sales orders, picking lists, delivery order (duplex 3), sales invoice, packing list and the control list. Finance does a check on these numbers, check whether the correct selling price according to the sales order, lot number according to the picking list. When all the pieces have fit and properly marked or check list, if there is an error is returned to the administration, when properly recorded in card receivables and returned to the department administration.

Finance department receives from the department administration first set of documents to file in the form:

1. Sales invoice (original copy)
2. Packing list (original copy)
3. Delivery order (third sheet)
4. Memorandum of service export (copy)
5. Notice of goods export (third sheet)
6. Bill of lading or airway bill
7. Certificate of original (copy)
8. Insurance (copy)
9. Certificate of fumigation (copy)

After received from the administration department sales invoice, packing list (sheet 4) for the file. When will expire soon do the billing. If no payment from the

customer, then made a voucher attached sales receipt with invoice and packing list then recorded in card receivables to the journal made the following admission:

Bank XXX

Foreign Receivable XXX

Then inputted in the system and transferred to the accounting. And record on bank books and bank transfer. At the end of each month made receivable and print out reports of outstanding account receivable system and matched to sales reports.

CHAPTER IV

ANALYSIS AND EVALUATION

In this chapter, the writer will discuss the evaluation of internal control over sales, account receivable and cash receipt on PT ABC. The sales method in PT ABC is using credit sales. Therefore, the credit sales should be applied carefully by creating an adequate internal control system.

The purpose of control system run by PT ABC is to keep property owned in order not to be stolen or misused and create efficiency and effectiveness in the activities of company as well as to minimize the deviation. The bigger the company, the company is increasingly in need of internal control.

4.1 Components of the Company's Internal Control

According to the Committee of Sponsoring Organizations of the Treadway Commission or abbreviated as COSO, there are five components of internal control which are interrelated. In order to obtain good control and can run effectively, the components of internal control must be examined. The components include:

4.1.1 Control Environment

Here is an important element in the internal control contained in PT ABC:

1. Integrity and ethical value.

COSO criteria:

Bosses set the atmosphere through practice examples demonstrate integrity and high standards of ethical conduct, communicate to all employees. Providing moral guidance to employees whose background are less good and giving emphasis to employees to reduce risks of individuals are taking dishonest action and unethical.

Condition of the company

The strengthens of the company:

At PT ABC, directors uphold the honesty and discipline of the time and expect employees to be able to do the same things. Directors will provide punishment for the offenses committed employees.

The weaknesses of the company:

At PT ABC, directors communicate the regulation on codes of conduct that must be executed to employees verbally and there is no written policy statement.

Background condition:

Directors teach their employees about integrity and ethic to be followed; it is done to discipline their employees, thereby reducing the risk of an individual to act dishonest and unethical. Directors communicate in verbal way and do not make a written statement because the director considers the employee is

sufficiently clear and understand what behaviours are prohibited and what should be done.

As a result:

Employees feel, they are not in violation since there are no written rules. For example, rules for work hours, break time and home office hours. Many employees are not supposed to act like come late for work with a variety reason, after the time for working hours there are still employees who drink a cup of coffee or take it easy, use the time off more than specified.

Recommendation:

The company should make clear rules and sanctions regarding the integrity of the employee code of conduct in writing for the employee to comply and have integrity and ethical value are correct, reducing risk of individuals taking action is dishonest and unethical.

2. Commitment to competence.

COSO criteria:

The commitment to competence means to achieve this entities objective, personnel at the level of organization should have knowledge and expertise necessary to carry out their work effectively. It includes consideration of the necessary knowledge and skills, training and experienced possessed.

Condition of the company

The strengths of the company:

Employees at PT ABC are the ones who are competent. PT ABC considers skills, education and experience of working in recruiting prospective employees. For example, for the placement of employees in finance, sales, and purchasing, company chooses the candidates who have background in economics education graduates. The company is also considering new hiring has had minimal work experience.

Background condition:

The company wants the employees are working in the company has the expertise and education in accordance with the field work to be submitted. Thus, employees can perform the work more effective and efficient because according to their competence.

