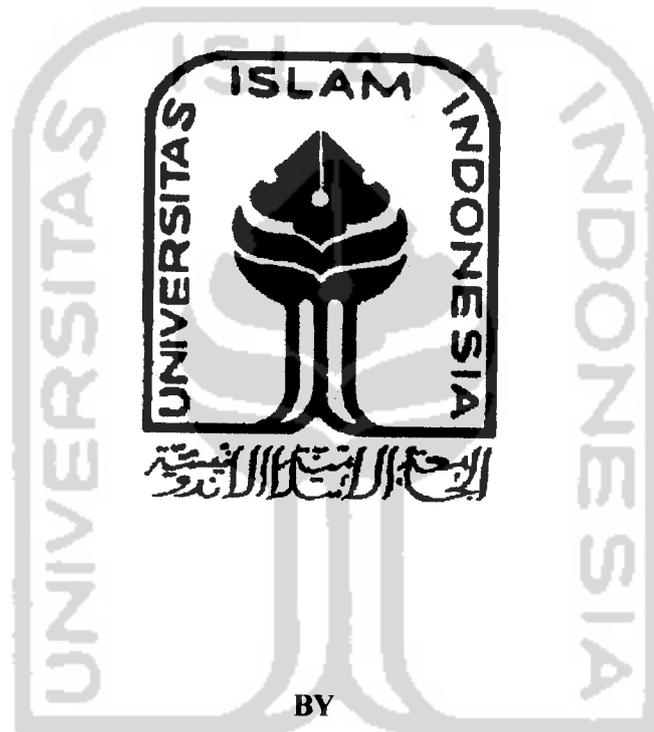


**ANALYSIS AND DEVELOPMENT OF ACCOUNTING  
SYSTEM IN A START-UP COMPANY (a case study in a  
distributor company)**

**A THESIS**



**BY**

**YULIA HELMISARI**

**98312401**

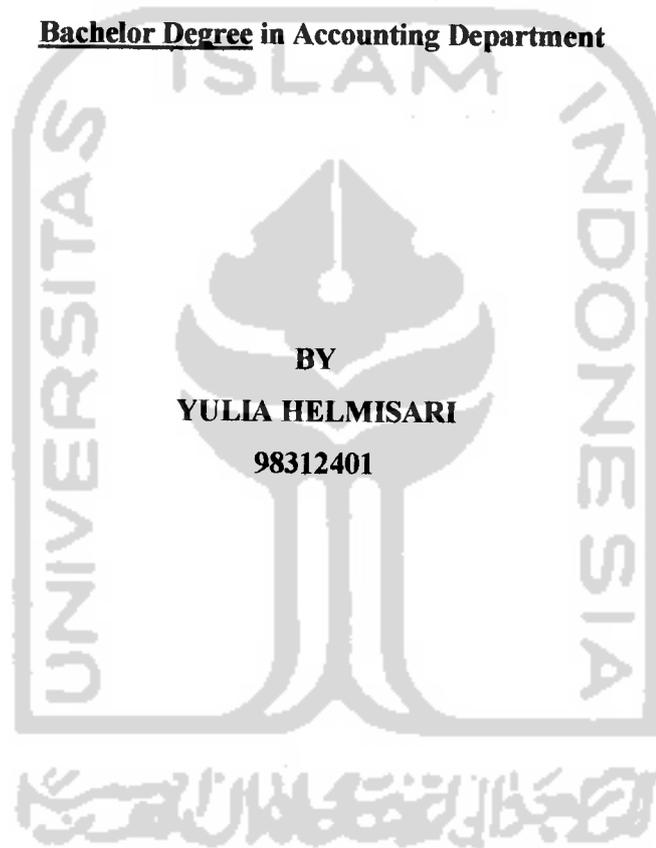
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YOGYAKARTA**

**2006**

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**Presented as Partial Fulfillment of the Requirements to Obtain the  
Bachelor Degree in Accounting Department**



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98312401**

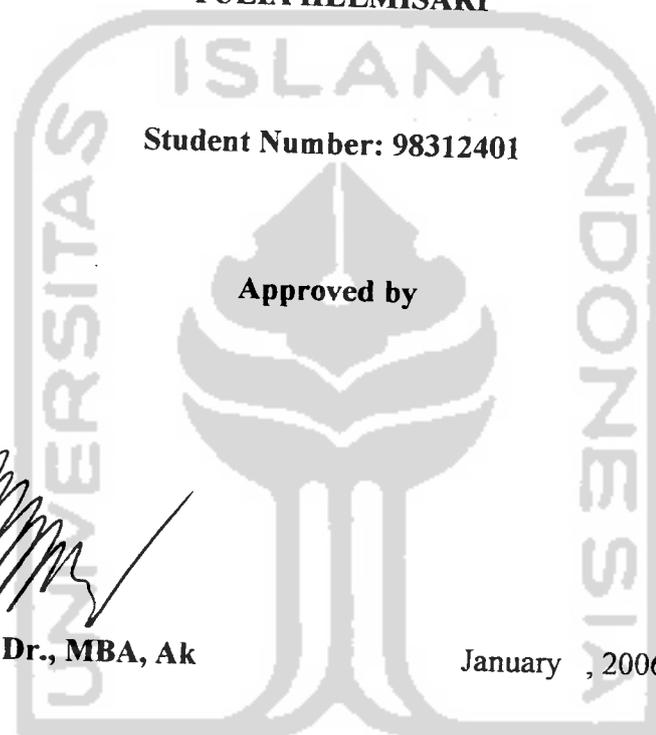
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By

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**A BACHELOR DEGREE THESIS**

**By**

**YULIA HELMISARI**

**98312401**

**Defended before the Board of Examiners**

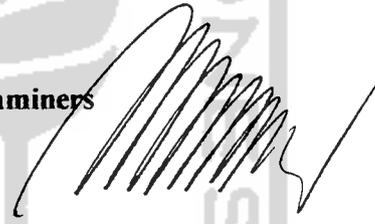
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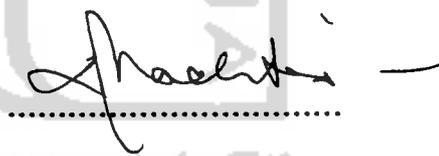
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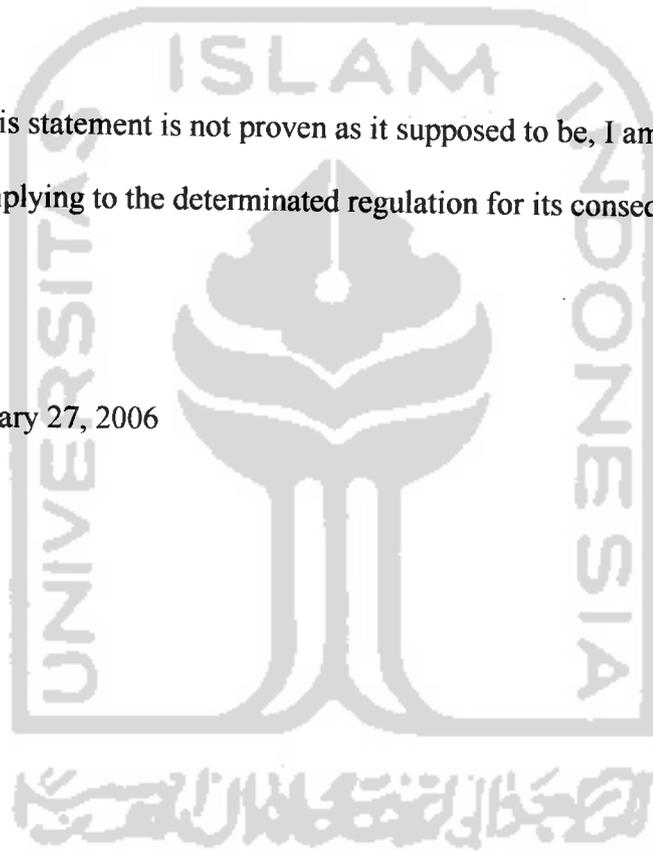
## **STATEMENT OF FREE PLAGIARISM**

Herein I declare the originality of this thesis; there is no other work which has ever presented to obtain any university degree, and in my concern there is neither one else's opinion nor published written work, except acknowledged quotation relevant to the topic of this thesis which have been stated or listed on the thesis bibliography.

If in the future this statement is not proven as it supposed to be, I am willing to accept any sanction complying to the determinated regulation for its consequence.

Yogyakarta, January 27, 2006

Yulia Helmisari



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In the name of Allah, The Merciful, God above all gods. *Alhamdulillah*, praise to Allah, Thanks to Allah I am able to finish my thesis. For both my parents, my sister *kak* Dayu, and my brother Ega, I dedicate this thesis for you all. Special thanks to Wahyu Sudrajat, SH. This thesis, perhaps, would not be exist if you not “remind” me every day☺.

