

**CONTROLLING COST USING BUDGETARY CONTROL
AND THE FIRM FINANCIAL PERFORMANCE:
A Case Study of PT Pupuk Kalimantan Timur**

An Internship Report



By:

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INTERNATIONAL PROGRAM
FACULTY OF BUSINESS AND ECONOMICS
UNIVERSITAS ISLAM INDONESIA
YOGYAKARTA

2020

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Final Assignment: An Internship Report

Submitted as partial fulfillment of the requirements to obtain the Bachelor Degree
in International Program of Management Department of Business and Economics
Faculty at Universitas Islam Indonesia



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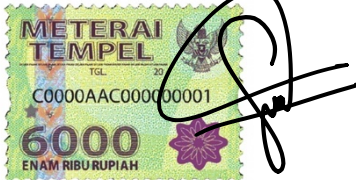
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YOGYAKARTA
2020

DECLARATION OF AUTHENTICITY

Here in I declare the originality of this internship report; I have not presented anyone else's work to obtain my university degree, nor have I presented anyone else's words, ideas or expression without acknowledgement. All quotations are cited and listed in the bibliography of the internship report.

If in the future this statement is proven to be false, I am willing to accept any sanction complying with the determined regulation or its consequence.

Yogyakarta, 5th March 2020



Sofia Hasna Hamidah

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A BACHELOR DEGREE INTERNSHIP REPORT**

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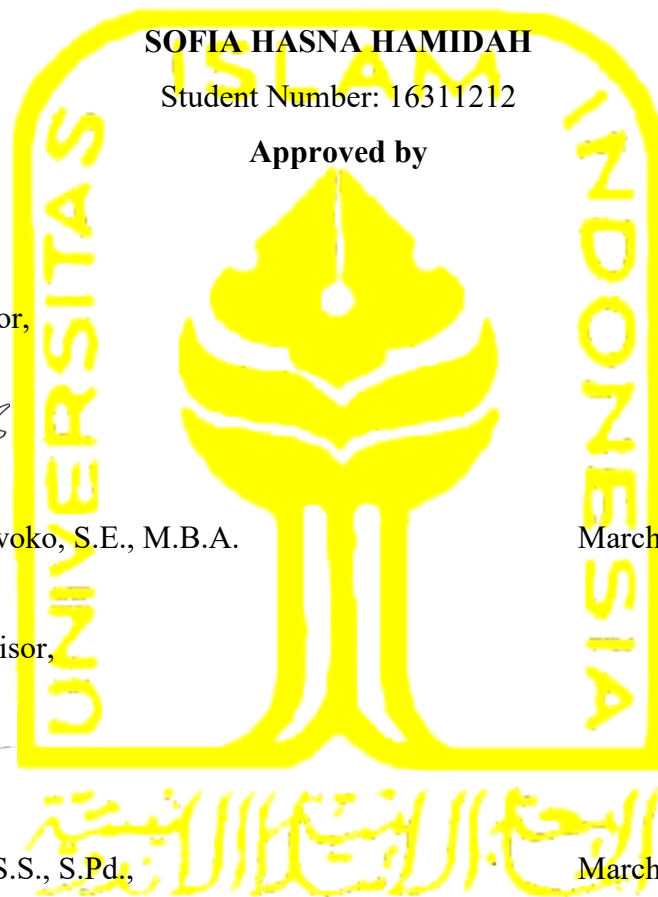
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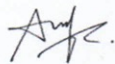
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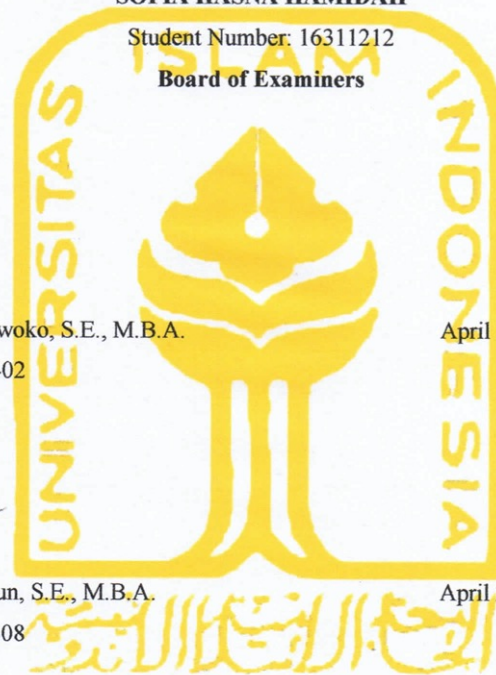
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EKONOMI
EVEN 1/2

**CONTROLLING COST USING BUDGETARY CONTROL
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ABSTRACT

PT Pupuk Kalimantan Timur is one of Pupuk Indonesia subordinates and under State-owned Enterprises of Indonesia (BUMN). Pupuk Kaltim's main business is to produce and sell Ammonia, Urea, and NPK with domestic and foreign market segments. In the company, there are many business activities that need to be controlled and organized to align with the company goals. The three business is manufacturing, trading and service. In the manufacturing industry itself, there are seven plants including the main plant which are producing Ammonia, NPK and Urea and the supported plant, which is the utility plant. The trading activities consist of marketing and their supported component, then the service consist of maintenances and research. As we know before, if there is an income, there must be a cost to paid. To create big income and small cost to spend, there is a department that functions in planning and composing the budget to calculate the company expense also the other functions are to control and reporting the budget to align with the planned budget. The author used qualitative as type of research and using study case as the research design. There are two data collection method used, first is an observation and second is interview. The internship took one and half months in Bontang, East Kalimantan, Indonesia. The researcher was placed in the budgeting department by PT Pupuk Kalimantan Timur based on the university majors to help the company achieved their goals. From the interviews conducted in the department, the budgeting department function control a cost using budgetary control with cost reduction program as a tool to help the company achieve their goas and show its impact on the financial performance. In carrying out the budget control, there are difficulties faced by the department. The author then investigated the problem and suggested an idea to solved the problems to the department.

Keywords: *fertilizer company, budgeting department, budget, budgetary control, cost reduction program, financial performance*

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ABSTRAK

PT Pupuk Kalimantan Timur bernaung dibawah Pupuk Indonesia dari Badan Usaha Milik Negara Indonesia (BUMN). Bisnis utama Pupuk Kaltim adalah memproduksi dan menjual Amonia, Urea, dan NPK dengan pangsa pasar lokal dan asing. Di perusahaan sendiri ada banyak kegiatan bisnis yang perlu dikendalikan dan diatur agar selaras dengan tujuan perusahaan. Tiga bisnis tersebut adalah manufaktur, perdagangan, dan layanan. Dalam industri manufaktur itu sendiri, ada tujuh pabrik secara total termasuk pabrik utama yang memproduksi Ammonia, NPK dan Urea dan pabrik pendukung, yang merupakan pabrik utilitas. Kegiatan perdagangan terdiri dari pemasaran, kemudian layanan terdiri dari pemeliharaan dan penelitian. Seperti yang kita ketahui sebelumnya, jika ada penghasilan, pasti ada biaya yang harus dibayar. Untuk menghasilkan pemasukan besar dan biaya kecil untuk dibelanjakan, ada departemen yang berfungsi dalam merencanakan dan menyusun anggaran untuk menghitung pengeluaran perusahaan, juga fungsi-fungsi lain untuk mengendalikan dan melaporkan anggaran agar selaras dengan anggaran yang direncanakan. Penulis menggunakan kualitatif sebagai jenis penelitian dan menggunakan studi kasus sebagai desain penelitian. Ada dua metode pengumpulan data yang digunakan, pertama adalah observasi dan yang kedua adalah wawancara. Magang ini memakan waktu satu setengah bulan di Bontang, Kalimantan Timur, Indonesia. Penulis ditempatkan di departemen Anggaran oleh PT Pupuk Kalimantan Timur berdasarkan jurusan universitas untuk membantu perusahaan mencapai tujuan mereka. Dari wawancara yang dilakukan di departemen dalam fungsi departemen penganggaran dalam menjalankan pekerjaannya, mereka mengontrol biaya menggunakan kontrol anggaran dengan program pengurangan biaya sebagai alat untuk membantu perusahaan mencapai tujuan dan bagaimana pengontrolan ini menunjukkan dampaknya terhadap kinerja keuangan. Dalam melakukan kontrol anggaran, ada kesulitan yang dihadapi oleh departemen. Penulis kemudian menyelidiki masalah dan menyarankan ide untuk menyelesaikan masalah ke departemen.

Kata kunci: *perusahaan pupuk, departemen anggaran, anggaran, kontrol anggaran, program pengurangan biaya, kinerja keuangan*

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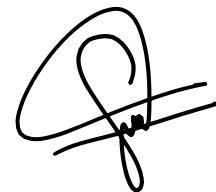
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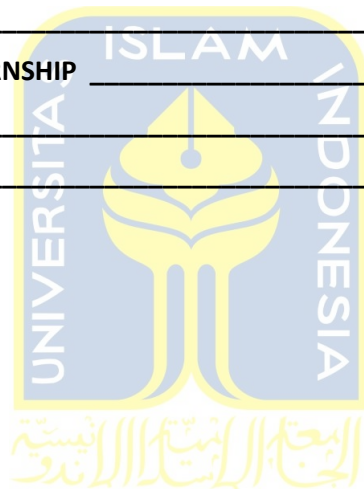
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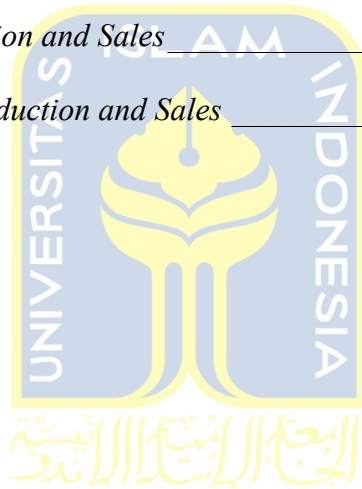
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CHAPTER I

INTRODUCTION

1.1 Company Profile

1.1.1 History of Pupuk Kaltim

PT Pupuk Kalimantan Timur (Pupuk Kaltim) is a subsidiary of PT Pupuk Indonesia (Persero). Since its establishment, the Company has never changed its name. It was initially managed by the state-owned oil company Pertamina as a project of floating fertiliser plant on a ship. Due to some technical considerations, and based on Presidential Decree No. 43 of 1975, the project was moved to dry land and through Presidential Decree No. 39 of 1976 Pertamina passed the project management to Department of Industry. a 443-hectare of land was prepared as the project's site accordingly. Natural gas is its main raw material and is transported from Muara Badak through a 60-kilometre pipeline.

The construction of Plant 1 was initiated in 1979, while that of Plant 2 was initiated in 1982. The two plants were inaugurated simultaneously on 29 October 1984. Plant 3's construction was subsequently commenced and it was inaugurated on 4 April 1989. In 1999, the first granulated urea plant in Indonesia called the Kaltim Optimisation Project (POPKA), was built. This plant was inaugurated on 6 July 2000 along with the ground-breaking of Plant 4. The Urea Unit of plant 4 was

inaugurated on 3 July 2002 while the Ammonia Unit was inaugurated on 28 June 2004.

In 2014 Pupuk Kaltim has taken over the Ammonia Factory from PT Kaltim Pacific Ammonia (KPA) and currently, the operation of the former KPA Plant is included to the Kaltim Optimisation Project (POPKA) under the coordination of Plant 1A. To support the National Food Sovereignty Programme and to reinforce the domestic plantation and industry sectors, the Government as stated in Presidential Instruction No. 2 of 2010 decided to revitalize the national fertiliser industry by replacing some fertiliser factories with gas consumption above 34 MMBTU per ton Urea with a new technology plant that is more efficient on energy and raw material consumption. The revitalisation is realised through the construction of Plant 5, which started in 2011 and inaugurated by the President of RI Joko Widodo on 19 November 2015. Next, to be more efficient in raw materials consumption, Plant 5 has the largest production capacity compared with other Pupuk Kaltim factories.

The pioneer struggle has been paid off for. Currently, Pupuk Kaltim is a petrochemical industry complex comprising five Ammonia plants, five Urea factories, three NPK Blending factories, two NPK Fusion plant, one factory Coal Boilers, bagging units, and warehousing units. Supported by reliable and experienced human resources, Pupuk Kaltim

is ready to become a major player in the world-class agrochemicals industry that grows and sustains.

