



# Inventory accounting analysis at pt. Andalas independent son of Pekanbaru

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## ABSTRACT

PT. Andalas Putra Mandiri is a trading company engaged in the sale of medicines and medical devices, which is located at Jalan Thamrin No.124, Sukamaju sub-district, Sail sub-district, Pekanbaru City. For companies, inventory is the largest item in the financial statements and absorbs very large investments. This makes the writer feel the need to conduct research based on Financial Accounting Standards No. 14 relating to the presentation of inventory estimates in the financial statements, with the title "Inventory Accounting Analysis at PT. Andalas Putra Mandiri Pekanbaru". The purpose of this research is to find out how PT. Andalas Putra Mandiri Pekanbaru determines the cost of inventory, evaluates inventory and presents inventory in the financial statements. The method used in this research is descriptive method, while the data collection method used consists of interviews and documentation. From this study, the authors found several deviations including errors in determining the cost of inventory and presenting inventory estimates in the financial statements. The author draws the conclusion that inventory accounting at PT. Andalas Putra Mandiri Pekanbaru has not been implemented in accordance with what is regulated in the Financial Accounting Standards. The company should apply inventory accounting in accordance with the applicable Financial Accounting Standards.

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## 1. INTRODUCTION

In manufacturing companies, inventory is generally divided into three, namely raw material inventory, work-in-progress material inventory, and finished goods inventory. Whereas in a trading company, inventory consists of only one type, namely merchandise inventory. Good and correct accounting treatment of inventory is absolutely required by the company. This is because inventory items for companies have a very large influence on the presentation of financial statements. Inventory directly affects the value of assets in the balance sheet, as well as determining the cost of goods sold in the calculation of profit and loss. Errors in the accounting treatment of inventories will lead to misrepresentation of information in the resulting financial reports.

Statement of Financial Accounting Standards No. 14 explains several important matters in relation to inventory accounting, including determining the cost of inventory, inventory recording systems, inventory valuation methods, and inventory presentation in the financial statements. In these

two types of companies inventory is the largest item in current assets and absorbs investment in raw material inventories, materials in process and finished goods inventories.

The cost of inventories includes all purchase costs, conversion costs and other costs incurred until the inventories are in a condition and place ready for sale or use (present location and condition). Theoretically the inventory recording system can be done with a perpetual system or a periodic system. In the perpetual system, every change that occurs in inventory is immediately recorded in the inventory estimate, so that at any time the company can find out the amount and cost of inventory in the warehouse. However, once a year it is necessary to check whether the number of goods in the warehouse matches the amount in the inventory account. While the periodic system, all changes that occur in inventory are not directly recorded in the inventory estimate,

The general inventory valuation method that is in accordance with that outlined by the Indonesian Institute of Accountants is the first, First In First Out (FIFO) method, which is a method based on the assumption that inventories must be charged to income in the order in which they occur. So that every item sold is the first item purchased. The cost of goods issued is charged to the initial purchase price, even if the goods are not the first. Second, the Last In, First Out Method (LIFO), which assumes that the latest cost of certain goods must be charged to the cost of goods sold, so that inventory is reported at the earliest cost. Third, The weighted average method is a method based on the assumption that goods sold must be charged with an average cost, namely the amount of inventory on hand compared to the price of the inventory as a whole. The cost of inventories taken from the warehouse for sale is calculated on an average basis.

Inventories are generally reported as part of current assets in the balance sheet. Trading companies only have one type of merchandise inventory, while manufacturing companies have several types of inventory, namely raw materials, work-in-progress, and finished goods. Although in some situations, these inventories are required to be realized into cash. In addition to the several types of inventory above, including goods in transit, goods in consignment, and agent goods, are also reported in the inventory post.

In trading companies, the presentation of inventories is presented at cost of goods sold. This section presents the beginning and ending inventory of an accounting period. The cost of acquisition in one period is obtained from the beginning inventory plus purchases and then deducting ending inventory. PT. Andalas Putra Mandiri is a trading company engaged in the sale of medicines and medical devices which is located at Jl. Thamrin No. 124 Pekanbaru. Inventory owned by the company can be seen from the inventory list where inventory is the largest item in the financial statements and absorbs very large investments.

