

UDC 334

**ANALYSIS OF THE RAW MATERIAL PURCHASES AND CASH DISBURSEMENTS  
ACCOUNTING SYSTEMS AS AN EFFORT TO IMPROVE INTERNAL CONTROL:  
A STUDY IN PT. WONOJATI WIJOYO KEDIRI**

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**ABSTRACT**

This research aims to analyze the raw material purchases and cash disbursements procedures implemented by the company and examine whether both systems have been supported by adequate internal control. This research, conducted in PT. Wonojati Wijoyo Kediri, employs a qualitative descriptive approach. Data were obtained from primary and secondary data and collected through interviews and documentation. The research results show that the raw material purchases accounting system and the cash disbursements accounting system implemented in PT. Wonojati Wijoyo are good enough in supporting the company's internal control. However, some weaknesses exist, i.e. dual functions in the purchasing function and the goods receiving function, incomplete forms, and delegation of functions to the cashier who should not make cash out proof documents.

**KEY WORDS**

Internal control, cash, accounting system.

A system is a procedure made in an integrated pattern in implementing the company's main activities to achieve a goal Mulyadi (2016). An accounting system is a combination of forms, records, procedures, and tools used to process data in order to produce financial information needed by management to oversee activities for interested parties (Marom, 2002). The accounting system can provide information that can be used for the decision-making process, information quality improvement, performance evaluation, internal control and facilitating the company's transactions (Sajady et. al., 2008).

The management of the raw material purchases process uses the purchasing system method. The aim is to ensure the activity run efficiently and effectively to prevent various practices that can cause the company losses. The raw material purchases accounting system is an accounting system managing raw material purchases for the company's production needs. It includes, among others, suppliers, price quotations, purchase returns, and goods receiving reports. The raw material purchases accounting system uses documents as a source of records and proof of transactions made by a company.

The cash disbursements accounting system functions to manage and record every disbursement made by the company, from cash disbursements using checks or cash with petty cash funds. The company will use checks for large cash disbursements and use cash for small cash disbursements. There are several risks in the expenditure cycle, i.e. the purchase of unneeded goods. Thus, it influences company goals, especially the operational aspect in terms of cost-efficiency. In addition, it allows fictitious purchases indicated by purchases that are not supported by adequate supporting documents. It should be considered in the cash disbursements system (Romney & Steinbart, 2015).

Internal control in the company is very important to be conducted. Internal control of raw material purchases and cash disbursements needs to be implemented because the raw material purchases and cash disbursements systems are the company's main activities. A well-structured accounting system will provide good internal control (Romney and Steinbart, 2003). Internal Control is a technique used by management to provide directions to employees in achieving company goals (Al Zubi et al., 2014). Internal control not only protects the company's wealth stability in financial terms but also is able to

maintain the accuracy of any data produced by the company thus helping to drive the company's operational efficiency. Effective internal control is aimed at achieving quality improvement (Adagye, 2015). Previous research states that there are several components in internal control i.e. control environment, risk assessment, control activities, and communication and monitoring (Michael, 2004; Steven, 2000; Arens et al., 2003; Kenneth, 2005; Raquel et al., 2005).

PT. Wonojati Wijoyo Kediri has implemented the raw material purchases accounting system and the cash disbursements accounting system to improve its internal control that serve to safeguard assets, ensure the accuracy of any data produced, prevent storage or fraud, and promote the achievement of company efficiency. The implementation of the raw material purchases accounting system and the cash disbursements accounting system in the company are good enough. However, some weaknesses exist, i.e. dual duties performed by the purchasing function and the receiving function and lack of documents that should have been made by certain functions.

## LITERATURE REVIEW

### **Purchases Accounting System and Procedures**

According to Hall (2001), a system is a group of two or more interrelated components or subsystems that serve a common purpose. While according to Widjajanto (2001), a system is something having components that interact to achieve a certain goal and must have three elements, i.e. input, process, and output.

According to Sutabri (2004), a procedure is a sequence of clerical activities, usually involving several people in one department or more, which is made to ensure uniform handling of repeated organizational transactions. Baridwan (2012) defines a procedure as a sequence of clerical work, usually involving several people in one department or more, which is organized to ensure uniform treatment of company transactions that often occur.

The purchases accounting system is one of the accounting systems generally used by a company. In manufacturing companies, raw material purchases are executed with the aim of processing raw materials into finished products. The purchases accounting system is employed for raw materials procurement needed in production. According to Baridwan (2012), purchases procedures manage ways in conducting all purchases of goods and services needed by the company. These procedures start from the need for certain goods or services until the purchased goods or services have been received.

### **Related Functions in the Purchases Accounting System**

Related functions in the raw material purchases accounting system comprise the warehouse function, the purchasing function, the receiving function, and the accounting function which is responsible for recording accounts payable arising from purchase transactions on accounts payable cards and recording the received inventory from purchase transactions into inventory cards (Mulyadi, 2016). Carter & Milton (2004) states that the purchasing function's responsibilities include (1) receiving purchase requisition proof for materials and equipment; (2) having information on sources of supply, prices, and shipping and delivery schedules; (3) making and placing purchase orders; and (4) managing reporting among the purchasing, receiving, and accounting functions. An additional function of the purchasing function in some companies is to approve payment of each invoice received from the suppliers.