Pupuk Kalimantan Timur's main business is to produce and sell Ammonia, Urea, and NPK with domestic and foreign market segments. For the distribution area of domestic subsidy sector, the marketing area of Pupuk Kaltim covers two-thirds of Indonesia, namely eastern Indonesia to Papua and most of East Java and Kalimantan, except West Kalimantan. The area is determined by the letter of President Director of PT Pupuk Indonesia (Persero) No. U-1308/A00000.UM/2012 dated on 8 October 2012 on Regional Assignment of Responsibility for Procurement and Distribution of Subsidised Fertiliser for Agricultural Sector. As for foreign marketing, Pupuk Kaltim exports to countries in the Asia Pacific region, the United States, South America, and so forth.

1.1.2 Company's Milestone

- 1977: Establishment of PT Pupuk Kaltim

On 7 December 1977, the plant was originally planned to be built on board to facilitate the exploration of raw gas materials. At that time, the government appointed Pertamina to run the project. Due to technical considerations, the construction of the plant was transferred to the land and the project was handled by the minister of trade with the assistance of the Directorate General of Chemical Industry of The Ministry of Industry and the Pertamina's Director of processing and petrochemicals in accordance with Presidential

Decree No. 43 of 1975 dated on 29 November 1975. The Government then assigned the Minister of Industry to complete the project development based on Presidential Decree No. 39 of 1976 dated on 29 August 1976.

- 1979-1984: Construction of Pupuk Kalimantan Timur Plants 1 and 2

Natural gas, which is the main raw material of fertilizer production, was found in Muara Badak, approximately 60km from Bontang. An area of 443 hectares was prepared for the project. The development of Plant 1 was initiated in 1979, followed by Plant 2 in 1982. Both plants were inaugurated on 29 October 1984 by President Soeharto.

- 1989-2002: Construction of Pupuk Kaltim Plants 3 and 4

The plant development was continued. Plant 3 was inaugurated on 4 April 1989. In 1999, the first granulated urea plant in Indonesia, namely POPKA, was established. It was a plant optimizing project to utilize ammonia excess from existing plants. In 2002, Plant 4 was established. The plant is equipped with high technology and energy saving machinery to produce Granulated Urea.

- 2011-2014: Development of Pupuk Kaltim Plants

Considering its over 30 years of existence, Plant 1 becomes the company's top priority in its revitalization programme. In 2011, the company began the construction project of Plant 5, which was the

first realization of the Fertilizer Industry Revitalization Programme in accordance with Presidential Instruction No. 2 of 2010. This revitalization also aimed to increase the production capacity of Urea and Ammonia. In 2013, the Company operated Coal Boilers. In the same year, Pupuk Kaltim also made an earlier purchase of Ammonia Factory from PT Kaltim Pasifik Amoniak (KPA) through Asset Transfer Process. The Asset Transfer Process was conducted in Jakarta on 13 March 2014. Currently, the operation of a former KPA Plant is united with POPKA under a coordinated Head of Work Unit, namely Plant 1A.

- 2015: Operations of Pupuk Kaltim Plant 5

In 2015, Plant 5 that was built in 2011 commenced its operation. The operation of this factory adds the total capacity of Urea and Ammonia plants into 3.435 million tons per year and 2.740 million tons per year respectively. The spirit of high dedication continues to bring the best work for this nation. Pupuk Kaltim has established five Urea plants, five Ammonia plants, three NPK Blending plants, one NPK Fusion factory, and one Coal Boiler plant.

1.1.3 Business Activities

The Company's business activities according to the Articles of Association No. 25 dated 19 January 2011 section 3 are:

1.1.3.1 Manufacturing Industry

Processing certain raw materials required for the production of various fertilisers, petrochemicals, agrochemical, and agroindustry, and other chemical products; as well as processing the raw materials into various fertilisers and other chemicals along with their derivative products.

1.1.3.2 Trading

Carrying out distribution and trading in urea, ammonia, fertiliser products, petrochemical, agrochemical, agroindustry, and chemical products both in domestic and international level; including importing the raw materials, supporting material, fertiliser production equipment, and chemical products.

1.1.3.3 Services

Conducting studies on research, education, engineering design, bagging station, construction, fabrication, management, plant operation, reparation, maintenance, consultancy (except law consultancy), and other technical services within sector of fertiliser, petrochemical, agrochemical, agroindustry, and other

chemical industries, as well as agricultural and plantation sector services.

In the manufacturing, Pupuk Kaltim carries out the production of Ammonia, Urea Fertiliser, NPK Fertiliser, and Organic Fertiliser. Aside from the production of the fertiliser products and Ammonia, Pupuk Kaltim also produces plant utility such as steam, electricity, and demineralised water to fulfil the industrial necessity of the company. In order to support business continuity and strengthen the position within the manufacturing business, Pupuk Kaltim specifically plans the business expansion in the field of Methanol processing. This is measured by a plan to develop new processing unit and preparing industrial land in the Pupuk Kaltim industrial area.

In the field of trade, to ensure and guarantee the industrial cycle of the production of goods to the consumers, Pupuk Kaltim undertakes a pre-marketing activity in all marketing lines. In term of Corporate, this policy leads the fertiliser raw material to be a part of the Corporate business activity.

In the sector of services, Pupuk Kaltim carries out research and development in product development, technology, as well as plant maintenance service. The development of product research enables Pupuk Kaltim to expand new products that will be marketed through the retail market. In the field of plant maintenance service, Pupuk Kaltim continually performs through services and equipment sales. The

focus of the service business of Pupuk Kaltim grows with Precision Agriculture implementation, namely smart farming service, to increase farming efficiency and land productivity.

1.1.4 Main Product and Product Unit

The primary products of Pupuk Kaltim are:

1.1.4.1 Ammonia

Ammonia is used as a raw material in various processes in the chemical industry. Pupuk Kaltim's Ammonia product is marketed in liquid form at a temperature of -33°C , with a minimum impurity of 99.5% and maximum water impurity at 0.5%. Ammonia is made from the reaction of natural gas with air and water vapour, processed in high temperature and pressure in stages throughout a number of catalysed reactors.

1.1.4.2 Urea

Urea, also known as nitrogen (N) fertiliser, has a nitrogen content of 46%. Urea is produced from a chemical reaction between ammonia (NH_3) and carbon dioxide (CO_2), resulting in solid urea in prill form (size 1-3.35 mm) or granule form (2-4.75 mm). Prill Urea is used mostly for crops and industrial, while granular Urea is more suitable for plantation segment and industrial.

Non-subsidised urea, coloured in white, are marketed and sold under the trademark Daun Buah, while subsidised urea, coloured in pink, are specially marketed under the trademark of Pupuk Indonesia Holding Company.

1.1.4.3 NPK Fertiliser

There are two types of NPK fertiliser produced by Pupuk Kaltim, namely NPK Blending and NPK Fusion. NPK can be produced in various compositions, according to the needs of the plant and soil type. This type of fertiliser consists of three macronutrients needed by plants. The raw materials for NPK are urea, DAP (Diammonium Phosphate)/RP (Rock Phosphate), MOP (Potassium Chloride), and other micronutrients that are of high quality. NPK fertiliser is marketed and sold under the trademark of NPK Phonska Pupuk Indonesia Holding Company for a subsidised sector. Meanwhile, the NPK Pelangi trademark is used for NPK Blending on non-subsidised sectors and trademark Pelangi Agro is used for NPK Fusion in non-subsidised sectors.



PABRIK DAN KAPASITAS PABRIK PLANT AND PRODUCTION CAPACITY

NO.	PABRIK PLANT	TAHUN BERDIRI YEAR OF ESTABLISHMENT	KAPASITAS PRODUKSI (TON/TAHUN) PRODUCTION CAPACITY (TON/YEAR)		
			AMONIAK AMMONIA	UREA	NPK
1.	Pabrik 1A Plant 1A	2014*	660.000	570.000	-
2.	Pabrik 2 Plant 2	1982	595.000	570.000	-
3.	Pabrik 3 Plant 3	1986	330.000	570.000	-
4.	Pabrik 4 Plant 4	2002	330.000	570.000	-
5.	Pabrik 5 Plant 5	2015	825.000	1.155.000	-
6.	Pabrik 7 Plant 7 • NPK Blending • NPK Fusion	2005 2010	-	-	150.000 200.000

* Pabrik berdiri di tahun 2000, namun di tahun 2014 Pabrik POPKA dan Amoniak Ex-KPA digabung menjadi Pabrik 1A.
* The plant was established in 2000, but in 2014 the POPKA and Ammonia Ex-KPA Plants were merged into Plant 1A.

Table 1 Plant and Production Capacity

Currently, the company operates the following production units:

1.1.4.4 Ammonia Plant

Ammonia is produced with natural gas, steam, and air as the main raw materials. Pupuk Kaltim has five Ammonia plants, namely Plant 1A, Plant 2, Plant 3, Plant 4, and Plant 5. The total production capacity is 2.74 million tons of Ammonia per year.

1.1.4.5 Urea Plant

Pupuk Kaltim has five Urea plants, namely Plant 1A, Plant 2, Plant 3, Plant 4, and Plant 5. Prill urea is produced by Plant 2 and Plant 3, while granular Urea is produced by Plant 1A, Plant 4, and Plant 5. The total production capacity is 3.43 million tons of Urea per year.

1.1.4.6 Utility Plant

Provider of utility needs for Ammonia, Urea, and NPK plants which consist of Sea Water Pump Unit, Chlorination Unit, Desalination Unit, Water Plant, Demineralisation Unit, Sweet Cooling Water System Unit, Electrical Power Plant, and Steam Plant Unit. These units are integrated with one another, including the Joint Venture company (JVC) plants.

1.1.4.7 NPK Plant

The company has two NPK plants with two types of processing technologies. NPK Blending plant has a total capacity of 150 thousand tons per year. Meanwhile, the NPK Fusion plants (both unit 1 and 2) have the capacity of 200 thousand tons per year, therefore the total production capacity is 350 thousand tons of NPK per year.

1.1.4.8 Pilot Skill biological Fertiliser

Biological fertilisers are developed in Pupuk Kaltim under the trademark of **Ecofert** and **Biotara**. **Ecofert** is an active biological fertiliser containing microbial fixation or nitrogen-fixing and environmentally friendly phosphate solvent for food crops, horticulture and plantations. **Ecofert** is in granular shape with a variety of packaging 1 kg, 10 kgs, 20 kgs and 40 kgs. **Ecofert** is a biological fertiliser for fertilisation on normal land,

while **Biotara** is like **Ecofert** but is devoted to rice in swampland. In addition, Pupuk Kaltim also produces **Biodex**, which is a composting activator product.



Figure 1 Products of PT Pupuk Kaltim

1.1.5 Vision, Mission, Culture and Corporate Values

The corporate Vision, Mission, Culture and Values of Pupuk Kaltim are established by the President Director on 11 March 2016 and stipulated in the Decree No. 19/DIR/III.16 on the Revision to the Decree of the BOD No. 52/DIR/X.2015 on the Corporate Vision, Mission, Culture, and Values of PT Pupuk Kalimantan Timur.

1.1.5.1 Vision

“To Become a Growing and Sustainable World-Class Company
in the Fertiliser Chemical, and Agribusiness Industry”

1.1.5.2 Mission

- 1) Engaging in a business that deals with fertilisers and chemical products as well as an investment portfolio in the chemical, agribusiness, energy, trading, and plant services sectors with strong competitiveness.
- 2) Optimising the Company’s corporate values through the core business and developing new businesses to increase revenue and support the National Food Sovereignty Programme.
- 3) Optimising the utilisation of resources in the surrounding environment and the global market, supported by an internationally-oriented human resource by applying the most advanced technologies.
- 4) Providing optimal benefits to Shareholders, employees and the public while maintaining concern for the environment.

1.1.5.3 Corporate Culture and Values

Pupuk Kaltim implements the active culture, with the following description:

1) Achievement Oriented

Pupuk Kaltim members are resilient and professional in achieving the Company's targets by upholding the values of Resilience and Professionalism.

2) Customer Focus

Pupuk Kaltim members give the best service and commit to customer satisfaction by upholding the values of Attention and Commitment.

3) Team Work

Pupuk Kaltim members strive to develop synergy and unity in the workplace by upholding the values of Synergy and Unity.

4) Integrity

Pupuk Kaltim members uphold the values of Honesty and Responsibility.

5) Visioary

Pupuk Kaltim members think far ahead into the future and are prepared to face business dynamics by upholding the values of Innovation and Adaptiveness.

6) Environmentally Friendly

Pupuk Kaltim members act by taking into account the safety of themselves, the Company's assets, and the environment, as well as the benefits of their action for the general public to maintain the Company's continuity, by taking into account the values of Safety and Sustainability.

