



Analysis of Internal Control of Merchandise in Edwi Dolopo Store to Improve Business Effectiveness

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Abstract: Internal inventory control is carried out using security measures to avoid theft, errors, or other actions. The existence of an internal control system in the company can create an excellent organizational structure. To create reasonable internal control, the company must fulfill the elements of internal inventory control. In this study, 3 of the 5 elements of internal control were taken, namely internal control procedures for receiving and storing, an organizational structure that strictly separates functional responsibilities and healthy practices in carrying out tasks, and each organizational unit. At Toko Edwi there is a problem with the dual function of receiving and storing functions into one accounting function. The purpose of this study is to find out how the internal control procedures for receiving and storing merchandise inventory at the Edwi Store, how the implementation of internal control over the organizational structure that separates functional responsibilities explicitly on the merchandise inventory at the Edwi shop, how to implement internal control over practices healthy in carrying out the duties and functions of each organizational unit at the Edwi Store. Using qualitative research methods and data collection techniques in the form of interviews, observation, and documentation. The results of this study indicate that Toko Edwi has carried out internal control procedures for proper receipt and storage of merchandise. However, internal control over the organizational structure that separates functional responsibilities has not been strictly implemented. It still concurrently holds the duties of the receiving and storage functions into one accounting function. Internal control of healthy practices in carrying out the duties and functions of each organizational unit is also not appropriately implemented.

Keywords: Internal Control, Receiving and Storage Procedures, Organizational Structures That Separate Functional Responsibilities Strictly, Healthy Practices in Carrying Out the Duties and Functions of Each Organizational Unit

INTRODUCTION

The business world and current technological developments have impacted economic development. This can be seen from the increasingly fierce and increasing business competition that requires business/business owners to further develop and expand their

business by targeting the existing market share in order to be able to compete. (Kawatu., 2020) Along with current developments, many businesses are emerging, such as manufacturing, service, and trade businesses. A business has its technique and its own way so that the business is carried out can provide profit or profits and develop its business to a higher level, as well as trade or trade business. Trading business or trade in buying and selling activities requires control in business operational activities (Puspitasari & Haryani, 2018).

Generally, a trading company can be interpreted as an organization that carries out business activities by purchasing goods from producers or other companies that then resell them to the public. Every company that establishes a trading company aims to generate maximum profits to advance and develop its business to a higher level. Procuring inventory at trading companies is done with large purchases because it is relatively more profitable. Due to the possibility of getting a discount on the purchase price, lower unit transportation costs and savings in other costs can also be obtained. However, this must be considered. The amount in the inventory should not be too large so that the capital invested and the costs incurred are not too large.

Trading companies have an essential element in selling, namely inventory. Inventory is a product from merchandise purchased from manufacturers or other companies and then stored for resale in a company's operations. Hence, the company always pays great attention to inventory. Without an inventory, companies cannot carry out sales activities. Sales will automatically be affected by merchandise availability or inventory. If goods are not available in the form, quality, type, brand, and quantity desired by consumers, sales will decrease (Wildana & Utami, 2017).

Internal inventory control is carried out using security measures to avoid theft, errors, or other actions. The existence of an internal control system in the company can create an excellent organizational structure. Internal inventory control is a critical managerial function because internal inventory control can affect the efficiency and effectiveness of company activities. Therefore, internal control of merchandise inventory is significant and necessary to reduce the risk of loss and fraud and ensure that procedures have been carried out properly so that repairs can be carried out.

In this study, a qualitative research method was used, which produced descriptive data in the form of spoken/written words from people around and observable behavior. With this type of field research or field research, the necessary data is obtained from conducting research directly on the object to be studied using data analysis, namely data reduction, data presentation, and conclusion.

Edwi's shop is a shop that sells daily needs, especially needs for women, such as clothing, hijab, cosmetics, stationery, masks, and others, which is located on Jl. Sarwo Husodo, Doho Village, Dolopo District, Madiun Regency. In carrying out its business, Toko Edwi brings in an inventory of goods by ordering goods, checking, and inputting goods to store inventory in its merchandise. At this Edwi store, not all items are stocked or have inventory. Goods have many

supplies, such as cosmetics, hijabs, and skincare. These goods are much sought after and in demand by the public.

At the Edwi Store, there are problems with the internal control element of merchandise inventory, namely in the elements of the organizational structure that strictly separates functional responsibilities where the receiving function and storage function concurrently become one accounting function. This does not follow the theory where the receiving and storage functions must be separated from the accounting functions.