### **The Cash Disbursements Accounting System**

Cash disbursements are very necessary for the acquisition of goods and services in carrying out production, such as the acquisition for resale or the use in production. Cash disbursements procedures include the issuance of a check with approval for accounts payable payments to reduce the company's obligations to creditors (Baridwan, 2012). Meanwhile, according to Krismiaji (2002), this system aims to ensure that payment

obligations to suppliers are accomplished in a timely manner and with appropriate total costs.

### **The Accounts Payable Accounting System**

The accounts payable accounting system is created to record accounts payable transactions and record accounts payable reduction. According to Ikhsan (2009), accounts payable liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. Meanwhile, according to Munawir (2004), accounts payable liabilities are all company's financial obligations to other parties that have not been fulfilled in which these liabilities are a source of funds or company capital from creditors.

### **The Internal Control System**

The implementation of internal control system policies in companies is very important to safeguard company assets or wealth and to prevent error and abuse. According to Sujarweni (2015), an internal control system is a system created to provide security assurance for the elements in companies. Arens et al., (2003) states that internal control is policies and procedures designed to provide management with reasonable assurance that company objectives will be achieved. According to Romney and Steinbart (2006), internal control can be classified into 3 types of control, i.e. preventive, detective and corrective controls.

According to its purpose, the Internal Control System can be categorized into accounting internal control and administrative internal control. Accounting internal control comprises a plan of organization and all of the coordinated methods and measures to safeguard organizational assets and check the accuracy and reliability of accounting data. Meanwhile, administrative internal control focuses on promoting efficiency and encouraging adherence to prescribed managerial policies (Mulyadi, 2001).

## **METHODS OF RESEARCH**

This research uses the descriptive method with a qualitative approach. The research was conducted in PT. Wonojati Wijoyo Kediri located at Jalan Mataram No. 1, Ngasem Sub-district, Kediri Regency, East Java Province. PT. Wonojati Wijoyo is a manufacturing company that manufactures and sells various processed wood products. Data were obtained from primary and secondary data. Data collection techniques were interviews and documentation. The research instruments used interview guidelines and documentation guidelines.

## **RESULTS AND DISCUSSION**

### **Analysis of the Raw Material Purchases System Implementation**

Based on the analysis, the related functions are the warehouse function and the purchasing function. The procedure and use of documents are already good enough. However, goods order requisitions are still run verbally and do not use purchase requisition documents to record all ordered goods requests. There is no receiving function which is responsible for inspecting goods received from suppliers and making goods receiving reports. As a result, each department performs its duties inefficiently.

### **Analysis of Documents Used**

#### **a) Goods Receiving Report**

The use of the goods receiving report in PT. Wonojati Wijoyo is good because the document shows that the goods received from the supplier have fulfilled the type, specifications, quality, and quantity in accordance with the purchase order letter.

b) Purchase Order Letter

The use of the purchase order letter in PT. Wonojati Wijoyo is good because it includes the description of goods, the quantity of goods, unit price, and payment terms.

c) Delivery order

The use of the delivery order in PT. Wonojati Wijoyo is good because it has provided clear and detailed information about the description of goods and the quantity of goods ordered. In addition, it specifies the column to be signed by the recipient, security officer, sender, and maker. The delivery order is also a legal proof needed in the streets.

d) Invoice

The use of invoice in PT. Wonojati Wijoyo Kediri is good because the document is used as information on goods to be purchased by the company and as information on bill value to be paid by the company.

e) Invoice Receipt

Invoice receipt in PT. Wonojati Wijoyo Kediri is good because this document is used to replace unpaid invoices, so the ordered goods are not taken back by the supplier. It also includes information about the purchase date, the quantity of goods ordered, the due date, and the payment nominal.

PT. Wonojati Wijoyo Kediri uses some documents in the goods purchases process because these documents are used to record all purchase requisitions and facilitate data checking. Documents used in the raw material purchases system include the Goods Receiving Report (GRR), the Purchase Order Letter (POL), the Delivery Order (DO), the Invoice, and the Invoice Receipt (IR). Based on the analysis results, some weaknesses are found, causing additions and improvements in the documents are needed. Based on the weaknesses found, the authors suggest that the warehouse function makes a Purchase Requisition Letter (PRT) to record all goods orders and to prevent fraud in purchasing goods that should not have been ordered. Another weakness is related to the addition of the Price Quotation Request Letter (PQRT) made by the purchasing function. It is needed to obtain information about the price of goods and various purchase terms so as to enable the selection of suppliers to be appointed and avoid price manipulation between suppliers and the purchasing function.