1.1.6 Logo's meaning



Figure 2 PT Pupuk Kaltim's Logo

- The pentagon-shaped
Represents the pancasila, the ideological foundation of the company.
- Leaf and fruit
Represent fertility and prosperity.
- The small white circle
Represents the location of Bontang near the equator.
- The writing "PUPUK KALTIM"
Represents the company's openness in response to the era of globalisation.

- The orange colour
Represents the passion and creativity to develop and professionalism in achieving business success.
- The blue colour
Represents the vastness of ‘wawasan nusantara’ (the Indonesian nation’s worldview) and the integrity to build the nation together as well as the wisdom in utilising natural resources.

1.1.7 Corporate Social Responsibility

The Corporate Social Responsibility (CSR) Programmes of Pupuk Kaltim throughout 2018 have been implemented through various programmes while referring to the CSR Master Plan. Through the Partnership Programme, the Company provides soft loans for small and medium-sized businesses and grants for various activities in the fields of education, religion, poverty reduction, and healthcare improvement. The funds used for this programme reached 111% of the target in 2018. Pupuk Kaltim also has the Creating Shared Value (CSV) programme which is a development to the CSR programme. The programme emphasises the concept of business independence that is related to business strategy and meeting the social needs of the maritime community, as shown in the programmes of Floating Net Cages and Lobster Farming. The implementation of CSR and CSV programmes are important for the Company in realising a distinct harmonious

relationship with the surrounding communities and need to be implemented sustainably by the Management.

1.2 Background of the Study

The fertilizer industry is one of the petrochemical industries with a significant development amidst the challenging business competition. The increasing competitiveness in the national petrochemical industry is influenced by the availability of raw material and energy supply, integration between the petrochemical industry with the downstream oil and gas sector, as well as improvement in the transportation and port logistics system. Human resources competency along with the utilization of research and technology also have a role in this development.

For more than four decades, Pupuk Kaltim has dedicated on putting the aspect of innovation forward, particularly in creating sustainable solutions to tackle various challenges to enter the industry 4.0 era. This effort will also enhance Pupuk Kaltim's competitiveness to become an industry leader as well as realizing the Corporate Vision to become a world-class company in the fertilizer, chemical, and agribusiness industry (Laporan Tahunan PT Pupuk Kalimantan Timur, 2018)

PT Pupuk Kalimantan Timur main business is producing and selling Ammonia, Urea and NPK Fertilizers with domestic and foreign market. In short, to produce and sell their products, PT Pupuk Kalimantan Timur manage from the production of their products to selling their products. There are a lot of process between production to sale, all of the factors are contributed in maintaining

performance of the company itself. As we know before, if there is an income, there must be a cost to pay. To create high income and low cost to spend, there is a department that functions to plan and compose the budget to calculate the company expense. Its other functions are to control and reporting the budget to be in the same page with the planned budget.

In general, the function of budgeting is as a form of future financial planning. Budgets are designed for the core business areas – purchases, sales (revenue), production, labor, trade receivables, trade payables, cash – which have comprehensive financial plans for the next three, six or twelve months (Penning, 2016). Therefore, one of the budgeting department functions is planning a financial forecast for the net income of a business.

Lambe (2012) on Budgeting and Planning appropriately described budgeting is a detailed and organized strategy assembled by an organization management and presented in financial terms for an enterprise's activities and resources in the future for a particular time. In any case, budgetary control is a tool of controlling cost, and there is program needed to be along with it. One of budgetary control programs in PT Pupuk Kalimantan Timur is Cost Reduction Program (CRP). Cost Reduction Program is controlled by the budgeting department to help management in carrying out the budgetary control plan to improve the efficiency and performance of companies that will support financial performance.

Financial performance is an extent to which a company financial health over a period of time is measured. In other words, it is a financial action used in order

to generate higher sales, profitability and worth of a business entity for its shareholders through managing its current and non-current assets, financing, equity, revenues and expenses. Its main purpose is to provide complete to the point information to shareholders and stakeholders to encourage them in making decisions. It can be used to evaluate similar companies from the same industry or to compare industries in aggregation (Naz, Naqvi, & Ijaz, 2016).

1.3 Problems Formulation

This study case attempts to determine factors that influence how the budgeting department works in PT Pupuk Kalimantan Timur. The following are some specific issues that are investigated in this study case:

1. What is the practice of Budgeting Department in PT Pupuk Kalimantan Timur controlling the budgeting process in the company?
2. What is the tools used by Budgeting Department in PT Pupuk Kalimantan Timur to control the budgeting process in the company?
3. What are the impacts of Budgeting Department contribution to the company financial performance?
4. What are the problems faced by Budgeting Department in controlling the budget?

1.4 Internship Objectives

Following the university curriculum, student require an internship by analysing and observing problems that have been formulated above which happens during the internship as final project to obtain bachelor degree, the specific objectives of this report are:

1. Students learn the work ethics in practice.
2. Students learn the behavior and culture in the organization in practice.
3. Students learn the policies and practice in the organization.
4. Students learn the organization activities and problem-solving in the organization.
5. Students link the theory from the university and the practice in the organization to solve problem developed in the organization.
6. Students gain insight by learning handling problem occurs in the company and the system in the budgeting department.
7. Students gain insight by learning to control the budgeting of the company.

1.5 Benefits of Internship

1.5.1 Benefits for Students

Improving the ability and understanding the real work experience using the knowledge from university as the basis theory to solves problem in the PT Pupuk Kalimantan Timur as a result in the report of internship program.

1.5.2 Benefits for University

The university obtain the information and knowledge how the management of the company. Furthermore, the cooperation with the company concerned also provides a contribution in the field of accounting and finance and also provides additional literature in the study case of financial strategy.

1.5.3 Benefits for Company

The company can utilize the ability of the student to help the company in problem solving by collecting new point of view from the student.



CHAPTER II

LITERATURE REVIEW

2.1 Budget and Budgeting

To plan and control, management need budgets not just as an instrument, but more than that. According to Isaac et al., (2015), public management and firm management use budgeting as a key policy instrument. It is common as it is practiced in private life as well as in corporations, government and voluntary organisations. Government circle uses budgeting ahead before the enterprises or in the business sector. Before the World War, a few large corporations, especially in the United States and the United Kingdom with a stable economic climate, used budgets for a number of purposes. The budgets then generated their own problems, some businesses reported having negative effects on performance and competitiveness, but innovative companies described budgeting as a key management method. “Business worries and troubles” is a negative effects created by the world depression of the 1920s and its attendant made the use of budgeting imperative in order to plan the overall growth of an economy and the enterprise (Isaac, Lawal, & Okoli, 2015).

2.1.1 Benefit of Budgets

According to Penning (2016), business and the managers also others staff are benefited by using budgets, the benefits are describe below:

1. Planning assisted by budgets

By formalizing the goals through budget, a firm may ensure that the strategies are feasible. It will be able to determine what is needed to maximize the production of goods and services and to ensure that it is available at the right time.

2. The budget communicates and coordinates

Once the budget is decided upon in the organization, all related managers and employees must work towards the same end. Once the budget is set, any planned issues will be addressed and any areas of possible ambiguity are clarified. All departments will be in a position to play their part in achieving the overall objectives.

3. The budget support the decision-making

By planning ahead the budgets, a business can make decisions about how much production—in the form of goods or services—can be accomplished. At the same time, the cost of production can be calculated and, where necessary, adjustments can be made.

4. The budget can be used for monitoring and control purposes

A significant justification for creating a budget is that management may use budgetary control to track and compare the actual performance. This is in such a way that steps can be taken to adjust the activity of the company as time passes, or likely to alter the budget if it is necessary.

5. The budget can be used to empower people

The budget may be part of strategies to encourage managers and other workers to achieve the goals of the company. The degree to which this occurs will depend on whether the budget is negotiated and set and whether it is considered to be realistic and feasible. The budget can also be related to rewards, such as bonus, when goals are achieved or surpassed.

The final result of the budgeting system is also the development of a master budget in the form of the forecasted financial statements—the forecasted income statement—and the forecasted balance sheet. The master budget is the master plan that shows how all of the other budgets fit together (Pening, 2016).

2.1.2 Limitations of Budgets

Despite the numerous benefits of budgets to organizations, Cox and Fardon (2012) offered the following limitations of budget:

1. The advantage of the budget must be more than the cost

Budgeting is a fairly complex process and some businesses - especially smaller ones - may find that the undertaking is a lot of a weight in terms of time and other resources, with just limited advantages. In any case, numerous lenders - for example, banks - often require the production of budgets as part of the business plan. The general rule is that, the benefit of creating the budget must surpass its cost.

2. Budget information may not be precise

It is fundamental that the information going into budgets ought to be as exact as could reasonably be expected. Everyone may create a budget, but the more misguided it is, the more useless it becomes for business as a planning and control mechanism. Extraordinary caution should be taken with an estimation of revenue, which is also the starting point of the budgeting process, as well as costs. Budgetary control is used to equate the budget with what has really happened - the budget will be adjusted if it appears to be inevitable.

3. The budget can de-motivate

Employees who have no part in concurring and setting a budget that is imposed upon them would feel like they do not own it. The employees can therefore be demotivated. Another drawback is that employees can see budgets as either a 'carrot' or a 'stick;' as a means of motivation to achieve the goals set or as a form of retribution if targets are missed.

4. Budgets could lead to dysfunctional management

The disadvantage that can happen is employees in one department of the company can over-execute their budget and create problems elsewhere. Case in point, the production department can make additional returns that the sales department considers difficult to sell. To stay away from such a dysfunctional management, budgets

should be set at a realistic level and linked and organized through all departments within the industry.

5. Budgets may be set at too low a level

If the budget is too easy to implement, it will be of no benefit to the company and will, in effect, contribute to lower production rates and higher costs than before the budget has been created. Budgets should be set at appropriate levels to allow the best use of the resources available.

2.1.3 Classification and Types of Budgets

2.1.3.1 Budgeting Time Scales

To obtain profit and avoid loss, company needs to plan for the future. For large corporations, this preparation is rather formal than in smaller organizations, which would be less formal.. According to Kulkarni (2006), there are three time scales of budget classifications and this is supported by Ganvir (2014), as follows:

- Long-term budgets are prepared for varying period from five to ten years and it is useful in industries where the period is long like machinery, electricity, and engineering.
- Short-term budgets are mostly for a year or two.
- Current budget is related to current activities of the business and normally prepared for months and weeks.

Obviously, different time scales require different planning methods, and the more time scales, the less comprehensive the plans are. In the longer term, a business will establish broad business objectives. The larger the business the objectives formally written down, but the smaller the businesses, the objectives will certainly be considered and discussed by the owners or managers. Therefore, planning takes note of these broader business objectives and sets out how these are to be achieved in the form of detailed plans known as budgets (Penning, 2016).

2.1.3.2 Types of Budget

According Ross (2008), there are some different types of budgets depending on their function and how they work together in a cascade.

1. Master budget: Master budgets are a collection of statements that are very close to the reported financial reports at the top of the cascade. It consolidates all subsidiary budgets and typically includes the budgeted profit and loss account, the balance sheet and the cash flow statement. Senior management performance is also measured in relation to its impact on the P&L balance sheet or other financial information disclosed publicly to investors and analysts.

2. Cash budget: Estimated cash inflows and outflows specified in the cash budget, covering both revenue and capital goods.
3. Capital budgeting: The decision-making phase of capital budgeting includes the use of particular investment project options and the overall amount of capital expenditure to be incurred.
4. Operating budget: The revenue and expenses shall be the operating budget and shall be projected in the coming year.

In control, budget holders describe major favourable or unfavourable variances. Budget variance is described as:

“The difference, for each cost or revenue element in a budget, between the budgeted amount and the actual cost or revenue.

Where flexible budgeting is employed, it is the difference between the flexed budget and the actual value” CIMA Official

Terminology (as cited in Ross, 2008)

2.1.3.3 Flexibility Based Classification

According to Cox & Fardon (2012) classification, budgets may be fixed or flexible. Fixed budgets is a budget for an activity that are limited and specified therefore any sudden and unexpected change in the expenditure. The fixed budget will remain the same and not adjusted. To get more benefit in fixed budget, forecasting a calculated accuracy of sales, expenses and cost is a must. While in various and unspecified activity, the flexible

budget is needed. Flexible budget useful in business when they consider the unexpected circumstance and the demand forecast is uncertain. It also convenient when the forecasting of demand is uncertain and the business operates under condition of material, labour, and others are in short supplies.