In determining the acquisition price of PT. Andalas Putra Mandiri assessed based on the purchase price alone without including the freight costs incurred by the company in the amount of (Rp. 10,500,000.00) arising from the process of transporting goods to the company's warehouse by the transport party. While the terms of purchase are FOB Shipping Point, which means the right to the goods sent is transferred to the buyer when the goods are handed over to the carrier. The company allocates transportation costs arising from the process of transporting goods to the company's warehouse by the carrier as operational costs and not as an addition to the cost of inventory. According to PSAK No. 14.2 paragraph 06 of 2007 that inventory costs must include all purchase costs, conservation costs,

Observations show that in terms of presentation of the financial statements, especially on the Andalas Putra Mandiri balance sheet, it does not present inventories at net realizable value in accordance with PSAK No. 14-2. For example, the inventory value on the balance sheet is Rp. 168,250,000.00 where in the amount of inventory there is Rp. 16,534,200.00 damaged goods. Damaged goods should not be included in the inventory on the balance sheet, because this damaged inventory reduces the existing inventory on the balance sheet, so that a net realizable value of Rp. 151,715,800.00 after deducting damaged inventory.

## 2. RESEARCH METHOD

This research was conducted at PT. Andalas Putra Mandiri which is located on Jl. Thamrin No. 124 Ex. Sukamaju Kec. Sail, Pekanbaru City. As for the type of Primary Data: Data that the author obtained from direct interviews with the head of the accounting section, administration section, purchasing section and warehouse section regarding inventory acquisition price policies, recording methods and inventory values. Secondary Data: In the form of financial reports such as balance sheets, profit and loss statements, list of merchandise inventory obtained from the accounting department. The organizational structure, history and deed of establishment of the company were obtained from the personnel department. Interviews: namely conducting questions and answers with related parties or authorized officials such as the accounting and administration department: by looking at financial reports such as profit and loss lists and balance sheets.

## 3. RESULTS AND DISCUSSIONS

### Research results/discussion

#### 1. Elements Included as Acquisition Price

As stated in the previous chapter, the cost of inventories consists of all expenses, both directly and indirectly, related to the purchase, preparation and placement of inventories for sale. In the case of raw materials or goods acquired for resale, costs include the purchase price, shipping, receiving, storage and all costs incurred until the goods are ready for sale.

According to the Indonesian Institute of Accountants in SAK No. 14 paragraph 6 the cost of inventories must include all purchasing costs, conversion costs and other costs incurred until the inventories are in the condition and place ready for sale or use (present location and condition). the principal inventory as described above is not in accordance with the Financial Accounting Standards. Where the company calculates the acquisition price of merchandise inventory based only on the price listed on the invoice. Meanwhile, other costs sacrificed in connection with the acquisition cost of merchandise inventory, such as purchase freight costs, are not considered by the company as an element of the addition to the cost of merchandise inventory, but instead as operational costs.

The treatment of transportation costs for this purchase is not in accordance with the rules set out in SAK. Because the company does not add the cost of transporting the purchase of merchandise inventory as the cost of inventory, but is included as operating costs. This treatment will result in the cost of merchandise inventory being lower and operating costs higher than it actually is.

the company must record and recognize transportation costs Rp. 10,500,000,- as an addition to the acquisition cost of inventories. The required freight costs are added to the acquisition price of the inventory, because the transportation costs incurred by the company are in the context of the company carrying out an activity to acquire an asset, not the transportation costs incurred by the company in order to earn income. in the buyer's way, the costs of transport and the risks that occur with the goods are borne by the buyer.

The effect on the company's profit/loss report is that the cost of inventory is undervalued by Rp. 10,500,000, followed by ending inventory and cost of goods sold which are also considered too low by Rp. 10,500,000 So that the gross profit earned by the company in that period was considered too high by Rp. 10,500,000, on the other hand the total expenses are also considered too high by Rp. 10,500.00 In the end, the net profit earned by the company in that period will be undervalued by Rp. 10,500,000.

In addition to having an influence on the company's Profit / Loss report, it also has an influence on the company's balance sheet. The effect on the balance sheet is that the value of inventory items on the balance sheet is undervalued by Rp. 10,500,000 so that the total current assets and total assets of the company are considered too low at Rp. 10,500,000. On the liabilities side, the amount of the

company's liabilities has no effect, but on the company's capital account the value is too low at IDR 10,500,000 because the net profit earned by the company is an element of addition to the company's capital.

## 2. Discount

In determining the cost of inventories, purchase discounts are included as a deduction element to the cost of inventories and in the recording of goods must also be included as a deduction element to the cost of inventories. Thus the price of merchandise according to the catalog will change to the actual price charged to the buyer.

Purchase discounts obtained by the company on the purchase of merchandise are included in the estimate of other income. For example, during 2007 the company purchased merchandise inventory amounting to Rp.43,866,666.67, obtaining a 3% discount on purchasing merchandise so that the company received a discount of Rp. 1,316,000.00. when making payments, the company records the purchase discount obtained in the estimated other income.

when making payments, the company includes discounts on purchases of merchandise as other income. As a result, the value of merchandise inventory becomes higher and other income presented in the income statement is not in accordance with the truth. The purchase discount should be Rp. 1,316,000.00 obtained by the company must be treated as a deduction from the acquisition cost of inventories, not as other income in accordance with SAK, so that the reported value is in accordance with the actual value.