As a result:

Activities that occur in the company become more smoothly because every employee understand the tasks to be carried out and it has the required expertise, save time in training and learning. The company's performance can be improved.

Recommendation:

To improve existing competencies in the employees, it can be held learning. The presence of job rotation is also good practise to improve skills of employees so that employees do not only have one skill alone to reduce the risk of employee fraudulent do like the use of corporate cash, misappropriating corporate assets.

3. The board of directors and audit committee.

COSO criteria:

There is a board of directors who are involved in the activities of the company and the audit committee who contributed significantly to carry out the examination of financial reporting.

Condition of the company

The weaknesses of the company:

PT ABC does not form a board of directors and audit committee. The Director at PT ABC is the owner of the company and author the extension of credit to customers as well as the financial statements made by the finance department every month. The Director does not routinely monitor the activity of running the company.

Background condition:

The Company considers not requiring the establishment of an audit committee because PT ABC is a privately owned company and is still relatively small.

As a result:

There is a possibility of fraud, theft of inventory, the company's cash usage by employees. Since the director of the financial statements only once a month and does not daily then it cannot control its incoming and outgoing cash, receivables cannot control.

Recommendation:

To reduce the fraud committed employees is better made daily financial reports to be examined to improve the control of the directors of the company. With the daily financial statements, the director can control the running transactions, as well as income and disbursements. To minimize the theft of inventory stock taking to do regularly to make sure the amount of inventory in accordance with the number recorded.

4. Organizational Structure.

COSO criteria:

The company should have a written organizational structure. The organizational structure contribute to the ability of an entity to meet the goals by providing a comprehensive framework for the planning, execution, control, and monitoring activities. At the organizational structure will show the authority and responsibility, as well as proper reporting lines.

Condition of the company:

PT ABC does not have a written organizational structure that describes the authority and responsibility and appropriate lines of reporting. The Director only verbally informed about the level of the position, parts, duties and authority of each employee.

Background condition:

The Director considers the company is not too big so it does not need to create an organizational structure in writing. Without the organizational structure in writing the employee is considered to be able to see and understand clearly the duties and powers of each.

As a result:

As a result of the absence of a written organizational structure is becoming less clear separation of duties, overlapping obligations and reporting on tasks that employees are not clearly resolved. Worked in corporate activity becomes disturbed.

Recommendation:

The writers provide recommendations for the company to make a written organizational structure. The purpose of the structure of the organization is to organize and provide a clear picture of the employee's duties and to whom the employee should be accountable for its work, describe and explain the powers and responsibilities and reporting lines so that performance is not compromised.

5. Determination of authority and responsibility.

COSO criteria:

The powers and responsibilities include an explanation of how and to whom the authority and responsibility for these activities are charged and should be known by every employee that any action interacts with other employees in the achievement of goals.

Condition of the company

The weaknesses of the company:

PT ABC does not have a written policy regarding the authority and responsibility to employees. During this division of duties and authority orally delivered directly by the director to the employees.

Background condition:

The company is considered not too big and the director felt that the division of tasks and authority orally delivered straight enough to be understood by every employee.

As a result:

Lack of awareness of employees in performing duties and responsibilities, employee uncertainty about how and to whom the employee should be responsible for their work, there are parts that perform multiple tasks. So if there are mistakes will be difficult in terms of accountability to anyone asking.

Recommendation:

Companies should establish policies and responsibility of each employee, so each employee understands clearly and responsibility for their actions and understand the effect on the activity of the company.

6. Human resource policies and practices.

COSO criteria:

In order for effective internal controls, the implementation of human resources policies and procedures are essential. Resource policies and procedures are implemented will ensure that personnel have the integrity, ethical values, and competence expected. That includes hiring policies and presses well-developed selection, training policies that communicate the roles and responsibilities of

employees, disciplinary action for violations of expected behavior, compensation programs that motivate and punishment if any wrongdoing.

