

## PalArch's Journal of Archaeology of Egypt / Egyptology

### RECORDING AND MANAGING INVENTORY AT SETIA ABADI

Debbie Christine<sup>1</sup>, Meirina, Mohd Haizam Saudi<sup>2</sup>, Djoko Roespinoedji<sup>3</sup>

<sup>123</sup>Widyatama University, Indonesia

<sup>1</sup>[debbie.christine@widyatama.ac.id](mailto:debbie.christine@widyatama.ac.id), <sup>3</sup>[haizam@widyatama.ac.id](mailto:haizam@widyatama.ac.id),

<sup>3</sup>[Djoko.roespinoedji@widyatama.ac.id](mailto:Djoko.roespinoedji@widyatama.ac.id)

**Debbie Christine, Meirina, Mohd Haizam Saudi, Djoko Roespinoedji. Recording And Managing Inventory At Setia Abadi-- Palarch's Journal Of Archaeology Of Egypt/Egyptology 17(4), 2897-2905. ISSN 1567-214x**

**Keywords: inventory, FIFO, Financial Accounting Standards**

#### **ABSTRACT**

Setia Abadi is a company engaged in the field of trade in goods and services in the category of printing. The method use in the final report is descriptive method and how to obtain these data with field studies and literature. Based on the results of practical work it can be concluded that recording, valuation, presentation, and disclosure of inventory has been done according to the Financial Accounting Standards Board and controlling of inventory in the warehouse is adequate. Recording method performed by this company is a physical method to the valuation method FIFO (First In, First Out) where two things are in accordance with the Financial Accounting Standards. Income Statement presented in accordance accounting principles that are based on the entities without public accountability.

**Keywords: inventory, FIFO, Financial Accounting Standards**

#### **INTRODUCTION**

Any errors in inventory calculations will affect both the balance sheet and the income statement. For example, an error in the physical calculation of inventory will result in misrepresentation of ending inventory balance, current assets, and total assets on the balance sheet. This is because the physical inventory calculation is the basis for making adjusting entries to record inventory depreciation. In addition, errors in the physical calculation of inventory will lead to errors in the presentation of cost of goods sold, gross profit, and net income on the income statement. Furthermore, because net income is added to owner's capital at the end of the period, owner's equity will also be wrong. Errors in owner's capital will be equivalent to errors in ending inventory, current assets and total assets (Warren, 2010).

Setia Abadi is a distributor of photocopiers. The main activity of this company is the sale of photocopiers, spare parts, toner, and office supplies. Setia Abadi has been established since 1982 as a distributor of photocopy machines with quite a number of

customers. But sometimes have difficulty in meeting consumer demand because of limited merchandise. Because in Bandung-Indonesia there are only a few companies that sell these items. Therefore Setia Abadi needs a method of recording and managing inventory so that companies can compete with other companies.

Setia Abadi is a photocopy machine distribution network, so the products that are produced previously are bought first and then sold. Goods that have been purchased will be stored in the warehouse of goods and put in an inventory account as merchandise that is ready to be resold to consumers. The recording method used by Setia Abadi is the physical method and the valuation method for finished goods inventory using the FIFO method.

Inventory balance reported by Setia Abadi's finances plays a big role in the survival of the company itself. Merchandise inventory will be presented in the statement of financial position and in the income statement and inventory will affect the calculation of the company's income. Merchandise inventories listed on the statement of financial position, reflect the value of goods available at the statement of financial position date, while inventory of merchandise that can already be charged as a fee will be listed on the income statement. In order to avoid mistakes in calculating inventories, Setia Abadi needs to manage its merchandise inventory.

## **LITERATURE REVIEW**

### ***Definition of Financial Statements***

According to Kieso, et al. (2011: 5) the meaning of financial statements is:

“Financial Statement are the principal means through which company communicates its financial information to those outside it. The statement provide a companies history quantified in money therms. The financial statement most frequently provide are (1) the statement of financial position, (2) the income stetemnt or statement of comprehensive income, (3) the statement of cash flow, (4) the statement of change in equity. Note disclosures are an integral part of each financial statement”.

### ***Definition of Inventory***

According to Kieso (2014: 365):

“Inventories are asset items that a company holds for sales in the ordinary course of business, or goods that it will use or consumen in the production of goods to be sold”.