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## ABSTRACT

An information system is valuable to a business in various ways, such as by improving the value of information used in managerial decision making. Information is communicated to users, such as managers, on the technical, semantic, and effectiveness levels.

This research was performed on the XYZ Company; it is a new distributor company (a representative Start-up Company). The purpose of this research is to examine the existing accounting system in a start-up company and to make recommendation for its development.

Based on analysis of data conducted, this research can help to make the company's activity more efficient and effective by applying the right accounting system.

## **ABSTRAKSI**

Sebuah Sistem Informasi adalah bernilai bagi aktifitas bisnis dalam beragam cara, seperti salah satunya adalah meningkatkan nilai dari sebuah informasi yang digunakan dalam pengambilan keputusan manajer. Informasi digunakan oleh para pengguna seperti Manajer, Orang-orang Teknis dan orang-orang dalam posisi strategis.

Penelitian ini dilakukan di Perusahaan XYZ; sebuah perusahaan baru yang bergerak dalam usaha distribusi barang (sebagai salah satu contoh dari perusahaan baru). Tujuan dari penelitian ini adalah untuk menguji sistem akuntansi yang sudah ada di sebuah perusahaan yang baru bergerak dan membuat rekomendasi untuk pengembangan lebih lanjut.

Berdasarkan analisi data yang telah dilakukan, penelitian ini bisa membantu untuk membuat aktivitas perusahaan lebih efektif dan efisien dengan cara menggunakan Sistem Akuntansi yang tepat.

# CHAPTER I

## INTRODUCTION

### 1.1 Study Background

A business firm is a system that has objectives, constraints, controls, inputs, an environment, and interdependent subsystems. Beyond a business firm lies an environment that is economic, social, technical, and political in nature. Variations in the environments of firms have impacts on resources needed and legal obligations. Three major subsystems of a firm are the organizational structure, operational system, and information system.

The organizational structure is the means by which managers direct and coordinate the firm's activities and operations. Traditional organizational structures are hierarchical in appearance. Hierarchical structures may be centralized or decentralized. The activities are often divided into such functions as finance, marketing, and personnel to gain the benefit of specialization. Alternatively, the activities may be segmented according to product lines, geographical territories, market served, or projects under development.

The operational system incorporates the primary physical processes of the firm, which add value to the products or services. Supporting processes are needed to facilitate the operations. The operational system is related to the information system, since the latter monitors the operations and triggers certain key actions.

The information system can add value in various ways, such as by improving the value of information used in managerial decision making. Information is communicated to users, such as managers, on the technical, semantic, and effectiveness levels.

The management of a company use an information system called Management Information System to run the company business. One of the subsystems of Management Information System is an accounting system. Accounting system organizes of forms, notes, and coordinates reports which provide financial information needed by management in order to manage the company. Before we further discuss accounting system, we need to distinguish between system and procedure. System is a procedure network that is made according to a compound pattern to run the company's main activities. Procedure, on the other hand, is a clerical activity step, usually involving a number of people in one department or more, to ensure that company transaction activities are uniform.

Accounting system as an information system has six (6) building blocks: input, model, output, data base, technology and control. Among those six information building blocks, the output block is the deciding factor in creating other building blocks. The architect who designs the blocks is known as a System Analyst.

The purposes of developing accounting systems are:

- a. To Provide information to new business management
- b. To assess and improve the existing information system.

- c. To improve the reliability of accounting information and provide complete records of company's asset responsibility and protection.
- d. To reduce clerical cost of providing the accounting records

The accounting system records financial transactions as well as having a big role in running the company's business. The XYZ\* Company as a new company running in the service sector needs knowledge as to whether its present accounting system has fulfilled its needs, and how to develop the system when the company grows. Based on this, the writer conducted research with the title:

**“The Analysis and Development of Accounting System in a Start-Up Company”**

### **1.2 Problem Identification**

Has the present accounting system fulfilled the company's needs?

### **1.3 Problem Formulation**

This research is formulated as follows:

1. What is the Accounting System implemented by distributor company?
2. What are the weaknesses of the system?
3. How to develop the Accounting System in a Start-up Company?
4. What is the benefit of the system to this company?

#### **1.4 Research Limitation**

This research took the XYZ Company; focusing on their accounting system as an example of a Start-up Company.

#### **1.5 Research Objectives**

The objectives of this research are to find out whether the present accounting system implemented is feasible or not, and what is the appropriate accounting system they should use if the company grows.

#### **1.6 Research Benefits**

- Hopefully this research can be useful to the XYZ Company as an input about accounting systems in a new or Start-up Company.
- For the writer, this research was useful in broadening her knowledge about the accounting information system especially the implementation of the accounting system in a Start-up Company.
- The research can be used as a reference for similar research, and hopefully add to existing knowledge of academics, lecturers, and students in the field.

### 1.7 Definition of Terms

- A case study is a direct observation process conducted on a company or institution in order to obtain the data needed, which is then used to establish the report, analysis and conclusions.
- System is a procedure network that is constructed according to a compound pattern to run the company business. (Mulyadi, 1993)
- Information is the process of data, which is to become useful and priceless company stakeholders.
- “An Information System is a system in an organization which meets the needs of daily transaction process, supports the operation, has managerial characteristic and strategy activity of an organization and provides necessary reports to other parties.” ( Robert A. Leitch/K. Roscoe Davis, Accounting Information System, New Jersey: Prentice-Hall, 1983: 6)
- Accounting is a process of recording, classifying, summarizing and reporting of company’s transaction activity. (Jogiyanto, Design & Analysis Information System, 2<sup>nd</sup> edition, ANDI, 2001: 17)
- Accounting System is an organization of forms, notes, and coordination of reports which provides financial information needed by management in order to manage the company. (Mulyadi, 1993)

## **CHAPTER II**

### **REVIEW OF RELATED LITERATURE**

#### **2.1 Theoretical Review**

##### **2.1.1 The Accounting Information System: Concept, Definition and Quality**

According to J. W. Wilkinson and Cerullo (1997), “accounting may be viewed as financial information needed for the overall functioning of an entity (such as a business firm)”. It is because accounting is the “language of business”: it provides the means by which the key affairs of a business firm are expressed and summarized.

“A system is a unified group of interacting parts that function together to achieve objectives and purposes” (J. W. Wilkonson&Cerullo, 1997). Each system has a boundary that separates it from its environments. Most systems are open, in that they accept inputs from their environments and provide outputs to the environments.

According to Gordon B Davis (1974), “information is data that had been process into something that is useful to the users and clear or a value that is useful for neither present decision making nor future”. The difference between data and information, data is a fact, which could be or could not be process and not directly affected to its users. Vise versa with Information; it causes the users do an act.

“An Accounting Information System is a unified structure within an entity, such as a business firm, that employs physical resources and other components to

transform economic data into accounting information, with the objective of satisfying the information needs of a variety of users” (J. W. Wilkinson & Cerullo, 1997).

Good information has certain required qualification. According to Widjajanto (2001) there are certain aspect needs to be counted in making good quality information. There are:

1. Accuracy

Accuracy is the comparison between the correct information to total information resulted in one period. The accuracy measured is varying, and it depends on the character of the resulted information. The more critical the information character, the higher the level of accuracy needed. For example, precious metal and electronic goods have a high character of information, so a mistake in recording would create great losses.

2. Timeliness

Timeliness is an activity to provide information when a transaction happens or when the information is needed. It covers the change for the competitors to make better decisions faster. Faster decision making, although possibly incorrect, are considered more efficient than taking a longtime to make the right decision. On the other side, we need a longer period of time to achieve high accuracy. So, a balance between accuracy and timeliness is required in order to gather optimum information.

3. Completeness

It is important for here to be a connection or relevance between information and users. Incomplete information can cause difficulties because the missing information could be important for the user's understanding.

#### 4. Conciseness

The providing of information involves summarizing data according to the user's needs and other departments that are the main focuses. A good Information System gives only brief, clear and necessary information to users.

### 2.1.2 Information System Concept

According to Malisan, Lewi (1994):

“Information System is a system in one organization that meets the need of daily transaction process, supporting operation, has managerial characteristic, and it is the strategic activity of an organization providing necessary reports to outside parties. Definition of Information System with computer basis is a group of hardware and software which are designed to change data into suitable information as needed by users”.

Simply, Information System can be viewed as a group of components that function to process data in certain ways that result in several type of information. The main component of a computer is the data processing unit, also known as CPU (Central Processing Unit). Beside the CPU, a combination of procedures have the function of arranging CPU work also needed in processing data into information known as programs.