2.1.3.4 Budget Managerial Approach

According to Florin (2011), there are two most common budgeting managerial approach, which are top-down budgeting and bottom-up budgeting. The bottom-up approach begins by determined the basic component of organization with the different operations and task performed by the organization. Each individual in the unit shall report the funds and resource required to run the organization. Then, the budgeting department in finance consoled complete funding requirement of the organization and propose the result to get approval from the management.

Top-down budgeting is not based upon any facts or projections, but on how much the company can afford for each operational function. Top-down budget is a planning system in which the budgeting process starts with a flow of information from the top of the organization down to the lower levels of the organization. The top management determined the level of total expenditure before the allocation between main policies or sectors is made,

and sectoral ceilings are set before the detailed division of expenditure within each sector is discussed and decided. In each step of the budget process, the allocation of expenditure is subject to the constraints that have been set at the previous stage. This bunch of information generally includes an outline of overall goals for the year, a specific guidelines for helping lower level managers to prepare their budgets, and as a templates to be fulfilled for submission of the budgets.

2.1.3.5 Budgeting Methods

1. Traditional Budget

Traditional budgeting is a budget preparation method which is reviewed by last year's budget which revenue and cost as the foundation. The current year budget is prepared by customizing changes in the former year referred on the inflation rate, customer demand and market situation.

2. Zero based budget

A commonly used method in the organization is the zero-based budgeting. In this method, current's budget is prepared from the core, without reviewing the budget of the previous year. Every financial year, the budget is prepared from zero basis which each unit adjust the expenses by their activities in the particular time and each work unit ranking

their budget base their priority. While this method is consuming time but the result is accurate.

3. Activity based budget

Activity-based budget, aligns the business activities with business goals. It helps increasing the efficiency and profitability of a business. The activity-based budget set the cost driver as reference to consider the budget. It does not always the same with the account of last year's budget. This method does an in-depth analysis of all the activities that incur the cost. The outcome of the research determines the allocation of resources to an activity.

2.2 Firm Financial Performance and Budgetary Control

2.2.1 Budgetary Control

Budgetary control is a mechanism for managing expenditures by budgets. It needs a comparison of the actual achievement with the budgeted schedule with a view to ensure that the expected result is the same as the actual achievement. If discrepancies occur, the causes for the discrepancy are established and a recommendation for remedial action to suit the actual achievement of the plans is made. Planning, coordination and control are the primary and key priorities of budgetary control. It is further argued that the three key functions of budgetary control, which are aided by corrective action and feedback, are

planning, cooperation and control (Raghunandan, Ramgulam, & Raghunandan-Mohammed, 2012).

Thus, budgetary control is a form of responsibility accounting within a company where costs are matched to revenues and measured appropriately by efficient financial reporting systems. (Adongo & Jagongo, 2013).

Abdullahi et al., (2015) concluded that budgetary control is a function that compares the actual outcomes of the activity with the goals set and records any deviations therein called variances. Therefore, a control system within which expenditure can be held within acceptable limits, deviations recorded and required corrective action taken on time. In some exceptional condition, organizational goals can be revised (Robinson, 2009).

In a regular business condition, budgetary control includes a departmental head getting a duplicate of the departmental budgeting plan. The spending will definitely show positive, negative or no fluctuation between real expenditure and planned consumption for each departmental vote head. From this data, appropriate corrective action ought to be made. This is in accordance with the basic planning practice that calls for change clarification to be finished by the capable sectional head in a business undertaking. In addition, the departmental head is relied upon to act in like manner to maintain a strategic distance from

future conceivable antagonistic changes (Mohamed, Evans, & Tirimba, 2015).

It is not generally that negative variances ought to be disposed of or modified. Management can at present endure negative variances insofar as they would like to think, such changes are sensible and feasible. Therefore, a result can be made to the effect that management holds the key to budgetary control in a firm. Budgetary control itself is controlled only by management controls by their performance when they follow up on data and it results dependent on certain outcomes (Polisetty, 2016).

Budgetary control includes the coordination of the budget, the documentation of genuine results, the recognition and analysis of the gaps between the real and expected execution of the budget and the taking of appropriate steps to ensure that the scheduled project can be carried out (Kimani, 2014). Lacking budgetary controls lead to targets not being cleared and the performance not being accomplished or acceptable. It lessens the output since employees do not have the foggiest idea or are far-fetched about what to do, when and how to do it. They invest a lot of time looking for explanations from the executives. In this way, prompting delays in recognizable proof of deviations from plans, which lead to disappointment in objective accomplishment and consequently poor performance (Adongo & Jagongo, 2013).

Isaac et al., (2015) claimed that the effective implementation of the budget in the organization, effective budgetary planning and control must be carried out. In the sense of budgetary control, the appraisal is a process by which the evaluation of the implementation is effectively performed in order to evaluate the performance of individual, department and the organization. It is guided so as to make the right pass.

Budgetary standards and goals are likely to be the requirements for determining, in particular, the efficiency of the organizational leaders as supervisors. These principles and goals provide a framework for identifying and assessing specified aspects of organizational success, as they are the guidelines used to manage and inspire it.

Adongo and Jagongo (2013) expressed that the evaluation standard ought to be fine articulations originated from budgetary planning objectives of the past period, budgetary control involvement in regard to budgetary objectives of the earlier year and from the experience of comparable performance aspects concerning the past periods. As soon as this done, budgetary control will be accomplished, and the organization goals will be appropriately executed and subsequently proficiently accomplished.

2.2.2 Concept of Control

To ensure the performance conforms to line with targets or plan in organization is through controlling. Controlling demands in the organizational activities directed towards the achievement of the goals set by the management. Control hereby organizing work activities, as indicated in some foreordained plans, with the goal of enabling a firm to achieve its objectives. Control work by specifications that are used as performance indicators. Any deviation from the set standards shall be reviewed and effective remedial measures taken to resolve the varieties shall be taken. (Nafisatu, 2018).

Steps engaged in the control system include the identification of the organizational objective, the documentation of actual activity results, the implementation of a comparative framework between the goals set and the actual output, and the extraction of variation between the goal and the actual activity. Other steps shall include identifying the causes of the variances referred and taking effective measures on the variance referred to. (Igbinosun & Ohiokha, 2012). This control process is not possible without planning. An effective control system helps accomplish the purpose for which it is designed. Effective control systems depend on good information that is well communicated, well-coordinated, timely and economical to the organization. Management is able to know this through information availed to it by subordinates. Then, a comparison is therefore made between plans and actual

performance; the difference between the two is reported to management for taking corrective action.

2.2.3 Financial Performance

Financial performance plainly means an attempt by a business organization to maximize profits. Technically, yet, the term refers to the process of measuring a firm's outcome in monetary terms. Financial performance is used to measure an organization's overall performance over a given period or compare the performance of similar businesses within an industry either in isolation or in solicitation (Nafisatu, 2018). Specified by Javed et al., (2014), financial performance of a firm can be introduced in three different ways to be specific: as a proportion of the market which mirrors stakeholders of fulfilment in the market, as an accounting measure reflecting business proficiency level and as overviews delineating assessed financial performance. Consequently, as contended by Iavorskyi (2013), financial performance helps different stakeholders in the business to answer the accompanying two key inquiries: What is the organization's monetary position now? How is the organization's monetary performance over a given period? These inquiries are replied by using the organization's fiscal summaries through a procedure called financial analysis. As stated by Pratheepkanth (2011), financial statements involves a lot of information, that is normally examined utilizing certain accounting

procedure with the end goal of passing on certain financial characteristics of an organization.

As Osuji and Odita (2012) expressed, financial performance analysis joins translation of financial statement with the point of setting up the establishing the financial soundness a firm. Financial performance frequently investigates a company's performance regarding productivity all in all. Such speculation contains absolute business performance estimated as far as Company's total efficiency, profitability, fixed asset growth, working capital management, cash flow performance as well as social performance. Liquidity performance measurements may also be used by investors to test the financial soundness of a company for the purpose of putting resources into it. In addition, as explained by Nasimi (2016), cash flow performance may be beneficial to shareholders as it can be used to track the future growth potential of a business.

CHAPTER III

METHODOLOGY

3.1 Types of Research

Leedy & Ormrod (2015) stated that researcher makes the research methodology as the general approach in carrying out the research project; to some extent, this approach direct the specified tools the researcher chooses. According to Astalin (2013), qualitative research drawn up under a combination of observations, interviews, and document reviews.

Therefore, this study case is using qualitative research method to explain the results from the author achievement into internship report program in PT Pupuk Kalimantan Timur. The study case consists of problems within the company and the author solves the problems with the theory learned in university mixed with the policies and culture from PT Pupuk Kalimantan Timur. The results are drawing a conclusion and giving a recommendation to be presented in the last day of the internship program.

3.2 Data Source

The data obtained by author divided into two sources:

a. **Primary data**

Primary data is a data that comes directly from researchers with a specific purpose to use the problem in the study according to Malhotra (2010), primary data is a data originated by the author for the specific purpose of addressing the research problem. In this study, primary data were obtained

from interviews with a number of employees of PT Pupuk Kalimantan Timur in Budgeting Department regarding daily problems from each job desk.

b. Secondary data

According to Malhotra (2010), secondary data is data collected for some purposes other than the problem at hand. Secondary data obtained through a collection of literature studies derived from books and research journals related to the intention to support the validity and correctness of primary data as a reference or also come from sites that provide information related to the research conducted.

3.3 Data Collection Method

In performing qualitative research, interview is a set of techniques for collecting data from individuals and/or groups through structured, semi-structured, or unstructured questioning formats. Typically, semi- or unstructured, open-ended, informal interviewing is preferred to allow for more flexibility and responsiveness to topic for come up for both the interviewer and respondent.

Therefore, the data collected using interviews as a tools of the survey. In the survey method research, participants answer questions administered through interviews or questionnaires. After participants answer the questions, researcher describes the responses given. In order for the survey to be both reliable and valid it is important that the questions are constructed properly. The question for each individuals different because each participants handle

different job-desk and the researcher want to explore the problem in different viewpoint and correlates the answers to find the solution.

3.4 Research Design

As a research design, this research is the case study research design. The case study claims to recommend a wealth profundity of data which is not normally offered by different techniques. With numerous factors the contextual analyses can be recognized as a complex set of conditions which produce a particular demonstration. It is a profoundly multipurpose research method. It can utilize all techniques for information and all methods of data collection from testing to interviewing. The most simple method is an illustrative portrayal of a solitary occasion or event. The more complex is the analysis of a social situation over a period of time. The most complex one method is the extended case study which follows occasions including similar entertainers over some stretch of time empowering the examination to reflect changes and modifications (Astalin, 2013).

Case study research is used to describe an entity that forms a single unit such as a person, an organization or an institution. Some research studies describe a series of cases. This research describes a unit in the organization, the budgeting department and the problem faces by. Therefore, the researcher conducts of survey and fact-finding investigation to explain the set of circumstance as it

presents.

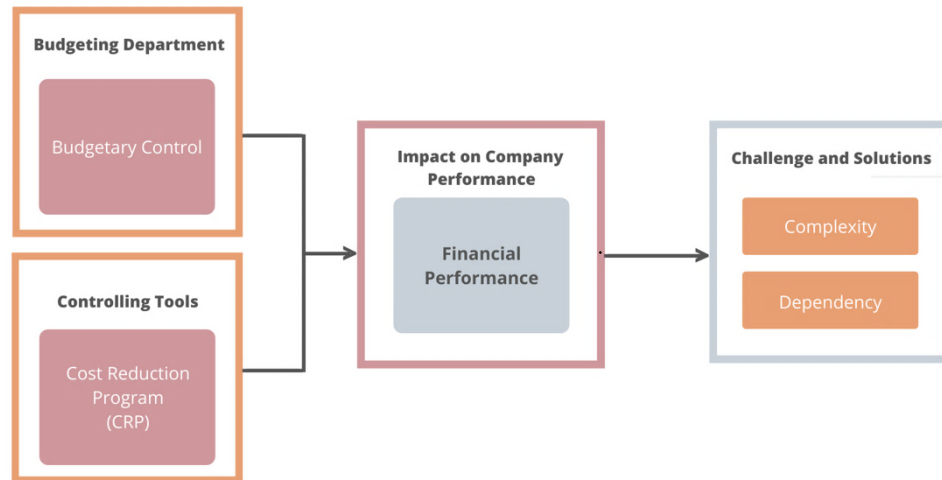


Figure 3 Research Design

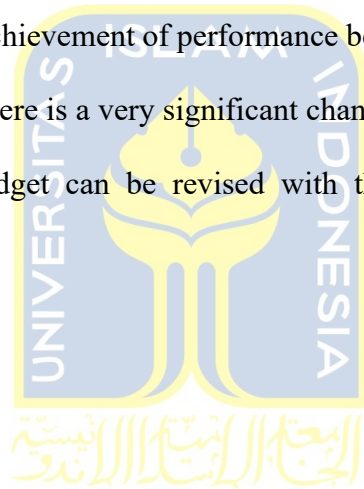
3.5 Time and Place of Internship

The internship was carried out at PT Pupuk Kalimantan Timur precisely located in the City of Bontang, East Kalimantan, the period of time is one and a half months from 14th January-28th February 2020.