Condition of the company

The strengths of the company:

Recruitment of employees at PT ABC is conducted by the director of his own company. In recruiting employees, directors are always looking for people who are competent in their field. For example, for a job in finance, sales, director looking for someone who has a degree in economics education background and have experience working. Another case for employees placed at the factory, the director does not give any special requirements such as education, as they tend to be taught in advance about what tasks to do. In recruiting employees, directors just do interviews; see the educational background and experience of applicants. No tests were carried out in writing.

The weaknesses of the company:

The Company is not there job rotation so that employees who work in the finance department will continue to handle the financial part giving rise to the risk of fraud committed employees.

Background condition:

By hiring employees who have competence in accordance with the field and accompanied by education and experience that the director feels the employee can do the job more effectively given. Compensation commensurate with the competency of employees can motivate employees to work more optimally and reduce the high employee turnover. Director does not do rotation work because it

will inhibit the activity of the company. The work may be slower due to the work of different learning needs anymore.

As a result:

As a result of the companies hire employees who have the competence and experience is job run more smoothly and effectively as employees have the appropriate competence to do the job. With the appropriate compensation from the company to its employees resulted in PT ABC employee turnover is low, due to the compensation of employees feel that the company is quite appropriate and motivate employees to work more maximum. There is no job rotation on employees can lead to fraud or misuse of the employee. For example, the finance department, if there is no rotation, could have done lapping the finance department, and the fraud will be difficult to detect.

Recommendation:

The writer provides advice to companies to keep their hiring employees who have the necessary competence, good working relationships within the company and providing appropriate compensation to employees. The writers suggest that companies do the job rotation on employees. This is done in addition to reducing the possibility of fraud committed employees also to motivate employees so that employees are not saturated with the work that is always the same.

4.1.2 Risk Assessment

COSO criteria:

Risk assessment should include consideration of the risks associated with the risks inherent in the financial reporting. The risk assessment should include consideration of the risks associated with information technology. Risk assessment should also include specific consideration of risk that may arise from changes in conditions such as: changes in the operating environment, new personnel, new information systems or modified, rapid growth, new technologies, lines, new products or activities, corporate restructuring, operating outside the country, accounting statements.

Condition in the company

The strengths of the company:

There is the risk of business competitors in the same field. In order to survive competitive business of the company always keep the customer's trust by providing a satisfactory service by maintaining high quality. The company is always keeps the qualities of the products produced by the Quality Control check and monitor the quality of goods produced.

The weaknesses of the company:

There are risks in credit sales, credit sales companies in implementing the policy does not set credit limit for customers, so customers who still have maturing debt or that should have been paid off can still make a purchase. In the company there is a risk of fraud by employees. For example, sell a fictitious, stealing inventory in the warehouse, using the company's cash. PT ABC in the activities of recording accounts receivable, accounts do not have the removal procedure.

Background condition:

The company does not specify a credit limit policy because the company gives great confidence to the customers and the company does not want to limit customer transactions. The company does not want to lose their customers with credit limits. Failure to apply the procedure for removal of receivables due to stand, the company had never experienced customer does not pay the (bankruptcy) or deviation caused uncollectible receivables.

As a result:

Consequences of the absence of policy-setting credit limits on customers who make a purchase loan are that there is the possibility of delay in payment by the customer as well as the bad debts. The impact caused by the absence of a policy is the elimination of bad debt at any time if a customer cannot pay the loans, the company will have difficulty in handling it. Since there is no provision who should determine whether the receivable becomes doubtful accounts, and will be accounted for by what method.

Recommendation:

The writers proposed that the company should establish a credit limit policies to its customers. Forming part of the credit analysis and credit do credit authorization. Lending was not a large part to do the credit function. Giving credit to the credit limit large number of functions in addition to the approval of credit also must go through the authorization of the director. Determination of credit is intended to limit customer accounts does not exceed the ability to make payments, so that delays in payment and the bad debts can be avoided. PT ABC should start now to draft a removal procedure for doubtful accounts, which includes the forms necessary to authorize doubtful accounts that authorize it, and what methods are used.