Meanwhile, according to IAI in SAK ETAP book (2009: 11.1) inventory:

Inventory is an asset:

- a. for sale in normal business activities;
- b. in the process of production for later sale; or
- c. in the form of materials or equipment to be used in the production process or service delivery.

Based on the Indonesian Institute of Accountants (2009) also confirms what is categorized as inventory that is, inventory includes goods that are purchased and owned for resale. For example, merchandise purchased by retailers for resale, or land acquisition and other property for resale. Inventories also include finished goods produced, by the entity and include materials and equipment that will be used in the production process. The definition explains that inventory is an asset belonging to a

company whose purpose is to be sold without making a fundamental change to the goods, both in the form and benefits of the goods. The definition also states that inventory is obtained through the production process until it becomes goods that are ready to be sold to the market in other words the goods purchased are transformed in advance (Indonesian Institute of Accountants, 2009).

Based on the definition of these experts, it can be explained that inventory is the most active element in the company's operations which is carried out continuously in the production process or goods that are ready for sale.

**Inventory Management Method**

According to the Statement of Financial Accounting Standards for Entities Without Public Accountability (SAK ETAP) (2009: 11.15) states that:

"Entities must determine inventory costs, other than those related to paragraph 11.14, by using the formula for First In First Out (FIFO) or weighted average. The same cost formula must be used for all inventories with similar properties and uses. For inventories with different properties or uses, the use of different cost formulas can be justified.

Table 1  
Presentation of Inventories in Financial Statements

<b>Asset</b>	
Current Assets:	
Cash	Rp XXX
Account Receivables	Rp XXX
Deducted:	
Allowance for Bad Debt Accounts	Rp (XXX)
Net Account Receivables	Rp (XXX)
Inventory	Rp (XXX)
Supplies	<u>Rp (XXX)+</u>
Total Current Assets	Rp XXX

Source: Kieso 2011:458

**RESEARCH METHOD**

The author uses descriptive methods, namely methods that provide a fairly clear picture of the state of a company based on data and actual facts to be analyzed then conclusions can be drawn. The approach taken to obtain data is as follows:

## 1. Field Study

direct research on the company concerned to obtain the data needed through:

- a. Observation  
observing directly about the company's activities related to the treatment of inventory.
- b. Interview  
data collection techniques by asking questions related to the object being observed to the parties concerned, both staff and employees contained in the company.
- c. Work Practice  
The author practices work at Setia Abadi.

## 2. Literature Study

Literature study technique is a data collection technique by conducting a review study of books, literature, notes, and reports that have to do with the problem to be solved.

### **RESEARCH RESULTS**

Setia Abadi also has inventory records that are used to calculate inventory, both physically and in a record so that the company is always up to date in knowing the amount of inventory they have. Setia Abadi uses the recording method using the physical inventory method / periodic system, which is a recording system where the amount of inventory is recorded based on the results of a physical inventory at the end of each accounting period. Setia Abadi uses the method of recording physical inventory because inventory records are not included, so the method of recording physical supplies is considered to be very simple both at the time of recording purchases and when recording sales and to anticipate that there is a shortage of merchandise inventory in warehouses, Setia Abadi conducts an inventory physically twice in one accounting period.

Like other trading companies that use the same inventory recording method, namely the physical inventory method / periodic system, each purchase and sale transaction of Setia Abadi is recorded in a separate account, namely a purchase account and a sales account, not an account merchandise inventory is available at the beginning of the accounting period so the company cannot know the amount of inventory that is available at a certain time and the cost of goods sold for each sales transaction that occurs. Therefore, physical inventory calculation plays a very important role in preparing the company's financial statements.

From information above it can be seen, the method of recording merchandise inventory in Setia Abadi, is in accordance with Martini (2012: 253) which explains the quantity of inventory in a hand is determined periodically. All inventory purchases during the accounting period by debiting the purchase account. The total purchase account at the end of the accounting period is added to the inventory costs at the beginning of the period to determine the total cost of goods available for sale during the period.

### ***Valuation Method of Merchandise Inventory at Setia Abadi***

The valuation method used by Setia Abadi for activities involving company operating activities is the value of inventories based on the FIFO method, assuming the value of the inventory first purchased will be sold or used first so that the units left in the ending inventory are purchased with the most recent value in terms of the relevance of inventory values presented in the company's financial position statement. In using the FIFO valuation method, Setia Abadi has a record of when and at what price the purchase was made, because the cost of goods sold is valued based on the cost of the first entry, the remaining cost of inventory consists of the cost of the last inventory entered.