3.6 Unit of Analysis

PT Pupuk Kalimantan assigned the researcher in the controlling budget of budgeting department to carry out the internship program. Budgeting department is a tool projecting the income and expenses of a specific department in order to achieve its financial goals. A departmental budget allows the firm to analyze the costs and expenses related to a certain department and whether the firm's income is sufficient to meet these expenses. Further, it enables management to measure its financial performance over time

(Definition Departmental Budget, 2020). In short, the Budgeting Department of PT Pupuk Kalimantan Timur consists of two parts, namely the Work Plan and Budget division and the Budget Controlling and Reporting division. The budgeting department is generally tasked with making budgets plan for one period before the period itself begins. The budgeting department also has the duty to control costs in the use of the budget by the user of each work unit. In addition, the budgeting department also reports the realization that has occurred with the planned budget in the management report to shareholders and analyzes the achievement of performance between the planned budget and its realization. If there is a very significant change in conditions of the budget, the company's budget can be revised with the approval of the Board of Directors.



CHAPTER IV

ANALYSIS OF IMPLEMENTATION WORK PROGRAMS

4.1 Budgeting Department at PT Pupuk Kalimantan Timur

4.1.1 Organization Structure

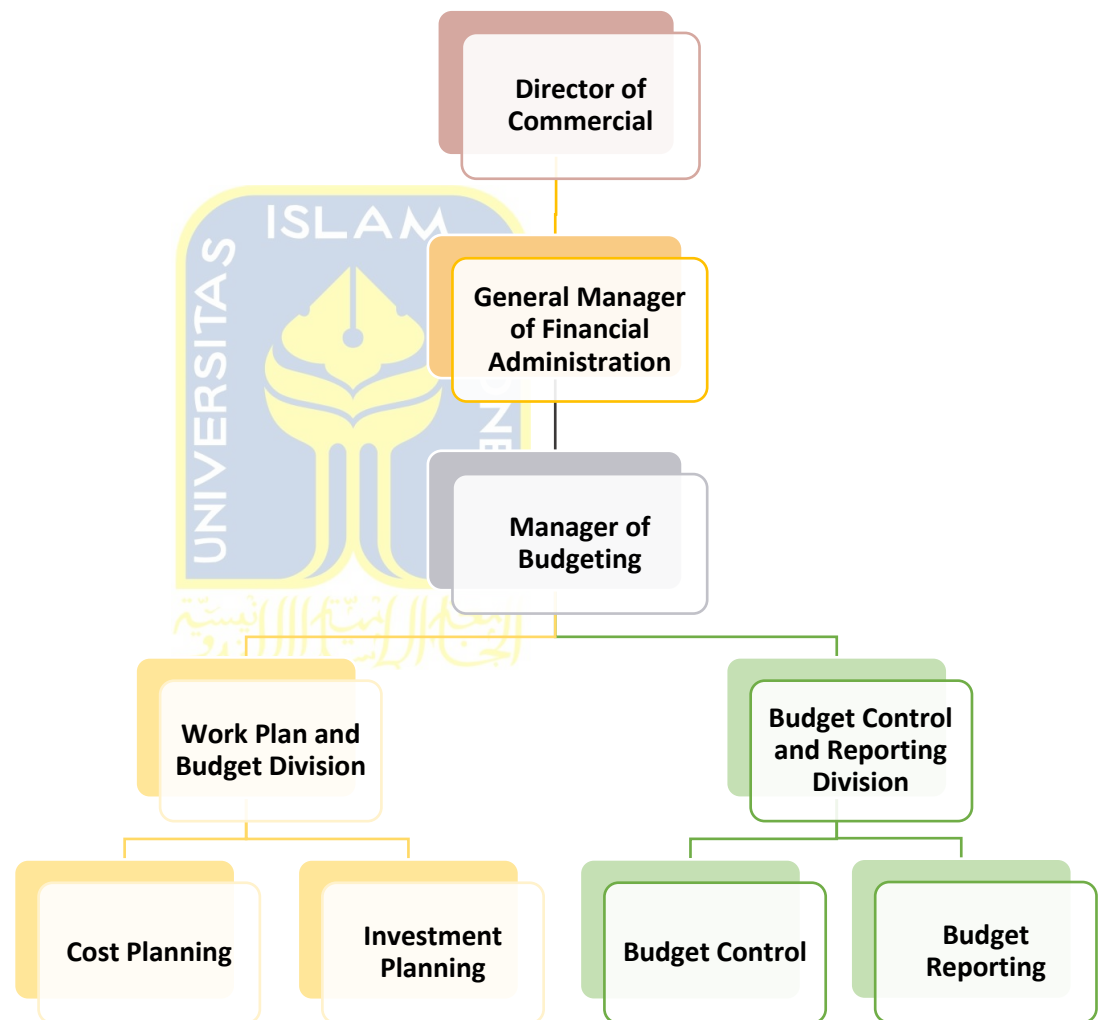


Figure 4 Budgeting Department Structure

As described from the organization above the budgeting department is under Director of Commercial and General Manager of Financial Administration supervision. The budgeting department is divided into two divisions, described as follows:

1. Work Plan and Budget Division

The main job is planning for company operational budget and company investment.

2. Budget Control and Reporting Division

This division divided into two sections, first is to control the budget that has already run and the second one is reporting the budget result.

Therefore it can be concluded that the function of the budgeting department are:

- Planning

Planning and composing company's budget including cost budget and investment budget in order to attain valid data preparing *Rencana Kerja dan Anggaran Perusahaan (RKAP)* and key performance indicator (KPI). In planning the budget, the budgeting department is assisted by a software tools named SI ANIN (Sistem Anggaran Rutin) and SI DADI (Data Submit Digital).

- Controlling

It includes managing each department's budget to reach its target and align with the *Rencana Kerja dan Anggaran Perusahaan*

(RKAP) approved by the management and shareholders. The controlling team assisted by software tools named SAP (System, Applications and Products in Data Processing) and WUM (Web Uang Muka). In budgeting department, the function of SAP is to process all the data needed to process a purchase or an order request on behalf of their company. It is processing a document that is used to inform department managers or the purchasing officer of the decision so that the purchasing department can start the purchasing process, while WUM is to process all the data needed to process a reimbursement and a down payment on behalf of their company.

- Reporting
Reporting means preparing management reports issued to shareholders as a form of accountability of the Directors in managing the Company runs smoothly in accordance with the approved RKAP.

4.1.2 Budgeting Time Scales

As the researcher work in the PT Pupuk Kalimantan Timur, the result shows that the budgeting department at PT Pupuk Kalimantan Timur planned its budgeting planning for long term and short term, which are every five and one years. In PT Pupuk Kalimantan Timur, long term budget called *Rencana Jangka Panjang (RJP)* and a short term budget called *Rencana Kerja dan Anggaran Perusahaan (RKAP)*.

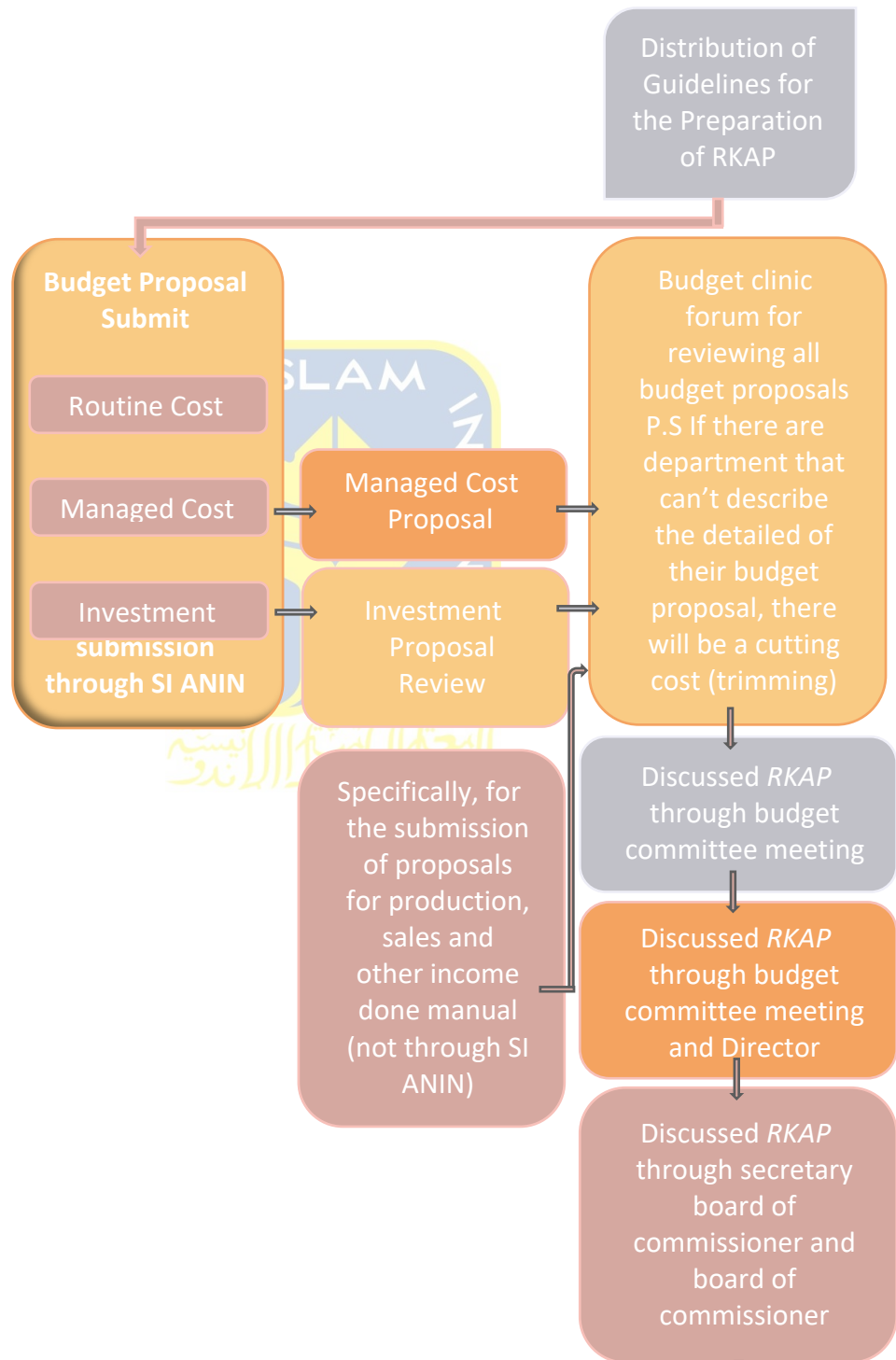
4.1.3 Flexibility Based Classification

According to Septian Seno (2020), Head of Control and Reporting Division of Budgeting Department, PT Pupuk Kalimantan Timur have fixed and flexible budget. Flexible budget in PT Pupuk Kalimantan Timur is based on the sales. However for the fixed budget, such as salary or contract is already forecasted before and fixed, except there is some changes in the management, the fixed budget can be changed.

4.1.4 Budget Managerial Approach

PT Pupuk Kalimantan Timur is a large government company with various department that has each own diversity. Each department function within in the organization support the vision and mission for company to reach its goals. Therefore, since every opinion is a matter, PT Pupuk Kalimantan Timur uses bottom-up approach in the management to determine the budget for each year.