Physically, an Information System with a computer basis consists of a data processing unit, data store media (hard disk), magnetic tape or optic disk, input tool (keyboard). The resulting information is shown on a screen monitor or in print using printer.

### **2.1.3 The Goal of Information System**

Information System in every organization should be based on organization needs. The specific goal of an information System could be different from one company to another. However, there are three main general goals for all systems, they are:

1. To support management stewardship. Information System provides information about the use of sources to external users through traditional financial reports and other requested reports. Internally, management receives management information, in the form of reports, from other departments.
2. To support management decision. Information System gives a manager of information what they need in order to take the responsibility of decision making.
3. To support company's daily operation activity. Information System provides information to operation's personnel to help them to efficiently and effectively do their jobs everyday.

#### **2.1.4 Accounting System Concept**

“An accounting system is the organization of forms, notes, and reports coordinated to provide financial information needed by management in order to make easy running the company” (Mulyadi, 1993).

From above definition we can see that the main elements of the accounting system are forms, reports and notes that consist of journal, general ledger and subsidiary ledger. The definitions of the element are as follows:

##### **1. Forms**

A form is a document used to record transactions. Forms are often called Documents, because company activity (transactions etc.) is documented onto them. Forms are often also called Media, as they are the media for which to record event(s) into organized notes. Forms and the related data in the transactions are first recorded as basic notes and then transferred to organized notes. Examples of forms are: sales invoices and check. On a sales invoice, for example, data is recorded about the buyer's name, buyer's address, kind and quantity of the goods, the price, authorization, etc. The sales invoice can also be used to document the sales transaction. Information on sales invoices will be recorded in a sales journal and

subsidiary ledger. Thus, the sales invoice is a recording media for a journal and a posting media into subsidiary ledger.

The initial records of financial transactions in accounting system tend to be taken manually in paper form. A computerized accounting system uses various kinds of media to input data to the data processing system such as: keyboard, optical and magnetic characters and code, mice, voice, touch sensors.

## 2. Journal

A journal is the first accounting record used to record, classify and summarize financial data and other data. As mentioned above, the source of recording information in a journal is form. Initially financial data in a journal will be classified according to its particular transaction. A journal also summarizes data activity which is posted to an account in the general ledger. For example there is a cash received journal, sales journal and general journal.

## 3. General Ledger

A general ledger consists of accounts that are used to summarize financial data which has been recorded in the journal. Accounts in the general ledger are based on information of elements that are provided in the financial reports. This general ledger account on the one hand can be

viewed as a media to classify financial data; on the other hand it can also be viewed as the source of financial information for financial reports.

#### 4. Subsidiary Ledger

If classified financial data in general ledger need further specification, then a subsidiary ledger is needed. This subsidiary ledger consists of subsidiary accounts that specify financial data in certain accounts in the general ledger. The general ledger and the subsidiary ledger are called books of final entry, which means there are no more records after the accounting data has been summarized and classified into the general ledger accounts and the subsidiary ledger.

#### 5. Reports

The final process of accounting is financial reports. A financial report could be about bookkeeping, retained earnings report, profit loss report or any report that contains information from accounting system output. Reports could be in computer print and display in computer screen.

According to Gelinas and Oram (1996), "The Accounting Information System is divided into components based on the operational functions supported". The components are called as The AIS Applications or AIS Subsystems.

##### 1. The Order Entry/Sales (OE/S) System

It is an interacting structure of people, equipment, methods, and controls that is designed to achieve certain goals. The primary function of the OE/S system is to create information flows that support the following:

- Repetitive work routines of the sales order department, the credit department, and the shipping department
- Decision needs of those who manage various sales and marketing functions. The marketing functions are: First, the OE/S system supports the repetitive work routines of the sales order, credit, and shipping departments by capturing and recording sales-related data. Second, the OE/S system supports the decision needs of various sales and marketing managers.

2. The Billing/Accounts Receivable/Cash Receipts (B/AR/CR) System

It is an interacting structure of people, equipment, methods, and controls designed to create information flows and records that accomplish the following:

- Support the repetitive work routines of the credit department, the cashier, and the accounts receivable department
- Support the problem-solving processes of financial managers
- Assist in the preparation of internal and external reports

3. The Purchasing/Accounts Payable/Cash Disbursements System

It is an interacting structure of people, equipment, methods, and controls that is designed to accomplish the following primary functions:

- Handle the repetitive work routines of the purchasing department, the receiving department, the accounts payable department, and the cashier
- Support the decision needs of those who manage the departments listed in above item
- Assist in the preparation of internal and external reports

#### 4. The Inventory System

It is an interacting structure of people, equipment, methods and controls that is designed to achieve certain goals. Its primary functions is to create information flows that:

- Support the repetitive work routines of the inventory control department
- Support the decision needs of those who manage the warehouse and the inventory control department
- Assist in the preparation of internal and external reports

#### 5. The Human Resources Management System

It is an interacting structure of people, equipment, methods and controls. The system performs five important roles:

- a. Captures, records, and stores data concerning personnel and payroll activities
- b. Generates a variety of personnel and payroll forms and documents
- c. Prepares a number of management reports
- d. Prepare various governmental reports
- e. Assist in the preparation of external financial statements

6. The General Ledger/Financial Reporting (GL/FR) System

It is an interacting structure of people, equipment, methods, and controls that is designed to accomplish both operations system and information system functions. Unlike the other AIS applications, the GL/FR system has fewer operational functions; it focuses mainly on information functions.

○ The General Ledger (GL) subsystem comprises of :

- Accumulating data, classifying data by general ledger accounts, and recording data in those accounts

- Fueling the financial reporting, managerial reporting, and other reporting subsystems by providing them the information needs of the managerial reporting subsystem, the GL subsystems interacts with the budgeting system.

- The Financial Reporting (FR) subsystem concerned with the following:
  - preparing general purpose, external financial statements (e.g., the balance sheet, income statement, statement of owners equity changes, and cash flow statement)
  - ensuring that the external financial statements conform to GAAP; therefore, among other things, the statements must contain appropriate footnote disclosures

#### **2.1.4.1 The Different Definition of System and Procedure**

To have a better view of various system that resulted many kinds of forms processed in accounting system, we need to distinguish the different definition of system and procedure when talking accounting system. “System is a procedure network made according to unified pattern to do main company activity” (Mulyadi, 1993). Meanwhile “procedure is a clerical activity order, usually involving few or more people in one department or more, and made to guarantee the uniformity in handling repeated company’s transaction” (Mulyadi, 1993).

#### 2.1.4.2 Main component of Information System

Accounting system is one of the various information systems used by management in running the company. Every information system consists of building blocks to make the system. Just like a house, information system has main component to make the structure of information system building. Information system component building consists of six blocks (called information system building blocks): input, model, output, technology, data base, and control. The architect who designs the blocks is known as a system analyst. Below is the definition of each block:

##### 1. Input Block

Input is the entry data in the information system with methods and media used to “catch” and enter the data into the system. Input consists of transaction, request, question, order, and instruction. Generally the input has to follow rules and certain form or shape about contents, identification, authorization, position order, and its processing. The way to enter the input into the system could be in hand writing, paper form, introductory of physical characteristic like finger prints, keyboard, etc.

##### 2. Model Block

Model Block consists of logico-mathematical models which process input and stored data to produce expected results or output. The Logico-mathematical model could combine data elements to provide the answer

of a question, or could combine, or summarize data to become one short report.

### 3. Output Block

Output is a product of the information system that is of quality and can be represented in document form for all management levels and all information users (including internal users and users outside the organization). The output of a system is main factor determined other blocks of the information system. If the output from the information system is not suitable to the needs of information users, the design block of input, model, technology, data basis, and control will be of no benefit.

Accounting system output could be a financial report, an invoice, a check, a message, etc. Qualities that must be present in information system output are: accuracy, timeliness and completeness.

The information system output uses media such as screen, printer, audio tool and microfilm. Generally, the accounting system output can be in print from a printer or be displayed on a computer screen monitor.

### 4. Technology Block

Technology is like an engine running the information system. It takes input, running model, stored and access data and also controls the whole system. For an information system with a computer basis, technology

consists of three components: computer and auxiliary storage, telecommunication, and software.

#### 5. Data Base Block

Data base is a place to store data which is used to serve the needs of information users. Data base could be looked at from two points of view: physically and logically. Physically data base is a media to store data, such as on magnetic tape, chip, microfilm, and disk. Data base is real physical place to store data. The most important thing is not what types of physical data are stored, but how to look, combine, and take the stored data fulfill the user's special needs. That is why, data base can be viewed as logically structuring storing data in order to guarantee the accuracy, timeliness and completeness of information to fulfill user's needs.