One of the company's goals using the FIFO valuation method is to equalize the physical flow of goods. If the actual physical flow of goods is the first in the first out, then at the same time the FIFO method does not allow companies to manipulate profits because the company is not free to choose certain cost items to be loaded. In addition, the FIFO valuation method is used by companies because of its simple calculation and implementation, the value of ending inventory on the balance sheet is in accordance with current prices, and can avoid damage and obsolescence of inventory in the warehouse.

But apart from its advantages, the FIFO method also has weaknesses that can be seen in the event of inflation. With inflation, goods tend to increase over time, because the cost of goods charged to the cost of goods is the cost of the goods purchased first so that the cost of goods sold is too low then reported profits are too high, consequently the tax paid by the company is too high. To prove that Setia Abadi uses the FIFO method, the authors provide an example in an inventory calculation application as follows:

Table 2  
FIFO Inventory Valuation  
Name of Item: CANON IR 5000

Date	Purchasing			COGS			Balance		
	Q	P	T	Q	P	T	Q	P	T
03/7	12	22.075.000	264.900.000				12	22.075.000	264.900.000
08/7	8	22.075.000	176.600.000				20	22.075.000	441.500.000
21/8				1	22.075.000	22.075.000	19	22.075.000	419.425.000
30/9				1	22.075.000	22.075.000	18	22.075.000	397.350.000
01/10				1	22.075.000	22.075.000	17	22.075.000	375.275.000
23/10				1	22.075.000	22.075.000	16	22.075.000	353.200.000
04/11				1	22.075.000	22.075.000	15	22.075.000	331.125.000
02/12				1	22.075.000	22.075.000	14	22.075.000	309.050.000
07/12				2	22.075.000	44.150.000	12	22.075.000	264.900.000
30/12				1	22.075.000	22.075.000	11	22.075.000	242.825.000
06/1				1	22.075.000	22.075.000	10	22.075.000	220.750.000
08/1				1	22.075.000	22.075.000	9	22.075.000	198.675.000
09/1				1	22.075.000	22.075.000	8	22.075.000	176.600.000
17/1				1	22.075.000	22.075.000	7	22.075.000	154.525.000
23/1				1	22.075.000	22.075.000	6	22.075.000	132.450.000

27/1			1	22.075.000	22.075.000	5	22.075.000	110.375.000
30/1			2	22.075.000	44.150.000	3	22.075.000	66.225.000
	20		17		375.275.000	3		66.225.000

Source: Setia Abadi (data processed)

Inventory calculation of physical / periodic methods:

Purchase 20 units

Sales of 17 units

Final balance of 3 units

FIFO Method: 3 x IDR 22,075,000 = IDR 66,225,000

From the information above, it can be seen that the valuation method of merchandise inventory in Setia Abadi is in accordance with Smith and Skousen (2009: 136) which assumes that the first merchandise purchased is the first merchandise sold because the cost of goods sold is valued based on the cost of inventory first entry, the remaining cost of inventory consists of the cost of inventory last entered.

**Presentation and Disclosure of Merchandise Inventory at Setia Abadi**

The financial statements are presented in accordance with the accounting principles that are being applied in Indonesia, namely accounting principles based on the Statement of Financial Accounting Standards, and other government regulations that apply in the presentation of Setia Abadi's financial statements.

Finished goods production inventory items, especially photocopy machine supplies, are presented by Setia Abadi in the financial statements, both in the balance sheet and the profit and loss inventory of goods listed in the balance sheet reflecting the value of the company's inventory, while the income statement appears in the cost of goods sold.

In determining Setia Abadi's cost of goods sold using cost-based valuation, besides using the FIFO method, the FIFO method assumes that the cost of goods purchased for the first time is the first item sold, ending inventory is valued at the most recent cost of purchase.