In bottom-up approach, the communication between department or work unit and the budgeting department which managed budgets of work unit use software called SI ANIN in order to collect the budget proposal and review it before collected by the higher management through meeting. The business process in budgeting department uses bottom-up managerial approach explained below:



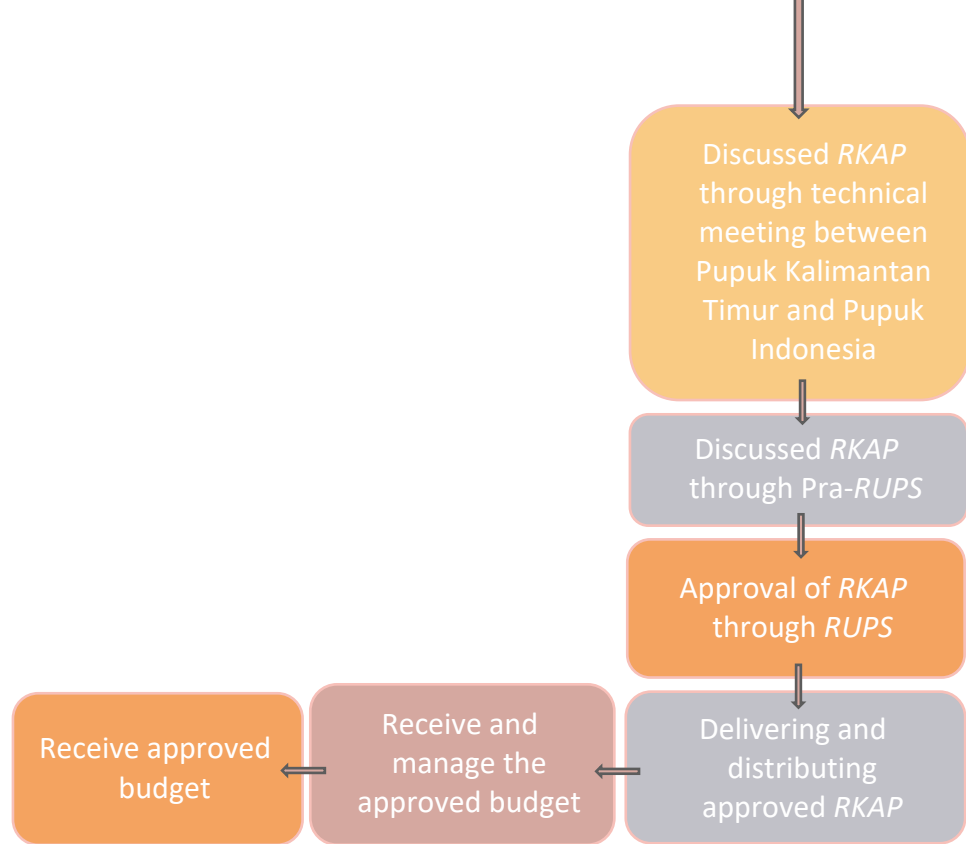


Figure 5 Bottom-up managerial system in PT Pupuk Kaltim

4.1.5 Budgeting Methods

Budgeting methods in PT Pupuk Kalimantan Timur is prepared after considering the cost drivers. As described above in the bottom-up managerial system, the budgeting department using activity based methods by using in-depth analysis of all the activities drawn the cost needed. The cost driver helps increasing the efficiency and profitability in operating the methods.

For further understanding, the researcher will give an illustration below: PT Pupuk Kalimantan Timur is a big company in which a business trip occur quite often in a year. Thus, every department requires an estimation for their business trip frequency in one year to determine the cost. In activity based method, which business trip is the activity, knowing a cost driver is a must to know to control the cost that will be

paid. Therefore, the cost driver in this illustration is a transportation and accommodation cost.

4.2 Budgetary Control at Budgeting Department of PT Pupuk Kalimantan Timur

Budgeting Department is controlling all the business activities budget, which consist of manufacturing industry, trading and service. In the manufacturing industry, there are seven plant in total including the main plant which are produce Ammonia, NPK and Urea and the supported plant, which is the utility plant. The trading activities consist of marketing and their supported components, then the service consist of maintenances and research. As we all know, these business activities need a plan and control budget to accomplish each activity goals. The budgetary control, a system to plan and control the budget, is needed most in the budgeting department. The system indeed needs a tools to runs its system, therefore PT Pupuk Kalimantan Timur use Cost Reduction Program (CRP). Below the researcher explains the difficulties faced in budgeting department.

4.2.1 Cost Reduction Program as Budgetary Control Tools in PT Pupuk Kalimantan Timur

Cost Reduction is a tool in the budgeting department through management supervision to control the cost incurred by making a strategic target for the company performance. The strategic target made by management and the progress is reviewed by the management. The

result of cost reduction program is the representation how healthy the company is, presented in the income statement.

4.2.2 Financial performance and Budgetary Control at PT Pupuk Kalimantan Timur

As we discussed before about the company health, in income statement there are several ratio to calculate the health of company, they are, current ratio, quick ratio, return on assets, accounts receivable turnover ratio, operating cash-flow ratio, etc. All of these ratio are explaining how good the company health is and they are shown in the financial performance of the company.

As Septian Seno (2020) explained before, the company performance for the past years in PT Pupuk Kalimantan Timur was good and increasing in numbers, it was stated in Annual Report of PT Pupuk Kalimantan Timur that the total Company assets in the last five years have been increasing. In 2018, Pupuk Kaltim recorded a profit before tax of Rp2.56 trillion or 167% of the Rp1.53 trillion target. The Company's business profit in 2018 reached Rp3.40 trillion or 162.22% of the target. This is the Company's achievement in carrying out its business activities, supported with the statement "In 2018, Pupuk Kaltim successfully achieved a score of 104.19 with a "SUCCESS" predicate. It shows the Company's capabilities as one of the largest fertiliser company in Indonesia." and "The corporate soundness level based on the guideline to the Corporate Soundness Level issued by PT Pupuk

Indonesia (PERSERO) which refers to the Decree of The Minister of SOE No. KEP.100/ MBU/2002. The Company’s corporate soundness level is 89,50 with “AA” soundness predicate or 121.77% from the 2018 RKAP target. (Laporan Tahunan PT Pupuk Kalimantan Timur, 2018)