#### 6. Control Block

All information system have to be protected from disaster and threat, natural disaster, fire, system failure, cheating, inefficiency, sabotage, mistake and black out, people whom pay for crime, etc. strategies need to constructed to guarantee safety, integrity, and the smooth running of the information system. The following is a number of such possible strategies:

- a. The use of notes process system.
- b. Accounting application control.
- c. Development of main information system construction.

- d. Making of emergency planning in order information system failed
- e. Application of employee selection procedure.
- f. Making of complete document about information system used by the company.
- g. Protection from fire disaster and broken electric circulation.
- h. Making of support system to anticipated present used of information system failure and making of data stored place outside company as backup.
- i. Making of security procedure and the use of security tools to access control inside the information system.

#### **2.1.4.3 Accounting System in Company**

To handle main company's activity, generally accounting system design consists of:

1. Main Accounting System
2. Account Receivable System
3. Account Payable System
4. Salary and Wages Accounting System
5. Cost Accounting System
6. Cash Accounting System
7. Supply Accounting System

## 8. Fixed Assets Accounting System

Many of the systems above resulting document used in accounting notes as bases notes.

### **2.1.4.4 Main Goals of The Accounting System Development**

The main goals of the accounting system development are as follow:

1. To provide information to the new business activity management
2. To fix information obtained from the existing system, including quality of timeliness and information accuracy.
3. To fix accounting control and internal checking, that is to fix the reliability of accounting information and to provide complete notes of responsibility and company's assets protection.
4. To decrease clerical cost in accounting notes activity.

### **2.1.4.5 Accounting System To Run The Business**

The accounting system is often viewed as only having the purpose of recording past business transactions. This is wrong; the accounting system also has the important role of helping management to run the company's business. The accounting system is a tool used to running the company's business. Below are the examples of the accounting system:

### **Cancelled Check**

Cancelled check is different to a voided check. Cancelled check is a re-received check by the check issuer through the banking system, after the check is used as a payment tool. A voided check is a broken check and cancelled by the check issuer as a payment tool. Because cancelled check is eventually returned to the issuer after the receiver has cashed it, the cancelled check can be used as proof of payment by the check issuer. The return of the cancelled check in the banking system to the check issuer after the check has been used for payment helps to smooth payment transaction in society. Figure 2.1 will describe how banking system return cancelled check to check issuer.

In Indonesia cancelled check does not return to the check issuer, but is saved in check issuer's bank. So, the banking system in Indonesia does not give the proof of payment to check issuer, therefore, the person whom received payment should make a receipt as proof of payment. This kind of banking system puts an obstacle in the way of payment transaction within society; it does so in two main ways:

1. The party or person whom makes payment with check does not have any guarantee of acquiring proof of payment through the banking system. Thus, if one company makes a payment to a supplier, the company should make a receipt first as proof of payment to the supplier, before the company hands the payment check to the supplier. This is done by companies as a guaranteed that

the proof of payment will be received. The consequence of this kind of banking system is that the documenter's proof of transaction payment does not tell the actual event. The supplier hand over the receipt of payment to the company before the check is actually received from the company (payer).

2. The receiving party or person must be bothered to make documenter's proof such as a receipt of received payment from the party or person who made the payment.

### **COD sale**

Cash on Delivery sale (COD sale) is different to over-the-counter sale. Over-the-counter sale is a selling system by which the buyer comes to the company, chooses the goods, makes payment for the goods at the cashier, and receives the goods. Figure 2.2 describes the selling goods with the over-the-counter system.

According to the over-the-counter sale system the buyer should come on their own to the market to choose goods and make the payment, therefore, this sale system is not equipped to serve buyer from a far geographical distance. A sale accounting system with COD sale can be used to break that kind of problem so the market can open up to reach buyer in other towns and even islands. COD sale is a sales system often used by companies in Indonesia. Figure 2.3 describes goods sale system using COD sale.

To maximize the COD method of sales, the seller sends catalogs to the candidate buyer. Buyers then choose the necessary goods through catalog and order the goods by returning the order form provided by the seller via post office. The seller then sends the ordered goods to the buyer via post office using COD sale. In the case of shipments of goods by COD system, the post office will treat the shipment differently to regular shipments. When sending goods by COD sale, the sender post office will send the goods to a receiver post office with a COD sale form. The receiver post office will send a notification letter to the buyer that they have a package, and that they can get it from the post office. The price of the goods will be inside the notification letter, so that the buyer can pay the amount to the receiver post office upon pick-up of the package (shipment). The receiver post office will send the money received from the buyer for the goods to the seller via the sender post office. With this kind of sales system (COD sale), the seller and the buyer get the following guarantees:

1. Buyer is guaranteed to receive ordered goods upon payment.
2. Seller is guaranteed to receive payment from the buyer after the buyer receives the goods.

following applications are available with most of the basic accounting software packages:

1. A perpetual inventory system can be developed by using an inventory program. This allows better evaluations of turnover and reorder points and reduces the need for frequent periodic inventory taking.
2. A chart of accounts can be created by using a basic general ledger package. All accounts for the balance sheet, income statement, capital evaluation reports, and subsidiary ledgers can be controlled and monitored. The chart of accounts can also be used to segregate cost centers and functions and product line and departmental reports.
3. Several applications are possible by using the various spreadsheets. The most popular are budgets, pro forma statements, and cash flow estimates. The use of these applications with sensitivity analysis is very helpful to most companies.

Computerizing a small business system does not require the formality of a large system with a mainframe computer, but it does require proper planning.

#### **2.1.5.2 Systems Analysis and Design**

The existing system should be examined in order to understand exactly how it is currently functioning. Operating activities may need to be changed

before any attempt is made to computerized the existing system. During this phase of evaluation, a list of changes should be made, along with any additional controls that will be necessary for the new system.

After the analysis has been made, the changes and controls must be evaluated to determine what improvements are essential before the new system is implemented. Generally, only the most serious weaknesses are corrected during the initial installation phase of the new system. The other improvements are made as the system becomes operational so as not to cause major disruptions to the system in the future.

Next, the software packages best suited for the immediate needs are selected. The more popular packages are available for most hardware configurations; therefore, concentrate on software first and hardware second. After the software needs are determined, the appropriate hardware is then selected.

After the basic package has been assembled, a meeting of the users to get their ideas about the proposal is usually beneficial. Priorities are often changed during such sessions, and new ideas are developed that will help improve the system.

### **2.1.5.3 Business Software and Applications**

#### **2.1.5.3.1 Transaction Processing Network**

According to J. R. Davis, C. W. Alderman, and L. A. Robinson (1986), “the goal of small organizations generally is to have all financial transactions processed in a common network. In most system this network is centered on the general ledger system, with a basic transaction register or journal, a detailed and summary trial balance, an income statement, and a balance sheet”. The basic general ledger system in most organizations comprises: (1) a chart of accounts; (2) a set of master file records; (3) a transaction register or journal; (4) a detailed listing of all transactions; (5) automatic interface with other systems such as accounts receivable, payroll and inventory; and (6) a set of reports such as trial balance, departmental accounting statements, and comparative financial statements.

#### **2.1.5.3.2 The Accounts Receivable System**

This report includes the vital characteristics of credit limit, year-to-date activities, and current balance. The amount of detail and information in such a system can be determined by the organization, although many of the features are preprogrammed. The overall general ledger system ties the activities of the accounts receivable system with the general ledger accounts receivable master file, the inventory and sales accounts, and the operating cash account. This greatly facilitates the reconciliation process at the end of each period between

cash receipts and the changes in the general ledger accounts receivable and sales files.

Also integrated with the accounts receivable system is a periodic aged receivables report. This report provides management with an analysis of the collection process and aids in controlling sales to delinquent customers.

For billing purposes, by simply entering the customer number and sales information, the invoice program creates an invoice with all the necessary details concerning the customer and the sales transactions. At the end of each month, the system also generates statements for all customers. These two reporting features are great time-savers in most small organizations, where these activities are normally performed manually.

#### **2.1.5.3.3 Financial Modeling**

Another popular application of microcomputer system is modeling of the various financial functions of the organization. So, it will be easy to determine cash flow.