By looking at the description above, the researcher is interested in continuing his research with the title "Analysis of Internal Control of Merchandise Inventory at the Edwi Dolopo Store to Increase Business Effectiveness."

METHOD

Types of Research

The approach used by researchers is using qualitative research, which produces descriptive data in the form of spoken/written words, and this type of research is field research or field research. The data needed is obtained from conducting research directly on the object to be studied.

Data Collection Technique

1. Interview

The interview is a data collection technique that uses verbal questions to the research subject. The meaning of a topic is constructed in information interview techniques and ideas with questions and answers.

2. Observation

According to Herdiansyah, observation is an activity to find data that can be used in giving a conclusion. Observation is used using direct observation and a regular recording of the events studied.

3. Documentation

The documentation method is all activities related to the procurement, management, and collection of documents systematically and scientifically and the distribution of information to informants

Data Analysis Method

There are three elements in the data analysis process in qualitative research:

1. Data reduction

Data reduction, namely the process of selecting, making focus, simplifying, and abstracting from data in rough form in field recording. This process continues throughout the research process in the form of abbreviations, coding, defining problems, writing memos, and focusing on themes.

2. Data View

Data presentation is an arrangement of information that can conclude the research. By looking at the data presentation, researchers will understand what is happening and provide an opportunity for researchers to conduct an analysis according to understanding. Data presentation can be arranged with an overview of information in a systematic/organized way that is also easy to understand with the overall form of the presentation

3. Conclusion Drawing

Making decisions by looking for patterns, models, relationships, themes, similarities, hypotheses, and so on, from these data, the researcher can try to conclusions. The first time collecting data, the researcher must understand the meaning/meaning found at the research site. There are notes/summaries and documents used as information to be understood and then grouped. The conclusion can only be drawn if the data collection process ends. After the conclusion is made, there is verification of how to ask again. At the same time, review field notes/research sites to get a clear and fast understanding.

RESULT AND DISCUSSION

Definition of Internal Control

Internal control is needed along with the company's growth and development of business transactions. In carrying out internal control properly, of course, it must be followed by the company's willingness to incur some additional costs. The internal control system will always be found in the company. Internal control must be carried out as effectively as possible for the company to avoid and prevent fraud, errors, and fraud. Therefore it is necessary to develop a framework for controlling the existing system in a company which consists of various control measures internal to the company so that managers can allocate resources efficiently and effectively. (Hery, 2014) According to Mulyadi, the main elements of the internal control system include a structure in the organization that separates functional responsibilities explicitly, a system of authority and recording procedures that provide sufficient protection for assets, debts, costs, and income, healthy practices in carrying out duties and functions in each unit. organization, and employees whose quality is following their responsibilities (Wulandari., 2018).

Internal Control Objectives

The primary purpose of internal control is to achieve its goals by getting benefits and opportunities and preventing if there is a risk of loss, including preventing the occurrence of fraudulent acts on employees. The objectives of the internal control system, according to Mulyadi are:

1. Maintaining organizational wealth

Property in the company can be stolen or misused due to accidents unless adequate controls protect the wealth. Likewise, assets in companies that do not have a physical form,

such as trade receivables, will be prone to shortages if essential documents and records are not maintained.

2. Check the accuracy and reliability of accounting data.

Management requires researched and reliable financial information to carry out activities in its business. Much accounting information is used by management to base important decisions. Internal control is designed to provide guarantees for processing accounting data and producing accurate and reliable financial information because accounting data reflect changes in the company's wealth.

3. Drive efficiency

Internal control is intended to prevent unnecessary duplication of effort or waste in all matters of the company's business activities and to prevent inefficient use of company resources.

4. Encouraging compliance with management policies

To achieve company goals, management establishes policies and procedures. This internal control is intended to provide adequate assurance that employees comply with management policies.

Internal Control Function

Internal control is divided into three functions, according to Mulyadi, including:

1. Preventive control Control is for prevention, preventing a problem before it occurs.
2. Detective control is a control for inspection needed to uncover the problem once the problem is.
3. Corrective control is a corrective control. Solve problems obtained from control for inspection.

Internal Control Principles

In internal control with the COSO Framework (Committee of Sponsoring Organization of Treadway Commission), there are several principles of internal control in the components contained in internal control: (Lakoy & Poputra, 2016)

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

Elements of Internal Control

According to Mulyadi, in creating a sound internal control system in a company, four main elements must be met, namely: (Mulyadi, 2016).