4.1.3 Control Activities

Control activities on sales, receivables and cash receipt of PT ABC:

1. Segregation of duties.

COSO criteria:

Separation of duties involves ensuring that individuals do not perform tasks that are not balanced. For example, the responsibility for carrying out transactions, recording transactions and maintaining custody of assets generated should be charged to different departments.

Condition of the company

The strengths of the company:

There is already a separation between the sales function and the function that gives credit authorization. Credit authorization is done by the director himself. Besides, there is already a separation of duties between sales, production, parts warehouse, finance, billing section.

The weaknesses of the company:

Separation of duties for sales activities, administration, secretary; accounts receivable and cash receipts have not been effective. The function in recording daily sales, administration and secretarial section are performed by the same person, the person who doubles as secretary, administration and sales. While the receipt of money, collection of accounts receivable, cashier and make a financial report is not to separate, the task is carried out by the finance and accounting department. The credit authorization by the director if the director has not been in the office or out of town then blocks the activity of credit sales transactions. Thus, the performance of the company becomes ineffective.

Background condition:

Sales functions and functions that provide credit authorization have been separated. Credit authorization is done by the director so that the director can monitor credit sales transactions. The Company does not separate function that accepts / cash issued by the function that does the recording. It is because the director gives confidence to the financial part. Directors believe honesty of employees and assume that they will not commit fraud can harm a company that has given credence to them. Directors felt no need to establish a separate credit department in charge of the activities of credit analysis and credit authorization, because it can be done by the director.

As a result:

With the authorization of credit made by the director himself resulting credit sales transactions can be controlled, thus, minimizing the possibility of bad debts. The finance department has a great opportunity to commit fraud. Recording, expenses and cash receipts into unauthorized properly. The finance department may have the opportunity to perform lapping by delaying the recording of cash receipts from customers, use the money received for personal use advance and cover the fraud by way of note to the customer's card receivables from cash receipts from other customers. Receivables that have not been marked paid and receivables money was used for personal gain. The impact caused by the conditions of its own directors who authorize credit is if the director is not in place, credit sales activity to be hampered and ineffective.

Recommendation:

Segregation of duties should be performed in the function of receiving or issuing cash to the function that does the recording in order to minimize the chances of fraud. The writer recommends that companies establish a separate credit department functions to perform customer credit analysis, which is more thorough in considering granting credit to customers and to authorize the loan. So, the activities of credit sales will not be impeded and time consuming to have to wait for the director.

2. Adequate documents and records.

COSO criteria:

The availability of documents are relating to the activities of the company, so that it can be traced. It is using numbered print form.

Condition of the company

The strengthens of the company:

The company has had supporting documents used in sales activities such as purchase order (PO), permit sales transactions made in 4 is equipped with a transaction date, and card storage. In addition, the company also has sufficient documents for export sales, such as certification of origin, certification of fumigation, Bill of Lading. Documents and notes on accounts receivable activities of the company are sufficient. Among companies already have card accounts used for recording activity of the company accounts. The finance departments keep records on the card and always verify the accounts receivable calculations and supporting documents, such as a memorandum of sale, mail delivery, and credit memos.

Recommendation:

The company should retain control in manufacturing by providing always that the serial number printed sales documents are not abused for personal gain and minimize the risk of fraud committed employees. Besides, the company retains completeness proofs every sale and transaction. In addition, companies should still always make aging schedule, this is done for ease knowing that aging receivables which have matured or not can be seen clearly.

3. Independent checks and implementation.

COSO criteria:

The existence of an independent checks which on the activities and financial reporting of the company.

Condition of the company

The strengthens of the company:

Credit sales must request authorization from the director of the first, so the director knows the sales transaction. Each month the finance department provides financial statements along with supporting documents for inspection by the director. Each day, the finance charges to control the customer's payment. If customers pay bills through the transfer, the financial part will confirm to the Bank. This is so that the company can perform the removal of accounts receivable card. If there are customers who have not paid the bill is due, then the company will confirm to the customer.

The weaknesses of the company:

The company does not have an independent internal audit periodically conduct inspections and assess the tasks performed each piece.