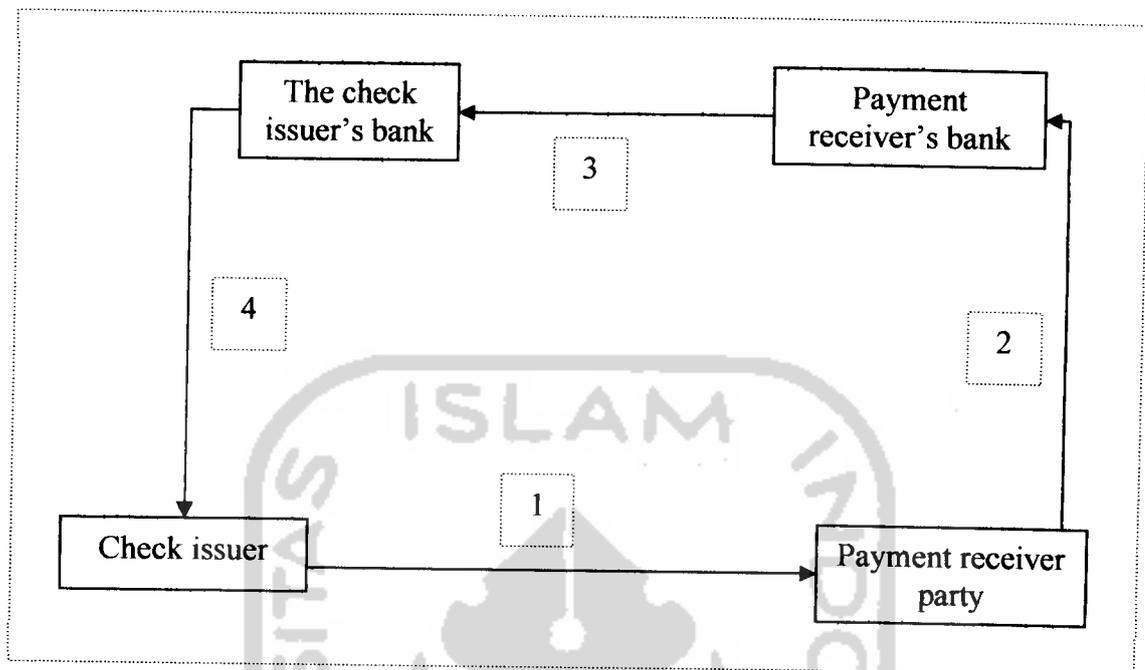


Figure 2.1

Payment system through the banking system of returned Cancelled Check to the issuer.

Explanations:

1 = check issuer sending check to payment receiver

2 = the payment receiver signs the check and deposits it to the bank

3 = check clearing

4 = the check issuer's bank returns the cancelled check to the check issuer as a proof of received payment

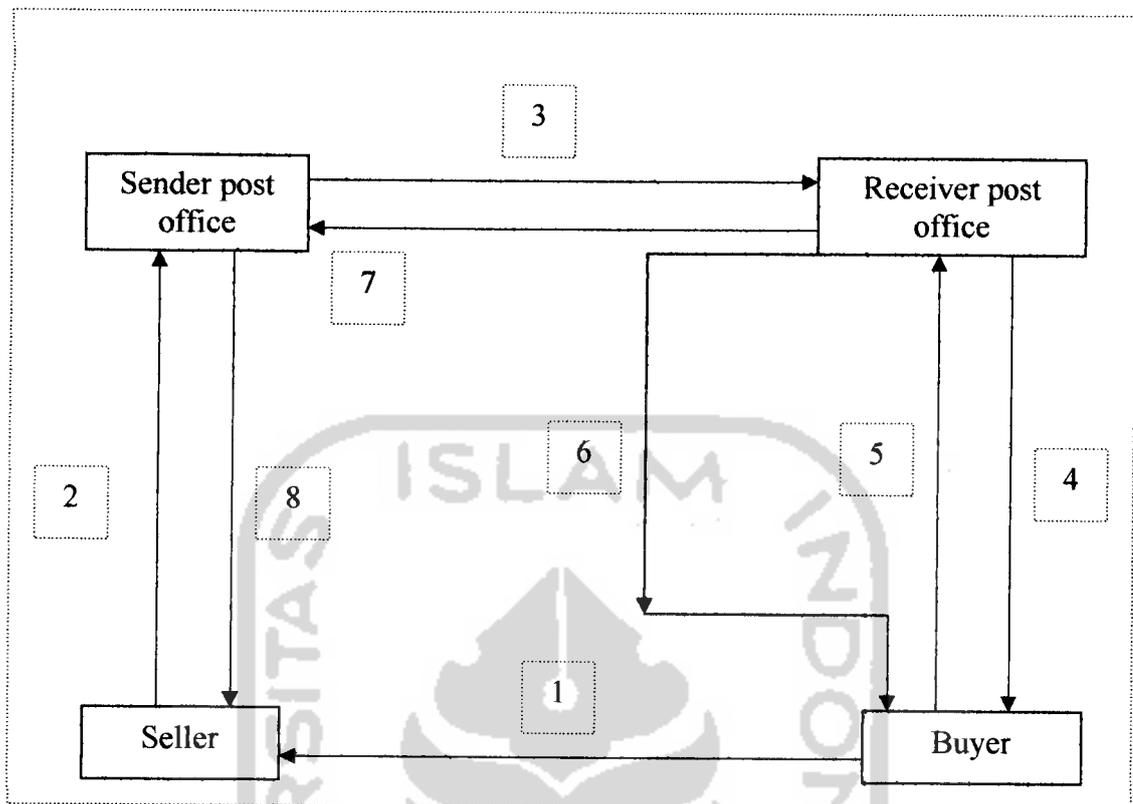


Figure 2.3

### Goods selling system through Cash on Delivery Sale

#### Explanations:

- 1 = buyer ordered goods
- 2 = seller sent goods via post office with COD
- 3 = sender post office sent goods via receiver post office
- 4 = receiver post office sends COD notification to the buyer
- 5 = buyer pays for the goods via receiver post office
- 6 = receiver post office hands goods over to buyer
- 7 = receiver post office sends money to sender post office
- 8 = sender post office sends the money to seller

## **CHAPTER III**

### **RESEARCH METHOD**

#### **3.1 Introduction**

This chapter presents the technical details of the data analysis and the method used by the researcher

#### **3.2 Research Method**

The research method used by the researcher is descriptive comparative method. According to Emory (1980), “the descriptive method is a research that concerned on finding out who, what, where, when, or how much”. Umar (1999) divided a descriptive method into several studies, such as: case study, survey and development research, follow up study, content analysis, trend analysis and correction analysis. “The description method is a research method that presents an overview of a certain condition and situation” (Supardi, 2005). “A case study is a kind of a descriptive method that systematically explains about an object in a specific time and condition” (Bill Gillham, 2000).

The researcher conducted research method to obtain the data needed to support the researcher to analyze and developing the existing company system, such as: company profiles, activities and products of the company, and the

accounting system of the company. to support the researcher in analyze and develop the existing system in the company.

### **3.3 Research Subject**

The subject of this research is the accounting system of the XYZ Company. This system will be analyzed by the researcher supported by data obtained from direct interview of company employees and observation of the company.

The researcher will analyze the differences between two systems: the existing system in operation by the company, and the accounting system developed and recommended by the researcher.

### **3.4 Research Instrument**

The researcher obtained the data through the internet and written literature as well as through direct interview with company employees and observation of the XYZ Company. The data was limited since the accounting system of the company provided only limited information.

The instrument used in this research is Accounting Information System.

According to J. W. Wilkinson & Cerullo (1997):

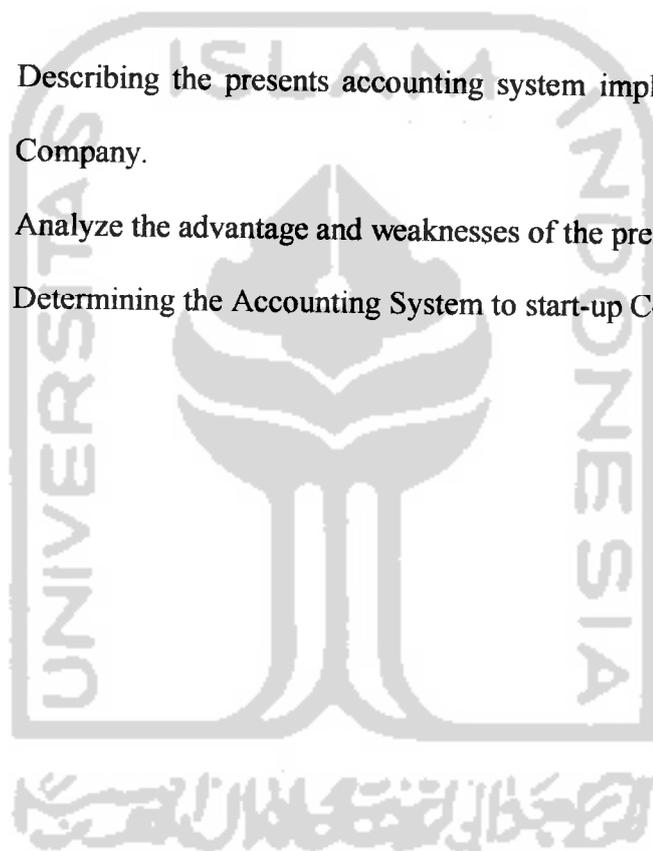
”An Accounting Information System is a unified structure within an entity, such as a business firm, that employs physical resources and other components to transform economic data into accounting

information, with the objective of satisfying the information needs of a variety of users”.