1. An organizational structure that separates functional responsibilities. Functional responsibilities are segregated based on the following principles:

- a. The operations and storage functions are separated from the accounting function. The operating function is a function that has the authority to carry out an activity, while the storage function is a function that has the authority to store company assets.
 - b. A function cannot be fully responsible for executing all transaction stages.
2. Systems of authority and record-keeping procedures safeguard assets, income, debts, and expenses (Sudarmanto., 2021).

In an organization, every transaction only occurs based on the authority of the official who has the authority to approve the occurrence of the transaction. Therefore, an organization needs a system that regulates the division of authority for authority over the implementation of each transaction. The authority system is expected to guarantee the production of credible bookkeeping documents so that they can be inputs that are trusted by the accounting process.

3. Healthy practices in carrying out duties and functions in organizational units.

Healthy practices are often interpreted to implement a set of rules that have been set in the corporate environment. A healthy practice is defined as a tool for implementing a plan, namely things that are implemented so that plans that have been made can be achieved.

4. Employees whose quality is following their responsibilities.

Elements of employees whose quality is following their responsibilities play an important role because the implementation of this internal control system will be employees.

Elements of Internal Inventory Control

The elements of internal control in inventory are as follows:

1. Organization
 - a. The receiving function is separated from the storage function.
 - b. The accounting function is separate from the finance function.
2. Authority
 - a. The head of the function authorizes proof of receipt and release of goods in the warehouse.
 - b. The unit price listed in the list of physical count results comes from the inventory card concerned.
3. Healthy practices
 - a. Periodically carried out calculations on inventory in the warehouse.
 - b. The receiving function authorizes goods-receiving reports.
 - c. Proof of ordering requests and issuance of printed serial numbered goods and their use can be justified (Mulyadi, 2018).

Inventory Internal Control

Internal control over inventories is necessary, considering these assets are classified as reasonably current. The primary purpose of implementing internal control is to secure or prevent assets in the company from various actions such as theft, misuse, fraud, and damage and to guarantee the accuracy or accuracy of presenting inventories in financial reports. It includes control over the legitimacy of purchases and sales of merchandise transactions. (Suharsana & Rianingsih, 2017)

Control Procedures for Merchandise Inventory

According to Hery, broadly, procedures in internal control of inventory include starting from:

1. Procedures for controlling the receipt of merchandise

Internal control over inventory should start when the goods are received (purchased from suppliers). The receiving department should prepare receipt reports that are serial numbered and printed to establish initial responsibility for inventory. To ensure that the goods received correspond to what was ordered, each goods receiving the report must be matched with the original purchase order form. Internal inventory control often involves the help of security devices such as cameras, magnetic sensors, warehouse access cards, two-way mirrors, security guards, and so on.

2. Procedures for controlling the storage of merchandise

The use of a perpetual recording system provides effective control of inventory. Information regarding the amount of each type of merchandise inventory can be readily available in the subsidiary ledger for each inventory. To ensure the accuracy of the amount of inventory reported in the form of financial statements, a trading company should physically inspect its inventory.

Analysis of Internal Control of Merchandise Inventory at Edwi Stores

1. Inventory internal control procedures from receipt and storage to merchandise inventory

In the Edwi store, the internal control procedure for receiving goods is carried out by employees. Where when the goods arrive, they are immediately matched with the goods order form, starting from the name, type, quantity, and quality of the goods that have been ordered. After conforming to the order form, it is inputted into the computer and stored in the warehouse according to the grouping.

2. Internal control of the organizational structure that separates functional responsibilities explicitly in inventory

Toko Edwi, in its operational activities, still needs to implement the separation of the operations/receiving functions and the storage function from the accounting function. The cashier's employees receive and store goods when goods arrive, and their duties are one with the accounting function. This, of course, will cause errors in the inventory of merchandise.

3. Internal control over healthy practices in carrying out the duties and functions of each organizational unit

At the Edwi Shop, the use of the printed order form has been accounted for by the authorities or the shop owner. However, at the Edwi Shop, there is no rotation of positions, spot checks, and transaction activities are still carried out by the same person from start to finish.

CONCLUSION

From the results of the research and discussion above regarding the internal control of merchandise inventory at the Edwi Store, it can be concluded that the elements of internal control procedures for receiving and storing merchandise inventory have been carried out correctly. Meanwhile, the receiving function and storage function still concurrently become an accounting function, which will cause a mismatch in the merchandise inventory, and Toko Edwi still needs to carry out job rotation. The same person still carries out sudden checks on employees and transactions from start to finish. Toko Edwi should provide a job description for each of its employees so that there is no mismatch in inventory and so that there is no excess or shortage of goods.

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