Background condition:

Prior authorization from the director before the credit sales is to control credit sales transactions, minimizing the occurrence of doubtful accounts and any errors and fraud committed employees. To minimize the risk of bad debts the financial part of each day is also responsible for controlling payments customers made billing section. If customers pay bills through the transfer, the financial part will confirm to the Bank. This is so that the company can perform the removal of accounts receivable card. If there are customers who have not paid the bill is due, then the company will confirm to the customer. The company does not have an internal audit because the director felt the company was not so large that they can be controlled by the director.

As a result:

The impact caused by the application of the authorization of the directors before giving credit to customers is so far the company has never had receivables are not collectible, but still there is a time delay payment on some customer accounts. With the financial section in charge of controlling receivables from customers and receivables confirm if the customer has not paid the bill that is due the risk of such bad debts are minimized. But the financial part has a great opportunity for fraud and abuse because the financial section to records and accept or dispense cash. Due to the absence of Internal Audit section is difficult to measure deviations will be detected.

Recommendation:

The writer recommends granting authorization on credit sales are not made by the director himself, as if the director is in place will not hinder the transaction. Should credit analysis and credit authorization by a function of its own credit. PT ABC should establish an Internal Audit Section which periodically checks the system, the workings of each piece. This department should be independent and report directly to the Director. Independent checks should be done regularly to minimize the occurrence of fraud. The company should do stock taking, cash sudden hospitalization to examine whether the actual number recorded with the same.

4. Physical control

COSO criteria:

Physical control is needed for keeping save all assets of the company and to avoid dishonest action.

Condition of the company

The weaknesses of the company:

The company is not considering for the cash safety, such as using the special room for saving the cash. The company only uses the small safety box for cash and put in the accounting and finance room.

Recommendation:

The writers recommend to the company to use any different safety box, such as fire-resistant, there is a code to open and alarm. The most important one is to put this safety box in the safety and special room. They can use director rooms to put

the safety box and around safety box is assembling the camera or we always called CCTV.

4.1.4 Information and Communication

COSO criteria:

Communication serves to ensure that each employee engaged in the business activities to understand their activities relate to people inside and outside the company. Every company should have a document or complete and valid information about its business activities and shall submit such information to carry out good communication. So as to obtain the details of all the transactions sufficient to allow the appropriate presentation of the financial statements and disclosures required.

Condition in the company

The strengthens of the company:

The finance department identifies and records only valid transactions based on supporting documents. So, if there are errors can be traced. The documents used in the form of purchase order, sales order, permit, sales invoices, cash receipts or bank, accounting remarks on sales activity in the form of cards and card receivables warehouse. Reducing the number on the card based on the delivery order from warehouse.

The weaknesses of the company:

Director gives credence to the finance department to hand over the task of receiving and issuing cash and perform financial records. The finance department gave no sign or stamp on the sales invoice as a sign that the accounts had been settled.

Background condition:

A valid transaction records is performed by the supporting documents to reduce fraud and errors. The error can be traced to the supporting documents.

As a result:

As a result of information obtained from these reports are made based on supporting documents is becoming more relevant information. Minimize the occurrence of errors in record-keeping and financial reporting. If something goes wrong, it can be traced based on supporting documents.

Recommendation:

The writer recommends that the company maintains their financial statement is based on supporting documents. This is done to obtain data or information relevant. The accounting department should grant or marks on receivable sales invoice were paid with a cap to reduce the registration error.

4.1.5 Monitoring

COSO criteria:

Monitoring involves the assessment of the design and operation of controls on the basis of time and takes the necessary corrective actions. Monitoring can be done through a continuous activity, through periodic evaluation. From the monitoring results, it can be seen that there are weaknesses in the company to find repair solutions.

Condition of the company

The weaknesses of the company:

The company does not have internal auditors who assess the performance of the company. The Director the financial statements made by the finance department once a month and occasionally reviewing employee performance. And director of monitoring through the complaints received from customers, such as the presence of defective goods, mistake number of bills and issues payments to suppliers.

Background condition:

The Director gives great confidence to the employees so no need for excessive monitoring. The Director is not in need of internal auditors to do their own due to oversight by the director and the company also does not include major categories.