### 3.5 Technique of Data Analysis

This research uses quantitative approach in analyzing the case. After all data were obtained, the researcher analyzed the data. The steps in analyzing are as follows:

- a. Describing the presents accounting system implemented in XYZ Company.
- b. Analyze the advantage and weaknesses of the present system.
- c. Determining the Accounting System to start-up Company.



## **CHAPTER IV**

### **COMPANY PROFILE, ANALYSIS AND FINDINGS**

#### **4.1 Company's Brief History**

The XYZ Company was established in Jakarta on November 5<sup>th</sup>, 2004.

The XYZ Company business is book distributor. It was founded by Valentino Dinsi (company CEO) and Sugiarto Singgih (head of finances and administration). They only had two permanent employees when the XYZ Company was first established. Meanwhile the company had several freelancers marketing.

At the time of this research, the company had ten (10) permanent employees, as well as one freelance graphic designer, one information technology consultant and one finance consultant. As a distributor company, right now XYZ Company has ninety (90) business partners. It consists of distribution company, book store, employees cooperation store, bakery, management of mosque, institution of entrepreneur education, internet shop, and direct selling done by the freelancers.

At present the company is trying to add their market area. This is done by adding new product and business connectors. The company hopes to become like Unilever Company in the future; creating new products, distributing many goods and services, and becoming a market leader in distributing.

## **4.2 Organizational Structure and Job Description**

### **4.2.1 Organization Structure**

In order to achieve organization goals, good and accurate management is needed for the company's life continuity. Figure 4.1 is the organization chart of XYZ Company. The chart of the organization structure is the most practical among other chart of organization structure because it is used straight line.

The XYZ Company used line organization structure chart for the structure. Through the figure we can see that the employees of each department directly responsible to the supervisor and each supervisor directly had responsible to the manager. The leader could directly given order to the subordinate.

### **4.2.2 Job Description**

Below are the roles, responsibilities and authority of each function in XYZ Company:

#### **1. Board Of Director**

Is the owner or stockholder

- a. Functions as investor and supervisor of company's work from time to time.

- b. Make decisions based on quarterly financial report submitted by Management.
- c. Develop the company's financial profile by searching out investors, and buying & selling assets.

## 2. General Manager

Acts as the management commander.

- a. The function is to determine the company's strategy in general.
- b. Supervise existing departments through meeting held every week and early every month.
- c. Discuss existing problems, project achievement reports that are in progress from month to month. Also to supervise input and output cost, discussing next move in short term and long term according to the short and long term targets.

## 3. Operational Manager

Acts as head of Operational Department.

- a. Functions as a supporter of Finance Department activities.
- b. Operational Department should know all activities inside the company.

- c. Directly give responsibility to General Manager (GM) for daily company activity of all general activities.
- d. Operational department also has function as company's keynote speaker to external parties such as suppliers and those related to running company business.
- e. Works together with finance department in income prediction to finance company's operation and increase company's assets.

#### 4. Finance Manger

Acts as head of finance department

- a. Functions as a supporter of Operational Department's activities.
- b. Measures total of income accurately, either from distribution channels or others.
- c. Controls to invoicing and ordering of goods from distributor channels.
- d. Make financial reports in early every month.
- e. Directly responsible to General Manager (GM).

#### 5. Finance and Administration Department

- a. Manages company finances.
- b. Balances bookkeeping and budgeted expenses with estimation of expense.

- c. Controls the company inflow and outflow finance.

### **4.3 Accounting Information System**

#### **4.3.1 General System Design**

The Accounting System in XYZ Company still uses manual system. Although they already have computers, not all the accounting system is yet computerized. The company has not yet applied specific accounting system in their daily business either. Figure 4.2 is a flowchart representing the activity of the XYZ Company.

#### **4.3.2 Accounting System Components**

##### **4.3.2.1 The Order Entry/Sales (OE/S) System**

Since the XYZ Company is a new business, they do not have a special department for sales yet. The sales system is still handled by the Administrative Department. The XYZ Company receives Purchase Order (PO) if the sales order is from medium and large stores. However, the company just receives sales orders via telephone.

##### **4.3.2.2 Billing/Accounts Receivable/Cash Receipts (B/AR/CR) System**

There is no shipment department yet in this company. Shipments are usually done by the Operational Department. Customer received sales invoice

from the Operational Department whom made by Administration Department. Then either cash payment or payment on account is reported to the Finance Department.

#### **4.3.2.3 Purchasing/Accounts Payable/Cash Disbursements System**

Since the XYZ Company is a distributor company, there is no need for purchases. However they get fees for distributing goods. The accounts payable appear from other transaction. When they appear, the Operational department will report it to finance department.

#### **4.3.2.4 The Inventory System**

The inventory in XYZ Company is controlled by the Operational Department. When the XYZ Company received goods, they will be handled by the Administration Department for recording, and then handed onto the Operational Department.

#### **4.3.2.5 Human Resources Management System**

At the time of this research the XYZ Company had no Human Resources Management System. Since human resources in this company were

still in small quantity at the time of research, the company manually managed the Human Resources Management System.

#### **4.3.2.6 General Ledger/Financial Reporting System**

The Financial Report in this company was not available to external parties at the time of this research. There was no special application to control the general ledger and financial reporting.

### **4.3.3 Information System Components**

#### **4.3.3.1 The Input Block**

At the time of research, most of the input data methods used by the XYZ Company were manual. Therefore, when transactions occurred the Administration Department manually directly recorded the data in the system application.

Media used to record transactions were keyboard and mouse. Keyboard is use to record every detail of transactions. Mouse is use to make operation easier.

Input data sources that result from sales transactions documents are: order form (made by the third party), invoice and stock sheet (the latter two are used by the XYZ Company).

#### 4.3.3.2 The Model Block

The XYZ Company uses a profit and loss report with a simple logico-mathematical model: Profit/Loss = Income – Expenses

#### 4.3.3.3 The Output Block

Reports produced by the XYZ Company accounting system are:

1. Report of goods stock: information about the stock of goods in the warehouse.
2. Report of Profit and Loss: to determine whether company activity is at a profit or loss.
3. Report of source and the use of funds: information about where the financial source comes from and what it is used for.
4. Balance sheet: shows the company's equity at the end of the month.

#### 4.3.3.4 The Technology Block

At the time of research the XYZ Company used computers to run most, but not all, aspects of company business (and administration). The XYZ Company had two computers at the time of research.

The computer specification used by the XYZ Company are:

1. Printer type LX300, to print reports etc.

2. Equipment to connect one computer to another in one local network.  
Since the company only had two computers, the network was very simple. The two computers were connected in one Local Area Network (LAN).
3. Software: Ms. Windows 98 SE.

#### **4.3.3.5 The Database Block**

All data is saved in the database system (already used the Database Management System (DBMS)) to make arrangement and storing easier. Another benefit is that searching for information will be faster.

#### **4.3.3.6 The Control Block**

At the time of research the computer application did not have security facilities.

### **4.4 Analysis and the Result of the Data Analysis**

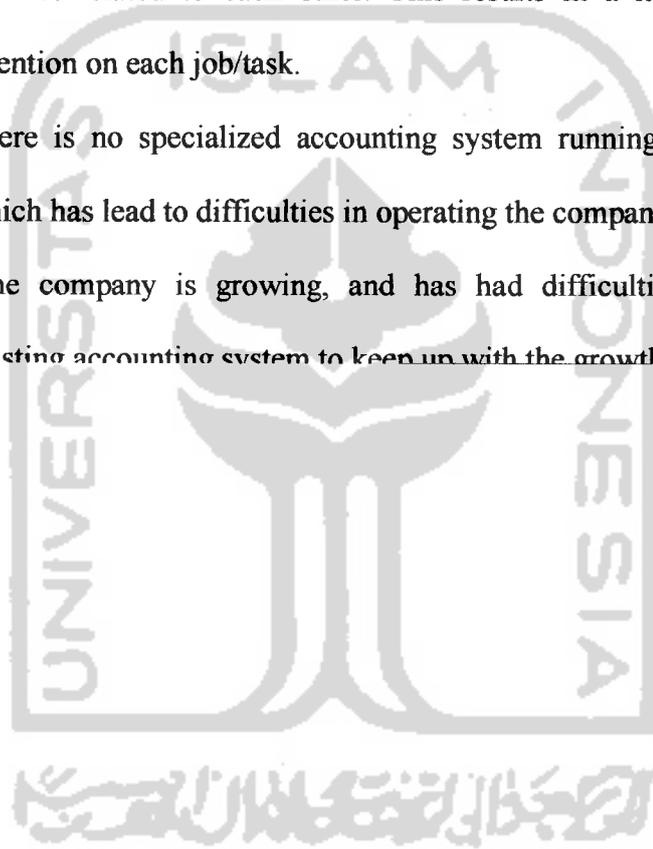
#### **4.4.1 Accounting System on XYZ Company**

Based on the general view of the accounting system in previous pages, there are several problems and weaknesses in the existing system. The first step in analyzing the existing accounting system is to identify these problems. Then the next step is to identify what factors caused those problems occur.