### **Analysis of Procedures in the Raw Material Purchases Accounting System**

a) Warehouse

The warehouse function places goods orders, then make a Purchase Requisition Letter (PRT) in two copies. Copy 1 is forwarded to the purchasing function and Copy 2 is archived by the warehouse function.

b) Purchasing

The purchasing function receives the copy 1 of the purchase requisition letter from the warehouse function. The purchasing function makes a purchase order letter (POL) in 3 copies: copy 1 is sent to the supplier, copy 2 is forwarded to the receiving function, and copy 3 is archived by the purchasing function. The purchasing function also creates a Price Quotation Request Letter (PQRT) in two copies. Copy one is sent to the supplier and copy two is archived by the purchasing function. After the purchasing function sends PQRT and POL to the supplier, the purchasing function receives the invoice and delivery order documents from the selected supplier for inspection. The documents will be initialed by the head of the purchasing function if they are in accordance with the requisition.

c) Receiving

The receiving function receives the documents from the purchasing function and crosschecks all documents. If they are in accordance with the requisition, the receiving function waits for the supplier to send the ordered goods. If the goods have been received, this function crosschecks the goods ordered and the goods received. If it is suitable, this function makes a Goods Receiving Report (GRR) in three copies.

d) Warehouse

This function receives copy one of the goods receiving report from the receiving function and crosschecks the documents and goods received. After that, this function initials the

documents and make a record on the warehouse card. Finally, the documents are archived by date.

### **Analysis of the Cash Disbursements System Implementation**

#### **a) The Accounts Payable Function**

The accounts payable function in PT. Wonojati Wijoyo is good at performing its responsibilities. The accounts payable clerk has cross-checked the documents received and initialed if the documents are already suitable. This function also makes the accounts payable subsidiary ledger to be given to the cashier function.

#### **b) The Cashier Function**

The cashier function in PT. Wonojati Wijoyo is good. The cashier function has carried out its responsibility to make main raw material payments to the Bank and to make supporting raw material payment directly to the supplier. After completing the payment, a "paid off" stamp is given on the cash out proof documents. However, this function makes an error in handling the cash out proof documents. The cash out proof documents should be created by the functions with a higher authority such as the accounts payable function and the accounting function.

#### **c) The Financial Function**

The financial function in PT. Wonojati Wijoyo is already good at carrying out its responsibilities. Before providing authorization for the cash out proof, this function crosschecks the cash out proof documents and supporting documents.

#### **d) The Accounting Function**

The accounting function in PT. Wonojati Wijoyo is good at performing its responsibilities. This function has recorded cash disbursements transactions into the cash disbursements journal and filed cash out proof documents and supporting documents issued. However, cash out proof documents should be issued by the accounting function.

### **The documents used**

#### **a) Supporting documents**

The use of supporting documents in PT. Wonojati Wijoyo is good. Supporting documents are used as attachments when making cash out proof documents. Supporting documents used include: the purchase requisition letter, the goods receiving report, the purchase order letter, the delivery order, the invoice, and the invoice receipt.

#### **b) Cash Out Proof**

The use of cash out proof in PT. Wonojati Wijoyo is good. This document serves as a cash disbursements order and a notification letter sent to the creditor as a source for recording accounts payable reduction.

### **Organizational Structure**

a) There is no receiving function in the organizational structure. The receiving duty is performed by the purchasing function. Meanwhile, the purchasing function is responsible for receiving information about the goods to be purchased, determining the supplier to be selected in goods provision, and issuing a purchase order letter to the selected supplier.

b) The goods purchasing function in the company does not intervene with the accounting function. Based on good internal control elements, these two functions are intended to safeguard the company's wealth.

c) Every time purchase transactions will be made, the purchasing function having a dual function as the receiving function crosschecks the order from the warehouse function carefully and thoroughly.

d) Purchase transactions are not carried out completely by one function. Each transaction will always have an internal check resulting in each employee being examined for accuracy and reliability by other functions.

Based on analysis results on healthy practices in the cash disbursements system, PT. Wonojati Wijoyo Kediri has good practice as can be seen from:

a) All cash disbursements documents are numbered sequentially.

- b) After conducting a cash disbursements transaction, the cash out proof documents and supporting documents are stamped "Paid off" by the cashier function.

### CONCLUSION

Based on the analysis results on the raw material purchases accounting system, the cash disbursements accounting system, and the internal control system in PT. Wonojati Wijoyo Kediri, it can be concluded that the raw material purchases accounting system and the cash disbursements accounting system implemented in PT. Wonojati Wijoyo are good. However, both systems still do not support maximum internal control because some weaknesses are found.

Suggestions given are: (1). it is suggested that the warehouse function presents the purchase requisition letter document. The use of this document can facilitate the purchasing function in conducting goods orders to the suppliers and to avoid errors in ordering goods that should not have been ordered but are included, (2). it is suggested that PT. Wonojati Wijoyo Kediri separates the responsibilities of the purchasing function and the receiving function. The purchasing function is responsible for ordering goods to the suppliers, while the receiving function is responsible for receiving goods from the suppliers. The two functions should be separated to enable each function to work optimally and avoid manipulation in the raw material purchases.

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