As a result:

The chances of cheating and fraud are done great employees because monitoring is not done periodically. The financial statements are only checked once a month to provide opportunities in the financial fraud as lapping.

Recommendation:

Companies should improve internal controls to monitor the activities within the company on a regular basis. There are daily financial reports to monitor transactions. With routine monitoring, it can be seen that there are weaknesses in the company to look for a solution for future improvement. In order to establish the existence of an internal audit firm that assesses the performance of the company, so that if there is fraud, fraud can be found.

4.2 Analysis of Local Sales Flowchart

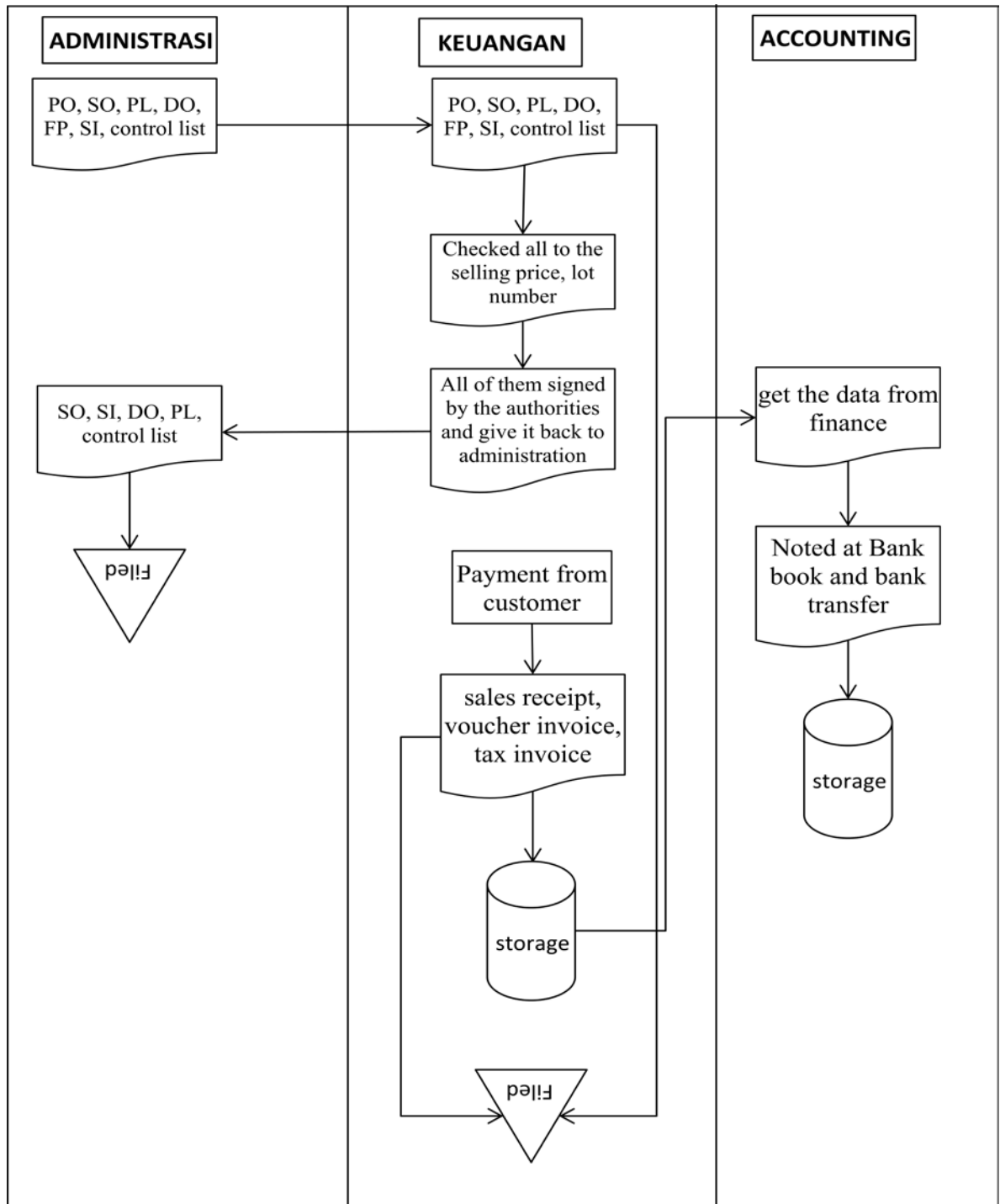
The company flowchart is understandable although there is still any weakness. The company flowchart does not have any file symbol. File symbol means it is documents manually stored and retrieved; inscribed letter indicates file-ordering sequence. Here is the writer analysis result, (Figures 4-2. Analysis of Local Sales)