#### 4.4.1.1 Identification of the Problems

The problems identified by the researcher are:

1. The XYZ Company only has two departments, which means many jobs overlap. One department handles not one task, but a number of tasks that are not related to each other. This results in a lack of control and attention on each job/task.
2. There is no specialized accounting system running in this company, which has lead to difficulties in operating the company.
3. The company is growing, and has had difficulties developing the existing accounting system to keep up with the growth



2. The lack of a specialized system, especially an accounting system to run the XYZ Company has created difficulties in operation. Difficulty in operational means, it takes longer to make the financial report, arrange financial data, or find out the inventory manually. By implementing a specialized program for the accounting system like the inventory program (the basic accounting software package) it will be easier for the XYZ Company to determine the amount of inventory in the warehouse etc.

#### **4.4.2 Documents Analysis**

The analysis of documents relating to the accounting system was done by examining whether the existing documents were feasible or not as the basis records of the accounting system. Document criteria in XYZ Company were divided into:

1. The existing documents

The documents used by the XYZ Company to input data of transactions are:

1. Documents to record received goods transactions: the sales invoice from the supplier.
2. Documents to record goods distribution; sales invoice, letter of delivery, and stock sheet. The last three documents are made by

the Administration Department and then (for sales invoice and letter of delivery) authorized by the Operational Department.

2. The effectiveness of documents as an input media

The sales invoice contains the code, name, quantity and price of the goods, as well as discount, standard amount (before discount), amount of discount, and total amount (after discount). The example is in appendix.

The letter of delivery has the same content as the sales invoice. The function of the delivered letter is as an official document of proof of the shipment of goods. The example is in appendix.

The stock sheet contains the code of the goods, the date of shipment, the date of payment, the name of the buyer, the quantity of goods purchased, the price of goods (including discount and the total price of the discount), and the signature of the partner & the company. The example of the stock sheet is in appendix.

Beside the sales invoice, letter of delivery & stock sheet documents, there is a purchase order document from the company to the partner. But this purchase order is not always used by the company; sometimes the order is done informally.

The design of the documents has accommodated the needs of XYZ Company. But, it is not practical because the information needs to be manually classified many times.

### 3. The availability of document copies

There are two copies of documents of letter of delivery: one for the company and the other for the store (company's partner). The sales invoice document has three copies: one for store and two for company's record. There are no copies of the stock sheet; this document is only handled by the company.

#### 4.4.3 Information Technology Analysis

Since the XYZ Company has not applied a specialized software system to run the accounting information system, we will only analyze the hardware system.

The connection between the two computers in XYZ Company functions well. The printer also functions well and has quick respond.

The XYZ Company does not have an internet connection, so the data is secure from outside parties. Although the XYZ Company actually has needs an internet connection, most of the orders are done via phone.

In order to develop the company, the XYZ Company must have more than just two computers to run the company. This would ensure that the employees would not have to queue to use the computer, and would widen the market. It is necessary for the company to have the internet connected.

#### 4.4.4 Information Quality Analysis

##### a. Accuracy

The information data (name and the classification) saved in the computers and the physical data matched. There was no difference between data in computers and the physical data.

However, the amount of data sometimes mismatched between the saved data recorded and the physical data. This could have been because the XYZ Company still applied a manual system to record the in and out goods.

##### b. Timeliness

The financial report of the XYZ Company could not always be presented on time. This was due to the fact that the XYZ Company took a long time to make it. Meanwhile the stakeholders needed it to make decisions.

##### c. Completeness

So far, the XYZ Company recording system has followed the accounting cycle, with documented information complete. The price of goods, date of transaction etc. are all presented.

d. Conciseness

The form of document used by the XYZ Company is not concise. For example the letter of delivery document: the information contained in the document is similar with the sales invoice. Meanwhile the delivered letter function is only as proof that the goods had been delivered, and it is usually sent along with the sales invoice.

#### **4.4.5 Accounting System Evaluation**

Generally the accounting system in XYZ Company had work well even though they still had to take longer time to make all data becoming financial report.

The saved data inside computer at present could be accessed by anyone. The company should consider the security in order to save the data from other party who had bad meaning.

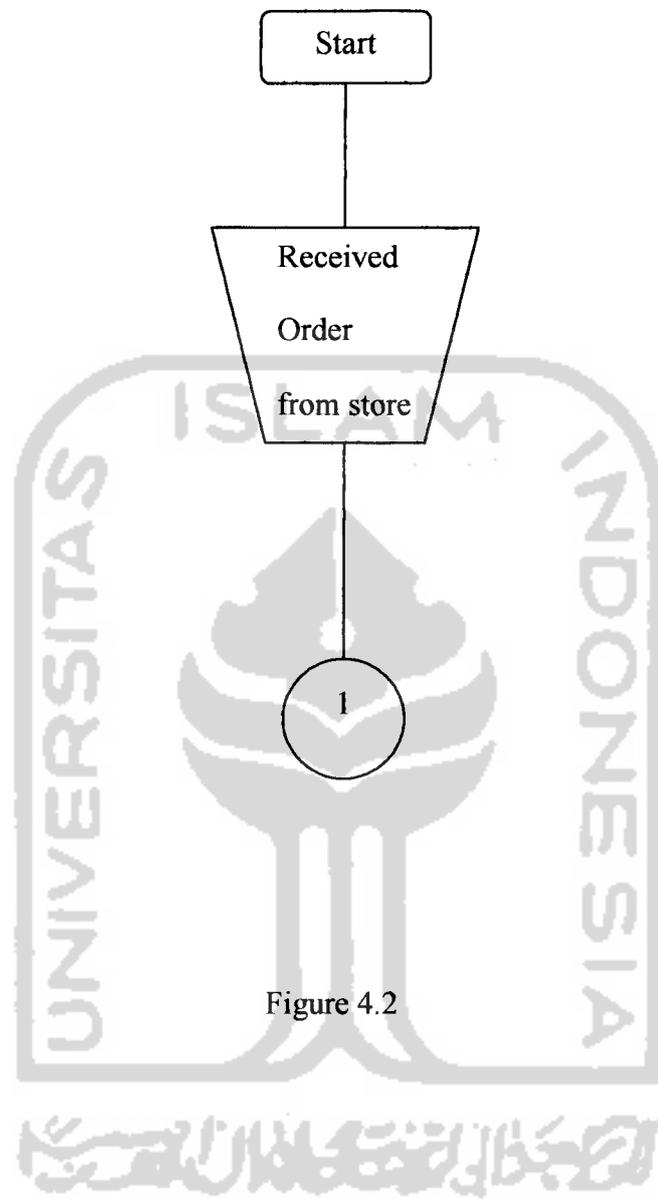


Figure 4.2

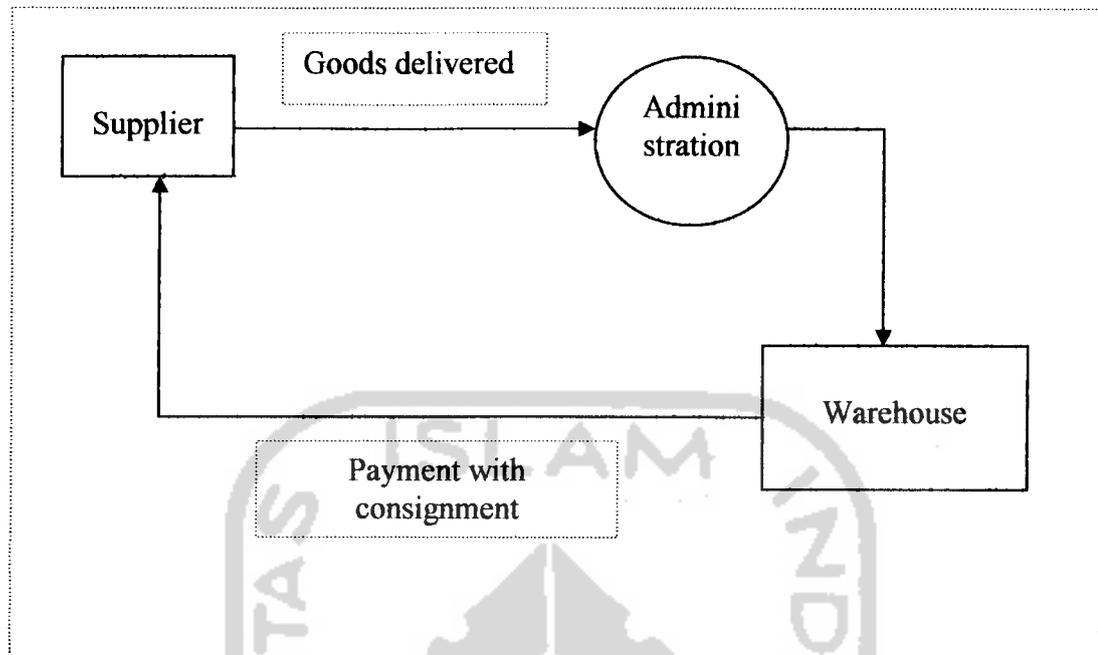


Figure 4.3

The flow of the goods from the supplier

**Explanations:**

The supplier sends the goods to the XYZ Company along with the invoice. After being checked by the company administration, goods will be handed to the warehouse. The existing system was a consignment system. The goods are authorized by Operational Department.