## 3. Inventory Valuation Method

The inventory valuation method used by the company is First In First Out method. However, the valuation of material inventories by the company at the end of the period is not in accordance with the Financial Accounting Standards. The value of merchandise inventory presented on the balance sheet is Rp. 168,250,000.00 while the value of merchandise inventory that is ready to be sold is Rp. 151,715,800.00. Because there is a damaged inventory of merchandise but the company still counts it as the ending inventory of merchandise, which is IDR 16,534,200.00.

From the inventory valuation carried out by the company using the First In First Out method it has violated the rules in accounting practice. Companies do not fully understand, especially in doing the calculations. So it is clear, that the company in applying the inventory valuation method is not in accordance with generally accepted accounting principles. As a result of the company's lack of understanding of inventory valuation, it has a broad influence on the financial information presented and conveyed by the company to the users of the information themselves. The effect on the company's financial information includes: on profit / loss reports, balance sheets and other financial information.

## 4. Presentation of Inventory in the Financial Statements

The presentation of inventory is contained in the financial statements, namely on the balance sheet. For presentation on the balance sheet, inventories are grouped into current assets according to their liquidity in accordance with the rules in the Financial Accounting Standards, namely estimates of Cash, Bank, Receivables, Supplies, Office Equipment.

However, valuation of merchandise inventory is not presented at net realizable value. There are several damaged inventories that should be removed from the stock taking list because the merchandise cannot be used anymore. By PT. Andalas Putra Mandiri merchandise is still included in the stock taking and is also valued in the ending inventory, this is not in accordance with the Financial Accounting Standards, because inventories are not presented at net realizable value.

This is evidenced by the existence of damaged goods entered by the company into the balance sheet as inventory. Where should the damaged goods be removed from inventory and included in the cost of damage to goods which is a cost that rarely occurs. The ending inventory value on the balance sheet was recorded at Rp. 168,250,000.00 at the end of the period. In this amount it is known that there is a value of damaged inventory of Rp. 16,534,200.00. The problem is PT. Andalas Putra Mandiri had made the mistake of not issuing damaged goods as a deduction in determining the ending inventory, so that the ending inventory value presented on the balance sheet was not presented at net realizable value.

Based on the Financial Accounting Standards, the damage to goods experienced by the company should be Rp. 16,534,200.00 is deducted beforehand in determining the ending inventory value so that the net realizable value of the ending inventory will be obtained as shown in the inventory mutation calculation below. The presentation also has an impact on the company's financial information.

The effect of this error on the company's income statement is that the ending inventory value reported by the company is overvalued by Rp. 16,534,200.00 so that the HPP set by the company is considered too low at Rp. 16,534,200.00 against the gross profit and net profit earned by the company will be overvalued at Rp. 16,534,200.00.

Then the effect on the company's balance sheet is that the value of the inventory item presented by the company is considered too high because until the end of that period the company does not remove the damaged goods from its inventory as a deduction from the inventory it has. So that the total current assets and total assets are overstated by Rp. 16,534,200.00. On the liability side, the effect is that the company's total capital is presented with a value that is too high, amounting to Rp. 16,534,200.00, which in the end, the value of the total liabilities is too high, amounting to Rp. 16,534,200.00

The error in determining the acquisition price of the freight costs has a wide impact on the financial information presented and conveyed by the company to interested parties. As a result of the recording errors made by the company, the cost of inventory was undervalued by Rp. 10,500,000.00 followed by the ending inventory and the cost of goods sold is also considered too low by Rp. 10,500,000.00 so that the gross profit earned by the company in that period was considered too high at Rp. 10,500,000.00. In the end, the net profit earned by the company in that period will be undervalued by Rp. 10,500,000.00.

Misrepresentation and elaboration in the explanation of the company's financial statements will make the resulting report less informative. Financial reports according to the Principles of Financial Accounting are reliable, accurate and free from misstatement.

#### 4. CONCLUSION

In determining the cost of merchandise inventory, the company does not include purchase freight costs as an addition to the cost of inventory, but the company includes them as operational costs. In purchasing merchandise inventory, the company obtains a purchase discount. In this case the company records as other income the purchase discounts obtained. Inventories presented in the financial statements, especially on the balance sheet, are not presented at net realizable value because damaged inventories are still presented on the balance sheet. This is not in accordance with SAK No.14-2.

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