4.3 Analysis of Export Sales Flowchart

The company flowchart is understandable although there is still any weakness. The company flowchart does not have any file symbol. It is the same thing with local sales flowchart. Here is the writer analysis result, (Figures 4-3. Analysis of Export Sales)

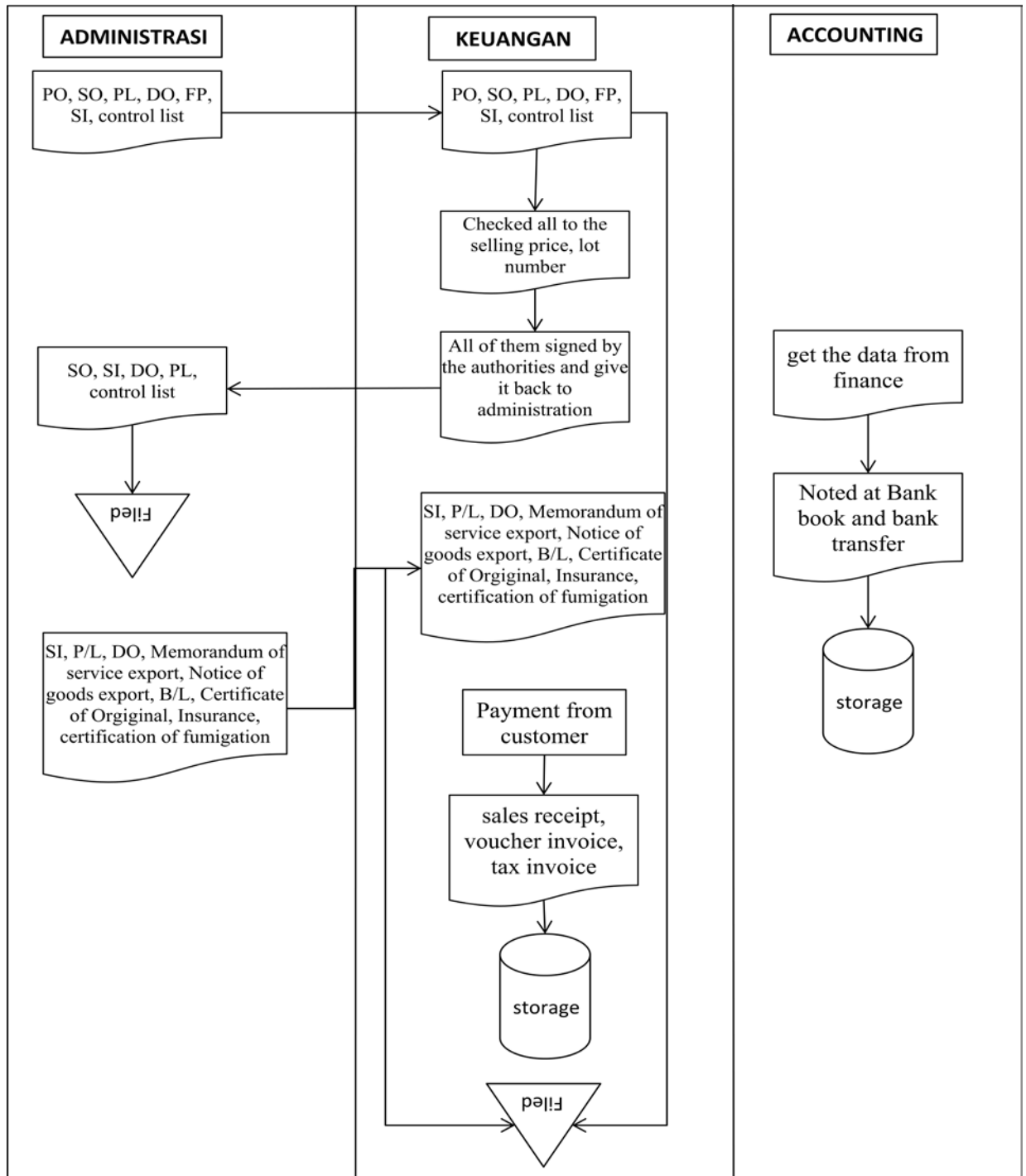
4.4 Analysis of Cash Receipt Flowchart of Local Sales