Tabel 3  
Setia Abadi  
The Statement of Financial Position  
Per 3 Juli 2014 – 31 Januari 2015

Assets		Liability and Equity	
<u>Current Assets:</u>		<u>Short Term Liabilities</u>	
Cash	Rp 250.000.000	Account Payables	Rp 201.572.500
Account Receivables	Rp 120.000.000	Salary Payables	<u>Rp 32.500.000</u>
Inventory	<u>Rp 221.172.500</u>		

Total Current Assets	Rp 591.172.500	Total Short Term Liabilities	Rp 234.072.500
<u>Non Current Assets</u>		<u>Equity</u>	
Land	Rp 150.000.000	Owner's Equity	Rp 692.100.000
Building	Rp 100.000.000		
Automobile	Rp 85.000.000		
Total Non Current Assets	Rp 335.000.000	Total Liability and Equity	Rp 926.172.500
Total Assets	Rp 926.172.500		

Source: Setia Abadi (data processed)

Table 4  
Setia Abadi  
The Income Statement  
Per 3 Juli 2014 – 31 Januari 2015

<u>REVENUE</u>	
Sales	Rp1.709.903.500
Other Income	<u>Rp 20.500.000</u>
Total	Rp1.730.403.500
<u>COGS</u>	
Inventory, 1 Juli 2014	Rp 23.755.000
Purchasing	Rp 1.598.313.000
Inventory, 31 Januari 2015	<u>(Rp 221.172.500)</u>
COGS	Rp1.400.895.500
<u>EXPENSES</u>	
Salary Expense	Rp34.300.000
Electricity Expense	Rp15.600.000
Telephone Expense	Rp 6.400.000
Other Expenses	<u>Rp 702.500</u>
Total	<u>Rp 57.002.500</u>

Net Income	Rp 272.505.500
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Source: Setia Abadi (data processed)

From the information above it can be seen, the presentation and disclosure of merchandise inventory in Setia Abadi is in accordance with Kieso (2011: 458) which explains that inventory is usually presented in the Cost of Goods Sold Report which is part of the current year's Income Statement. On the balance sheet or statement of financial position, inventories reported on Current Assets are placed after or under receivables. The use of inventory valuation methods used by companies both the cost method and the estimated method must be stated.

### ***Internal Control of Merchandise Inventory at Setia Abadi***

Control on the Setia Abadi serves to assist the highest leadership in carrying out an assessment of the system and prosuder which aims to prevent the possibility of fraud or other irregularities, with surveillance actions carried out once a month through physical calculations by the warehouse. With the examination of the quality and quantity of inventory in the warehouse and adjusting procedures that have been determined and conducting an examination of the quality and quantity of inventory in the warehouse and adjusting the documents and accounting records that have been made. To match the existing accounting documents and records with the remaining inventory in the warehouse, Setia Abadi performs a physical calculation by recalculating the inventory.

From the information above, it can be seen that the internal control of merchandise inventory conducted by Setia Abadi, is in accordance with Assauri (2004: 176) which explains the control of inventory is to regulate the availability of an optimum level of inventory that can meet ingredients in quantity, quality and at the right time and as low as expected.

## **CONCLUSION AND RECOMMENDATION**

### ***Conclusion***

Based on the results of research and discussion on recording and management of warehouse inventory in Setia Abadi, the authors can draw conclusions as follows:

1. The recording method used by Setia Abadi in recording inventory is using the physical inventory method / periodic system which is conducted once a month, and the valuation method used by Setia Abadi in determining the cost of goods sold based on the cost method that is using FIFO (First In First Out) method, the goods that are first entered or purchased are the items that are first exited or sold
2. Management of warehouse inventory carried out by Setia Abadi by way of presentation, disclosure of inventory items presented in the financial statements are in accordance with accounting principles generally accepted in Indonesia and control of inventory availability is adequate, with physical calculations every once a month thereby reducing risk of damage or loss of goods in the warehouse
3. In the financial statements in particular the income statements presented are in accordance with accounting principles based on the company's Financial Accounting Standards and SAK ETAP.



### ***Recommendation***

From the results of the discussion that has been carried out by the author on the application of the recording and management of warehouse inventory in Setia Abadi, the writer tries to provide recommendations that if it can be useful for the company in carrying out their duties further:

1. Following the development of accounting regulations in Indonesia such as SAK ETAP will help companies to make records and manage inventory
2. Always pay attention to the completeness of the documents relating to inventory. This will be very helpful to facilitate the recording and checking of the amount of inventory owned by the company. This will also help in minimizing errors in calculating inventory.

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