## CHAPTER V

### CONCLUSION AND RECOMMENDATION

#### 5.1 Conclusion

From the Accounting Information System analysis of the XYZ

Company, it can be concluded that:

1. The Accounting system in the XYZ Company is still very simple, fitting that of a start-up business. Their accounting information system produced information of low quality. It does not include the history of customers' receivable, which is crucial for the distributor company who runs business with account receivable system.
2. The company's main obstacle is that they have difficulty asking for payment from third parties. This is happened because the company does not have a system that records the history of customers' account receivable so when the company collects debt from the customer, the customer will see that the company has a good record of their payment.
3. The XYZ Company does not yet have a financial model to determine their cash flow needs.
4. A task in one department cannot get full attention since the employees have so many jobs because there are only two departments in the company.

5. This research will give benefits to the XYZ Company such as:

- Input to the XYZ Company of what set of accounting system would be optimal for a start-up company.
- Identification of some of the company's problems, and suggestion for how to solve them.
- The Company will be better organized and more efficient.

## 5.2 Recommendation

1. Given that the XYZ Company only began to operate about one year before this research was conducted, the researcher acknowledges that the company is still growing. Therefore it is important that they continue to develop the system they currently use.
2. The system used by the XYZ Company is similar to COD (Cash on Delivery) Sale. The researcher suggests that the XYZ Company uses COD sale where the seller only sends a catalogue to customers, as explained in chapter two. With this kind of system, the company would have more market area. They could get customers in different cities or even in the different states.
3. In the future, when the XYZ Company sells more than one kind of product, it would be better for the company to use worksheet method, in order that the company could record more products at once. Example is in figure 5.1.

c. Rapid Applications Development (RAD)

The RAD is approach completes development faster by combining prototyping, data modeling, user/developer teamwork, and automated development tools.

5. The recommendation in figure 5.2, the researcher suggests additional departments be made: an Inventory Department and a Purchase Department (both are subordinate of the Operational Manager), as well as a Marketing Department (subordinate of the Marketing Manager). The Marketing Department would specialize in widening the market and in things that relate with marketing. The Inventory Department would concentrate on the inventory of goods only: how many goods are available in warehouse etc. The Purchase Department would handle the goods from the supplier and other goods needed to be purchase.
6. The XYZ Company needs to have a system development to develop their existing system. Because the objective of system development in an organization is to respond changes in the entity's goals, processes, or structure.
7. For a successful system it is necessary that several fundamental factors be considered :
  - a. Software that reflects, or can accommodate, the organization's unique requirements.

- b. Hardware capacity and performance to handle the level of transaction and processing requirements.
- c. Appropriate data processing and account controls.
- d. Proper documentation of user and data processing procedures.
- e. Adequate training for user and data processing personnel.
- f. Accurate input and the controls to maintain it.
- g. Acceptance by users
- h. Management involvement and support

### **5.3 Research limitation**

This research only discusses the Accounting Information System in XYZ Company as Start-up Company.

1. This is qualitative research, where analysis and evaluation conclude by writer is subjective. Further empirical application of the ideas and recommendations by writer are still needed. It is likely that the accounting system recommended by the researcher will require further changes according to the needs of the XYZ Company.
2. The researcher had difficulties in discussing this accounting system, since there is not yet much research about this. Even though the accounting system may seem neglected it has an important role in a company's business.

3. Since not many literatures discuss about the small business from accounting side, the researcher had many difficulties.



## **CHAPTER V**

### **CONCLUSION AND RECOMMENDATION**

#### **5.1 Conclusion**

From the Accounting Information System analysis of the XYZ Company, it can be concluded that:

1. The Accounting system in the XYZ Company is still very simple, fitting that of a start-up business. Their accounting information system produced information of low quality. It does not include the history of customers' receivable, which is crucial for the distributor company who runs business with account receivable system.
2. The company's main obstacle is that they have difficulty asking for payment from third parties. This is happened because the company does not have a system that records the history of customers' account receivable so when the company collects debt from the customer, the customer will see that the company has a good record of their payment.
3. The XYZ Company does not yet have a financial model to determine their cash flow needs.
4. A task in one department cannot get full attention since the employees have so many jobs because there are only two departments in the company.



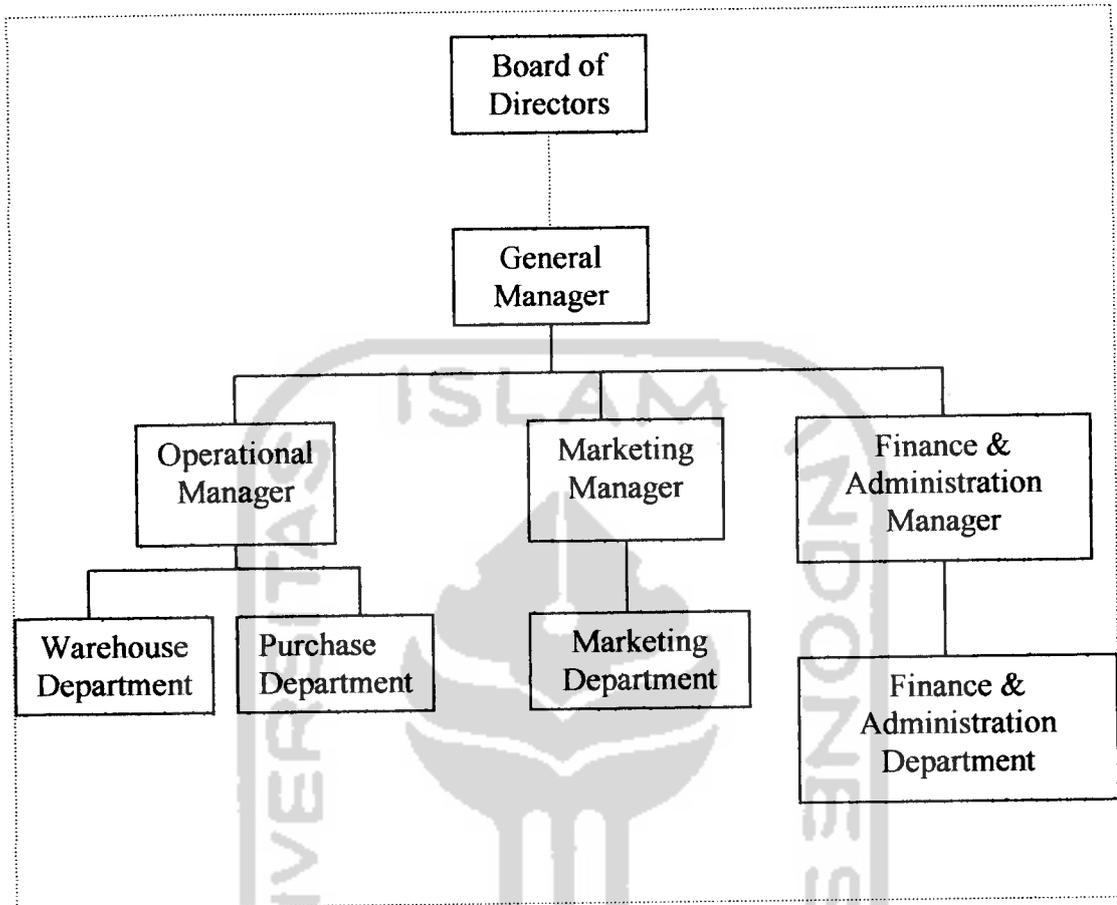


Figure 5.2

Recommendation of organization structure chart

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