Actually, the company does not have the full flowchart of local sales. The writer makes the clear ones, so the company can see clearly. Here is the writer analysis, (Figures 4-4. Analysis of Cash Receipt Flowchart of Local Sales)



4.5 Analysis of Cash Receipt Flowchart of Export Sales

Actually, the company does not have the full flowchart of local sales. The writer makes the clear ones, so the company can see clearly. Here is the writer analysis, (Figures 4-5. Analysis of Cash Receipt Flowchart of Export Sales)



CHAPTER V

CONCLUSION AND RECOMMENDATION

Based on the review, observation and discussion that has been done on the PT ABC, particularly regarding internal control systems and procedures for the sale, accounts receivable and cash receipts, then in the last part of this thesis, the author tries to draw conclusions from the internal control procedures that have been applied over-procedure above and also try to give suggestions for improvement that can be used as an alternative input and solving the difficulties facing the company.

5.1 Conclusion

1. Based on the discussions that have been done, it can be concluded that the internal control system is an immense help to management, which for the oversight of assets, liabilities, results and costs as well as for passage of sound practices for the implementation of tasks on each part of the organization as well the availability of adequate personnel elements of quality and responsibility, which is generally intended to achieve the purpose of the system of internal control by the company and are specifically intended to achieve the objectives of the company itself.
2. However, although theoretically the internal control of a company has been running well, it does not mean that its implementation is always good too. This is due to the limitations that cannot be reached by the internal control itself such as the incompetent employee and a conspiracy, so that however good internal control weaknesses still exist, because the causes of these limitations.

3. Therefore needed ways to get a minimum in order to reduce fraud that can occur within the company:
 - a. An organization that allows the separation of the accountability functions properly.
 - b. A system of authorization and recording procedures to enable proper accounting controls sufficient to assets, liabilities, revenues and expenses.
 - c. Healthy practices followed in the execution of the duties and functions of each part of the organization.
 - d. The quality of staff in accordance with its responsibilities.
4. PT ABC has sought to complement the company's operating systems and procedures, and plans to promote compliance with the company in order to smooth and condition monitoring of transactions arising from the operation of the company.
5. Existing organizational structures PT ABC is good but there is still a division of labor whereby duplicate sales and secretaries still be one. In addition, the part that receives receivables, cash received is still done by the same section that is part of accounting and finance.

5.2 Recommendation

- Although the company is a private company and is not too big remains to be seen by the separation of duties between the sales and the secretary as well as the physical part that manages cash and a note receivable and billing, so it does not overlap the work and can work effectively.

- Companies should pay attention to a secure place to store the company's cash in order to prevent the act of dishonesty.
- The company's organizational structure should be in hardcopy so the employees can know exactly their job and duties.
- The company should establish a credit limit policy to its customers to avoid the bad debts and delay payment.
- The company should have a person who can grant the authorization for credit sales because if a credit sale is done by director and when the director is not in the office at that time, there will be no person who has an authority to do it.
- If there is no internal auditor, the internal auditor should still have been done by the director. Because it is the useful part for company up to become better.
- For the flowchart that the company has, they should add the filing chart to be known. So, the employee who sees the chart will know who will file the form.