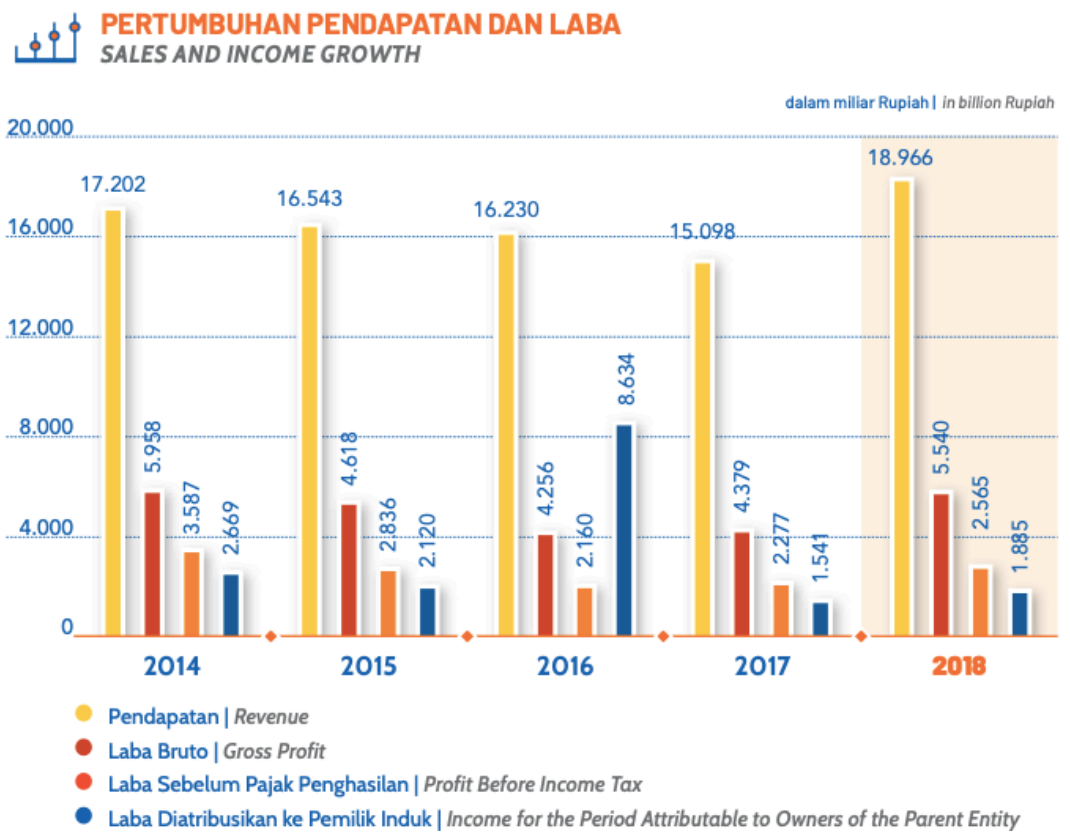


Figure 6 Sales and Income Growth



PERTUMBUHAN ASET, LIABILITAS, DAN EKUITAS
ASSETS, LIABILITIES, AND EQUITY GROWTH

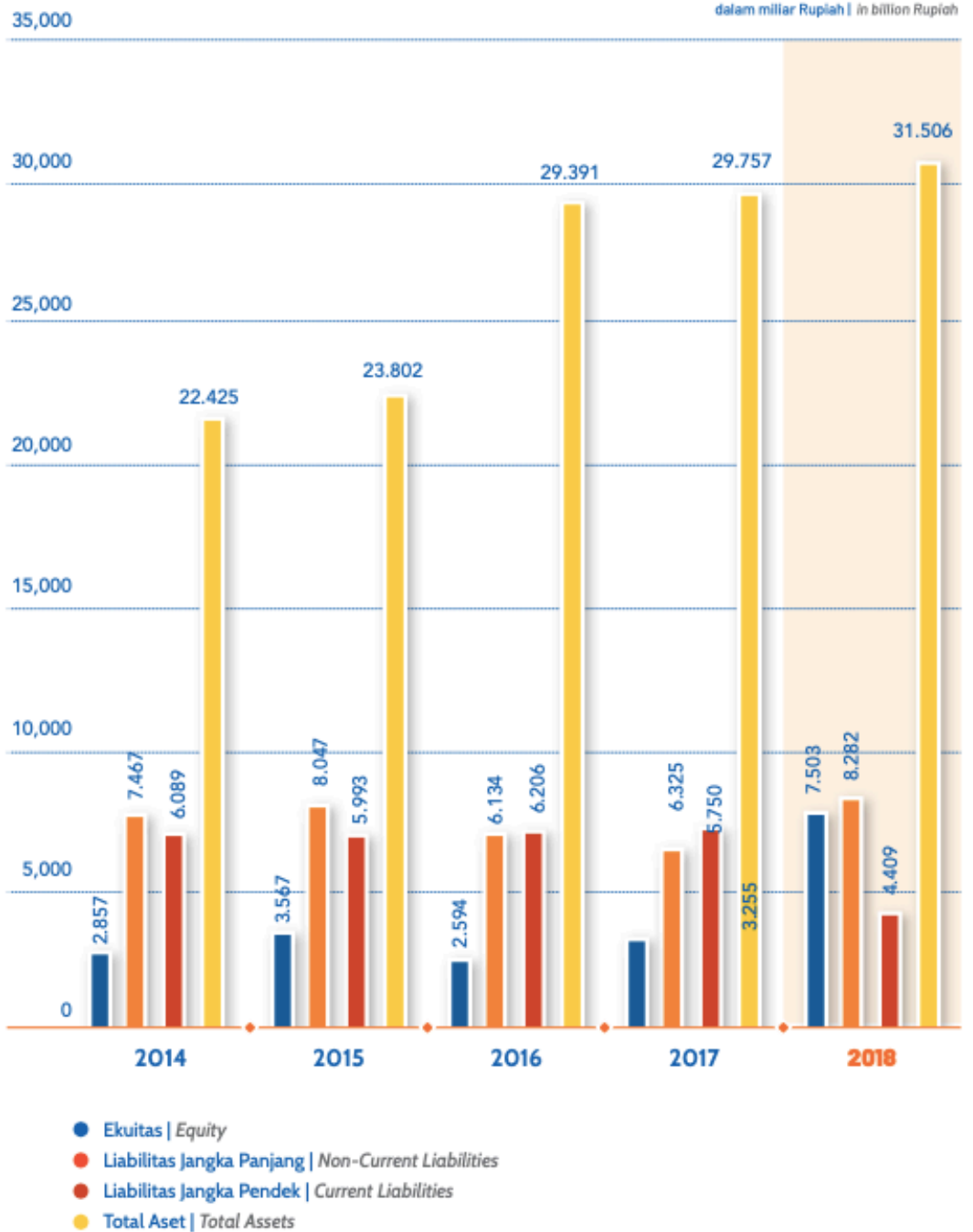


Figure 7 Assets, Liabilities and Equity Growth



PRODUKSI DAN PENJUALAN UREA UREA PRODUCTION AND SALES

dalam kiloton | in kilotonnes

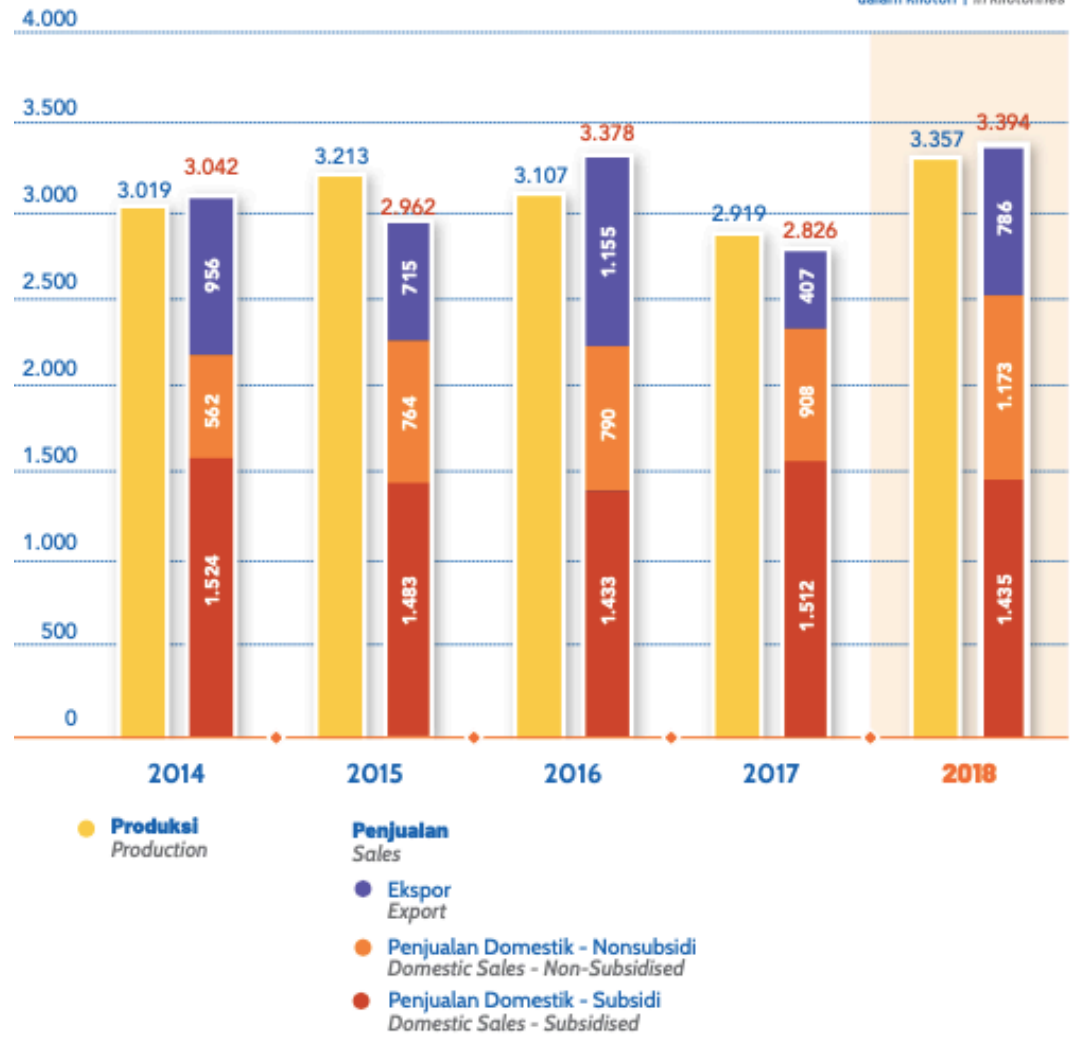


Figure 8 Urea Production and Sales

PRODUKSI DAN PENJUALAN AMONIAK
AMMONIA PRODUCTION AND SALES

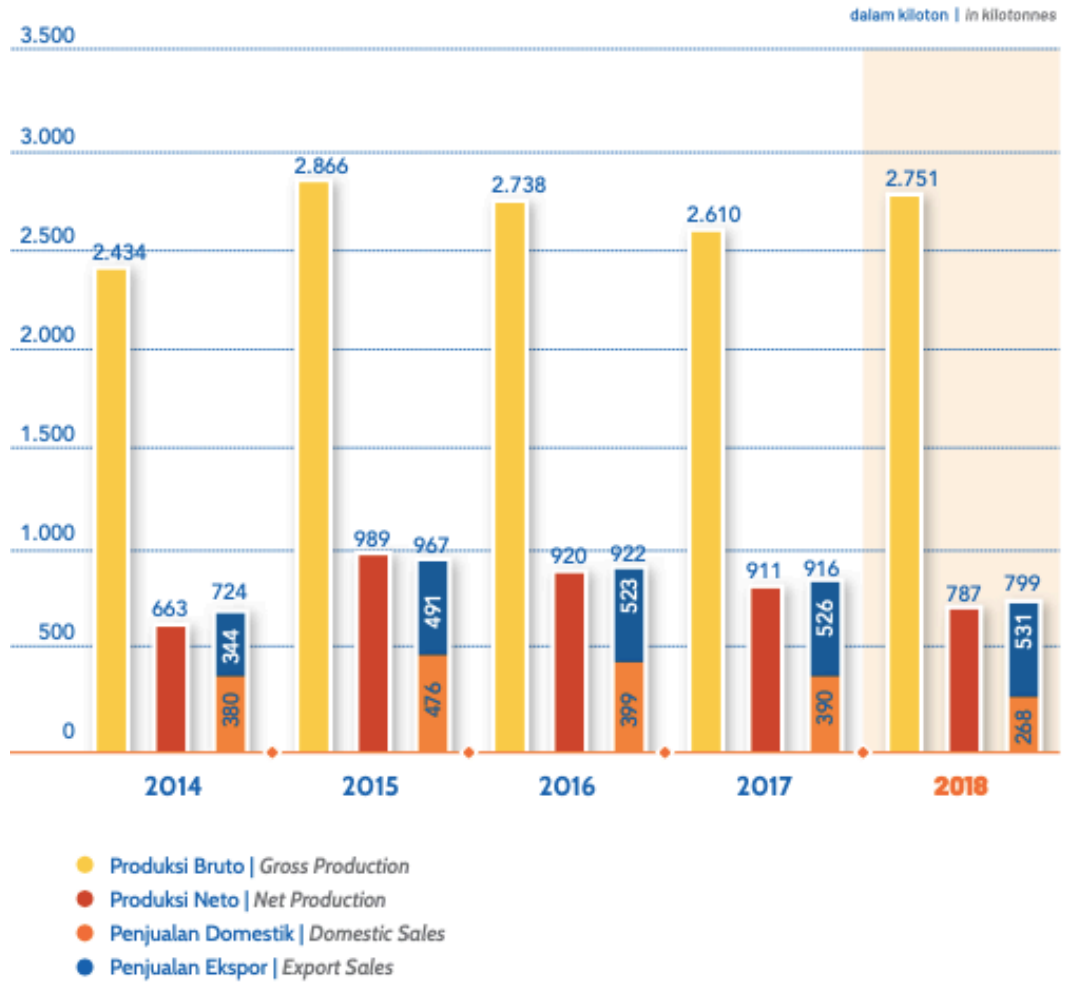


Figure 9 Ammonia Production and Sales

4.3 Difficulties in Budgeting Department

In budgeting department, there are one manager and two head of division, which have eight personnel. The work plan and budget division have two staff and one head of division, the control and reporting budget division have three control staffs, one reporting staff and one head of division. As the researcher interviewed and observed the budgeting department staff, to control the budget in all of the business activities, in fact there are difficulties to run the budgetary control system, the difficulties are:

1. Complexity of Cost Controlling

The cause of the complexity is too many works and less manpower in the jobs. As the business activities required to control all seven plant, marketing and service, hence the complexity is high. The higher the complexity the bigger risk that carried, which are the human error and failed system.

2. Dependency of Cost Controlling Software System

The software tools to control and manage the budget depends to Pupuk Indonesia, the head of all fertilizer industries in Indonesia, under State-owned Enterprises of Indonesia (BUMN). Therefore, the difficulties faced by the budgeting control staff are the works related to and bound with the software controlled by Pupuk Indonesia must be under Pupuk Indonesia approval, which lead to an inefficient and ineffective, slowing the workflow in the company. Other difficulties is an error in running the software, the format for the workflow is different from Pupuk Indonesia, because the management is different.

CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

Budgeting Department in PT Pupuk Kalimantan Timur are divided into three functions, budgetary planning and budgetary control and reporting. The budgetary planning plans for the budget cost and budget for investment in every year. In budgetary planning, each department delivers their work plan using SI ANIN and processed each work plan by the Work Plan and Budget Division of Budgeting Department. This approach is called bottom-up managerial approach. The department composing their work plan using activity base budget, means that the budget they proposed is based on their activity for the period time. Afterwards, work plan which is approved by the management move to budgetary control to control between the budgetary planning and the realization of the budget. In controlling the budget, Budgeting Department use Cost Reduction Program (CRP) as a tool to achieve the management target for one year align with the budgetary planning. In the end, the result of the controlling budget is presented in budgetary report.

The financial performance of the company is the result of using Cost Reduction Program (CRP) as a tool represent at the income statement. The financial performance shows that the performance for the last five years is increasing and the financial of the company is health.

5.2 Recommendation

As explained in the conclusion above, there is still difficulties to handle the budget, which are about the complexity and dependency while managing the budget. The recommendations from the researcher for the company are described below:

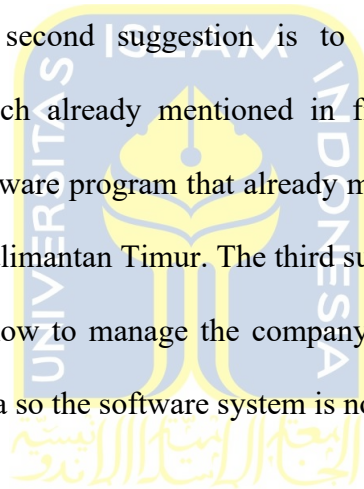
1. Complexity of Cost Controlling

According to Cox & Fardon (2012), budgeting is a fairly complex process and by creating the budget it needs to surpass its cost. In budgeting department, the reason behind the difficulties is low manpower and high control over the complex process. Therefore, these two reasons classified as an obstacle to solve the difficulties, which will not be solved because the management closed the independent recruitment. Thus, researcher suggests new software application to help budgeting department to control the business activities which the software focuses on the communication between the budgeting department and the others department to discuss the budget. Then, every department must have a staff that is capable to manage their budget in order to review their budget and discuss with the budgeting department if there is an error in one or both sides.

2. Dependency of Cost Controlling Software System

Budgets may lead to dysfunctional management stated by Cox and Fardon (2012), a limitation which happen in budgeting department by depending on the controlling software system can make issues somewhere else. A dependency is not a good choice in running the business, despite the facts

the business is the subordinate company. The business must have their own roots to control the activities that operate in the company. Furthermore, budgets should be set at practical levels and connected and coordinated over all departments inside of the business, which in PT Pupuk Kalimantan Timur itself. Therefore, the researcher suggests PT Pupuk Kalimantan Timur review and evaluate their financial management by detailing the cash flow calculation and calculate every risk possibility before planning the budget, this suggestion aim to simplify process for Pupuk Indonesia software. The second suggestion is to create software program or application which already mentioned in first problems suggestion and activate the software program that already made before to support the lack of PT Pupuk Kalimantan Timur. The third suggestion is Pupuk Kalimantan shall equalize how to manage the company to be in the same page with Pupuk Indonesia so the software system is not far different.



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APPENDICES

APPENDIX A

Internship Assessment Form

This is to certify that the following student

Name of supervisor : Haula Maulidina Hendraputri, S.E.,

Name of company : PT Pupuk Kalimantan Timur

Title of internship : Case Study of PT Pupuk Kalimantan Timur: Controlling Cost using Budgetary Control and the Firm Financial Performance

Date of TOR :

Period : January-February 2020

Name of student : Sofia Hasna Hamidah

Student ID number : 16311212

has completed the internship program in our company in accordance with the Term of Reference.

Upon considering all aspects, including work load and performance, we herewith decide that the student has finished the internship with the following results:

No	Aspect	1	2	3	4	5
1	Employer's satisfaction				×	
2	Discipline				×	
3	Ability to prioritize				×	
4	Punctuality				×	
5	Ability to cooperate				×	
6	Ability to work independently				×	
7	Thoroughness					×
8	Ability to learn and absorb new things				×	
9	Ability to analyze and design					×

Note:

1: very poor

2: poor

3: neutral

4: good

5: very good

Bontang, 25th January 2020

Supervisor,



Haula Maulidina Hendraputri, S.E.,
Head of The Control Section

APPENDIX B
Daily Activity's Schedule

NO	Time	Activity
1.	Tuesday, January 14 th 2020	<ul style="list-style-type: none"> • Data Filling and Evaluation Process (PDPE) and Photos in the Dept. Kantib. • Following the Occupational Safety and Health (K3) Direction from the K3 Department. • Following the Practice Work Direction from the Dept. Learning Center. • Explanation of labor insurance • Distribution of lodgings.
2.	Wednesday, January 15 th 2020	<ul style="list-style-type: none"> • Distribution of personal protective equipment (PPE) in the form of shoes, ear plugs and safety helmets. • Community tour & plant tour.
3.	Thursday, January 16 th 2020	<ul style="list-style-type: none"> • Distribution to each department. • Introduction as an intern in the department of budgeting. <p>Observation method:</p> <ul style="list-style-type: none"> • Learning the annual report to understand the company's performance through the year.
4.	Friday, January 17 th 2020	<p>Observation method:</p> <ul style="list-style-type: none"> • Learning the organization chart in the Budgeting Department and differentiated each job desk.

5.	Monday, January 20 th 2020	<ul style="list-style-type: none"> Discussed the job desk which is given by PT Pupuk Kalimantan Timur with the internship advisor to in-lining with the final assignment report.
6.	Tuesday, January 21 st 2020	<p>Survey method:</p> <ul style="list-style-type: none"> Discussed the problem found in the annual report with internship advisor.
7.	Wednesday, January 22 nd 2020	<ul style="list-style-type: none"> Collecting data provided in the library such as company histories.
8.	Thursday, January 23 rd 2020	<ul style="list-style-type: none"> Observation method: <p>Learning the problems that have been occurred by reading report from previous researcher.</p>
9.	Friday, January 24 th 2020	<ul style="list-style-type: none"> Start writing the company profile
10.	Monday, January, 27 th 2020	<ul style="list-style-type: none"> Learning how to make a company's budgeting work plan (RKAP) through guidebook provided by PT Pupuk Kalimantan Timur.
11.	Tuesday, January 28 th 2020	<ul style="list-style-type: none"> Learning how the business process in the budgeting department.
12.	Wednesday, January 29 th 2020	<ul style="list-style-type: none"> Consultation about chapter 1 with internship advisor Learning the job desk in the control and reporting budget section.
13.	Thursday, January 30 th 2020	<ul style="list-style-type: none"> Start writing chapter 1
14.	Friday, January 31 st 2020	<p>Survey method:</p>

		<ul style="list-style-type: none"> • Interviewed Mr. Ganis about SI ANIN, a software that help the operational of budget planning.
15.	Monday, February 3 rd 2020	<p>Survey method:</p> <ul style="list-style-type: none"> • Interviewed Mrs. Ola about the problems occurred in controlling the budget.
16.	Tuesday, February 4 th 2020	<ul style="list-style-type: none"> • Looking for journal and article related with the problems concerned. • Interviewed Mrs. Umi about the problems occurred in controlling the budget • Interviewed Mr. Bambang about the problems occurred in budget reporting section. • Start writing about the issues within budgeting department
17.	Wednesday, February 5 th 2020	<ul style="list-style-type: none"> • Interviewed and learn from Mr. Luki about the consolidation process between PT Pupuk Kaltim and its subordinates. • Continue writing about the issues within budgeting department.
18.	Thursday, February 6 th 2020	<ul style="list-style-type: none"> • Interviewed Mr. Ganis about budgeting planning in PT Pupuk Kalimantan Timur.
19.	Friday, February 7 th 2020	<ul style="list-style-type: none"> • Consultation chapter 1-3 • Continue reading journals and articles
20.	Monday, February 10 th 2020	<ul style="list-style-type: none"> • Revision chapter 1-3 • Continue reading journals and articles

21.	Tuesday, February 11 th 2020	<ul style="list-style-type: none"> • Observe the late discussion about budgeting department history
22.	Wednesday, February 12 th 2020	<ul style="list-style-type: none"> • Consult the revision • Continue to write the report
23.	Thursday, February 13 th 2020	<ul style="list-style-type: none"> • Finding problem occurred in Budgeting Department by using interviews to several staff of Budgeting Department
24.	Friday, February 14 th 2020	<ul style="list-style-type: none"> • Consultation about the problems that should be explained in the report • Start learn about the problems in the theory of budgeting
25.	Monday, February 17 th 2020	<ul style="list-style-type: none"> • Writing the report about problems that occurred in the company
26.	Tuesday, February 18 th 2020	<ul style="list-style-type: none"> • Learn about the jobs desk of each staff and learn how to do it
27.	Wednesday, February 19 th 2020	<ul style="list-style-type: none"> • Interviewed with Mr. Seno as head of Control and Reporting Division in Budgeting Department
28.	Thursday, February 20 th 2020	<ul style="list-style-type: none"> • Writing the chapter 4 • Revision Chapter 4
29.	Friday, February 21 st 2020	<ul style="list-style-type: none"> • Writing chapter 5 • Preparation for presentation
30.	Monday, February 24 th 2020	<ul style="list-style-type: none"> • Presentation Consultation • Content Consultation
31.	Tuesday, February 25 th 2020	<ul style="list-style-type: none"> • Presentation
32.	Wednesday, February 26 th 2020	<ul style="list-style-type: none"> • Revision • Collected Certificate

33.	Thursday, February 27 th 2020	<ul style="list-style-type: none"> • End of Internship
34.	Friday, February 28 th 2020	<ul style="list-style-type: none"> • Arrived at Universitas Islam Indonesia, Yogyakarta

Bontang, 27th January 2020
Supervisor,

Haula Maulidina Hendraputri, S.E.,
Head of The Control Section



APPENDIX C
PRESENTATION ANNOUNCEMENT



Kepada : **Manager Anggaran** **Dari** : **Manager Diklat & MP**
Tempat : Bontang **Tempat** : Bontang
Lampiran : - **Nomor** : 100/UND/KP/2020
Hal : **Undangan Presentasi** **Tanggal** : **Senin, 24 Februari 2020**

Berdasarkan hasil Kerja Praktik (KP) Mahasiswa di Dept. Anggaran, maka peserta di bawah ini akan mempresentasikan tugas khusus sebagai berikut:

No	Nama	Topik
1.	Sofia Hasna Hamidah	Controlling Cost using Budgetary Control and the Firm Financial Performance

Hari / Tanggal : Selasa, 25 Februari 2020
Waktu : 09:00 WITA
Tempat : Ruang Rapat Department Anggaran

Sehubungan dengan keterbatasan sumber daya manusia di Dept. Diklat & MP kami mohon bantuan dari unit kerja untuk memandu dan menilai presentasi mahasiswa tersebut di atas. Terlampir kami sampaikan undangan presentasi, mohon ditandatangani, diperbanyak dan dibagikan kepada karyawan terkait dengan topik presentasi tersebut di lingkungan Dept. Anggaran.

Demikian kami sampaikan, atas kerjasamanya kami ucapkan terima kasih.

Manager Diklat & Manajemen Pengetahuan

DTO

Tathit Surya Arjungsi

MA/App/KRN

***Surat ini di-generate otomatis oleh sistem**

APPENDIX D
PRESENTATION INVITATION



UNDANGAN PRESENTASI

Yth _____
Unit Kerja _____
di _____

Sehubungan dengan telah berakhirnya masa Kerja Praktik, mahasiswa atas nama di bawah ini:

No	Nama	Topik
1.	Sofia Hasna Hamidah	Controlling Cost using Budgetary Control and the Firm Financial Performance

Maka dengan ini kami mengundang Saudara untuk menghadiri presentasi mahasiswa tersebut yang akan dilaksanakan pada tanggal :

Hari / Tanggal : Selasa, 25 Februari 2020

Waktu : 09:00 WITA

Tempat : Ruang Rapat Department Anggaran

Demikian kami sampaikan, atas kerjasamanya kami ucapkan terima kasih.

Manager Anggaran

APPENDIX E
LIST OF PRESENTATION ATTENDEES



DAFTAR HADIR PRESENTASI KERJA PRAKTIK

Hari, Tanggal : Selasa, 25 Februari 2020
Tempat : Ruang Rapat Department Anggaran
Presentator : Sofia Hasna Hamidah

No	Nama	NPK	Unit Kerja	Tandatangan
1	SEPTIAN SENO R		Ang	
2	Haula MHP	1404309	Ang	
3	Umi Nuzul k.	1504407	Ang	
4	Wildan A F		Anggaran	
5	Luki Maulana	1604501	Anggaran	
6	Aris	9903355		
7	M. Rifan F.R.	1908030	Admin keu	
8	M. Rafi R		Keu	
9	Krisna B.C		Anggaran	
10.	Niken. Wandasari		Keuangan	
11.	Poppy pratiwi		Keuangan	
12.	ROSTINI	M-1406	ANGGARAN	
13	MARINGAN	M. 1242	ANGGARAN	

APPENDIX F
COMPANY CARD



APPENDIX G ACCEPTANCE INTERNSHIP NOTIFICATIONS



**DIKLAT & MANAJEMEN PENGETAHUAN
PT PUPUK KALIMANTAN TIMUR**



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ID ▼



Sofia Hasna Hamli...
Kerja Praktik

Diterima
Unduh Undangan

Periode :
Januari - Maret 2020

Beranda

Data Diri

Undangan

Pengumuman

Pengumuman

2018-12-10 08:31:08

Jadwal Pelaksanaan Program Kerja Praktik Tahun 2019

Berikut jadwal periode pelaksanaan Program Kerja Praktik untuk tahun 2019.

Periode I -- 10 Januari s.d. 11 Maret 2019

Periode II -- 4 April s.d. 4 Juni 2019

Periode III -- 10 Juli s.d. 10 September 2019

No	Elemen Penilaian	Baik Sekali (86-100)	Baik (70-85)	Cukup (55-69)	Kurang (<54)
1	Discipline	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2	Attitude	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3	Initiative	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4	Papers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5	Presentation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6	Knowledge	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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APPENDIX H
LETTER OF COMPLETION



SURAT KETERANGAN

Nomor : 61/SKT-LC/II.20

Manager Learning Centre PT Pupuk Kalimantan Timur Bontang dengan ini menerangkan bahwa:

Nama : Sofia Hasna Hamidah
Perguruan Tinggi : Universitas Islam Indonesia (UII)
Jurusan : Manajemen

Telah melaksanakan Program Kerja Praktik di Departemen Anggaran PT. Pupuk Kalimantan Timur dengan pokok bahasan :

"Controlling Cost using Budgetary Control and the Firm Financial Performance"

terhitung mulai tanggal : 14 Januari 2020 s.d. 26 Februari 2020

Demikian surat keterangan ini diberikan untuk dapat dipergunakan sebagaimana mestinya.

Dikeluarkan di : Bontang
Pada Tanggal : 26 Februari 2020

PT. PUPUK KALIMANTAN TIMUR
MANAGER LEARNING CENTRE



TATHIT SURYA ARJANGGI
NPK. 4053589

PT Pupuk Kalimantan Timur
Kantor Pusat :
Jl. Jember Simandjuntak No. 1
Bontang 75313
Kalimantan Timur
Telp : (0548) 41202/41203
Fax : (0548) 41616/41626
www.pupukkaltim.com

APPENDIX I
CERTIFICATE OF INTERNSHIP

PUPUK KALTIM

Learning Centre
PT Pupuk Kalimantan Timur

Sertifikat

No. : 61 /SERT-KP/II/20

Menyatakan Bahwa

Nama : Sofia Hasna Hamidah
Tempat & Tanggal Lahir : Surakarta, 27 April 1998
Institusi : Universitas Islam Indonesia (UII)

Telah menyelesaikan Praktik Kerja Lapangan

Mulai Tanggal : 14 Januari 2020 s.d. 26 Februari 2020
Bidang : Manajemen
Pokok Bahasan : Controlling Cost using Budgetary Control and the Firm Financial Performance

Pas Foto
3 x 4 cm

Bontang, 26 Februari 2020
PT Pupuk Kalimantan Timur
Departemen Learning Centre


Tahit Surya Arjanggi
Manager

**APPENDIX J
DOCUMENTATION**

