

THE INFLUENCE OF INTERNAL CONTROL TOWARD PRODUCTION COST CONTROL EFFECTIVITY

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Abstract

One of the largest components of costs in the company is the production cost. Production costs are easier to control because it involves the internal activities of the company so that obtaining the production cost in controlling costs is top priority. The success of a company to control production cost will be a positive impact on corporate earnings and increasing in the company's objective. Cost of production is one of the companies that require control cash out carefully and is the existence of an adequate internal control. Companies should be aware that by applying an adequate system of internal control, to effectively control production costs and also increase its profit. This purpose of this paper is for measuring the influence of internal control efectivity toward production cost control.

Keywords : Internal Control, Production Cost Control Efectivity

1. INTRODUCTION

The world is an era of globalization According to Bender and Fish (2000) and Indonesia as developing countries continue to actively carry out development in all fields in order to improve global competitiveness. The target to be achieved in the development is the creation of a balanced economic structure to ensure equitable distribution of income and welfare levels in creating a just and prosperous society. One of Indonesia's largest sources of foreign exchange are in the agricultural sector and PT. PUPUK KUJANG CIKAMPEK is one of the state owned company engaged in the sale of urea fertilizer to meet agricultural needs. Each company driven in order to operate effectively and efficiently so that the results of their products have high competitiveness in the market and win the competition.

The largest component of the cost is the cost of production. Production costs represent costs incurred to process raw materials into finished products ready for sale. Production costs are easier to control, because it involves the internal activities of the company while marketing costs are influenced by changes in market conditions which are variables that can't be controlled by the company. Therefore the cost of production should be the main priority in controlling costs. The success of a company to control production expenses will be a positive impact on corporate earnings and an increase in the company's progress.

Cost of production is one of the companies that require control spending carefully and the answer of control that the existence of a system of internal control. In the internal control system are several stages one of which is the preparation of the budget. Through budgeting costs, particularly the cost of production, expenses of a company controlled by calculating the actual costs, the magnitude of these differences will be analyzed to determine the cause. By knowing the causes of changes in the cost of production and cost can be seen in any part of that experience inefficiency within the company. Therefore, companies require the analysis, especially for companies that have entered the increasingly fierce competition. Analysis is also needed to avoid the cost of production is too high.

Overall one of support for the implementation of an activity to be effective and efficient as is the system of internal control (COSO, 1992). Every company is in need of a means of control to ensure that the company's activities have been carried out in accordance with the objectives and targets, management must always exercise control over the activities by comparing the results with those objectives. Control system will direct and lead the company to a desired destination. Control is a process of action to ensure that operations are in accordance with the objectives, policies and standards that have been established by the company, and take corrective action in case of deviations from planned.

Management controls related to the implementation strategy, and assume that the strategies and objectives have been established. Management control also the methods, procedures, and tools used by management to ensure compliance with corporate policy and strategy. Management control system is a process and structure systematically arranged and used by management to conduct with control all aspects of management. Thus the management control system aims to direct operation, where the action can be a correction of the deficiency and the adjustment of activities to suit the purpose and strategy of the company, so that the results of the management control process will produce which serves as an information feedback to management for decision.

2. LITERATURE REVIEW

Internal Control Theory

According to Boynton (2001:325) who cites the COSO definition of internal control Internal control is the following is a process affected by the entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories Reliability of financial reporting, Effectiveness and efficiency of operations, compliance with applicable laws and regulations. Internal control consists of five interrelated components such as Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring The inherent limitations of internal control by Mulyadi (2002:181) are as follows:

1. Errors in judgment.
Often, management and other personnel can be wrong in making business decisions or in setting up regular duties because of inadequate information, time constraints, or other pressures.
2. Disorders.
Disruption in the specified control can occur because personnel mistakenly understand commands or make mistakes due to negligence, careless in his duties running or fatigue.
3. Collusion.
Collusion is the act of a few individuals together to achieve the goals of crime, collusion can lead to breakdown of internal controls established to protect the riches entities and non-disclosure of irregularities or fraud is not detected by internal controls planed.
4. Abandonment by management.
Management can ignore policies or procedures have been established for unauthorized purposes, such as personal profit management.
5. Cost benefit opponent.
Costs required to operate internal controls should not exceed the expected benefits of the internal control. Management should be able to estimate and consider quantitatively and qualitatively in evaluating the costs and benefits of an internal control.

Cost Control Efectivity Theory

Anthony Dearden and Bedford (1993) distinguish responsibility centers based on input and output characteristics and relationships between them is a cost center. Cost center is the center manager accountability achievement is measured on the basis of cost (input values). Each center accountability consume input and produces a rich spending. In a cost center, the output can not to be measured in terms of revenue. Based on the relationship between the output and the inclusion, cost centers can be subdivided into:

1. Engineering cost center/cost center measured.
Engineering cost center accountability is central to most of the input has a real and close relationship with output. Engineering cost center manager achievements are measured on the basis of how much maintaining efficiency.
2. Policy cost center/cost center immeasurable.
3. Center cost center accountability policy is largely input does not have a relationship with output. Cost center policy accomplishments can't be measured in terms of efficiency. Control policy cost center is done by using the budget as a guide for managers.
4. Revenue Center
Revenue center is the center manager accountability achievement measured by revenue. Revenue center managers are not held responsible on the input, because it does not affect the use of these inputs. Revenue center is responsible for achieving the targeted revenue without having to be held accountable regarding department costs incurred because the cost often does not correspond with the income earned by the department.
5. Profit Center
Profit center accountability of manager measured of the difference between revenue and costs to obtain these revenues. In a profit center, its inputs and outputs are measured in terms of money is the basis for calculating earnings performance measurement manager. In financial accounting and recognize revenue at the time of the transaction in record sales. A liability is a profit center if the management wants to measure the output of the responsibility centers in terms of money and the manager of the responsibility center performance is measured on the basis of the difference between revenue with costs.
6. Investment Center
Investment center is a profit center manager's performance is measured by connecting the center of the profits from such liability to the investment in question. Measure of achievement can be an investment center manager with investment earnings that are used to make a profit. Generally it is that the responsibility center manager achievements based on measured input and output characteristics. Cost is a benchmark achievement for cost center managers, while income is a benchmark achievement for revenue center managers. In the investment center with investment income ratio or residual income is used as a benchmark for the performance of investment center managers.

Hongren (2005:250) *there are three major elements in cost of manufacture product as direct material, direct labour and indirect manufacturing cost.* All material that are physically observable as being identified with the finished goods and that may be traced to the finished good in an economically feasible manner. All labour that is physically traceable to finished good economically feasible manner. All cost other than materials and direct labour that are associated with manufacturing process. Understanding of cost control by Apandi Nasehatun (2000:214) are Controlling costs means a series of steps by steps ranging from the preparation of the plan costs up to the actions that need to be done if there is a difference that has been established such a plan with what really happened such realization. The control function according to Apandi Nasehatun (2000:38) is to control or direct and supervise the activities and expenditures. One of the goals of the plan to select the most profitable activities. This activity is certainly not only planned but also implemented and its implementation needs to be supervision or control that goes according to plan and achieve results desired. To prevent or avoid wastage or inefficiency or deviations. With the control and good planning, this sort of thing can be avoided or at least minimized.

3. EMPIRICAL STUDY

The method used in this research is descriptive analytical method is a method that describes the look and environment or circumstances apparent in the company, by way of collecting, presenting, and analyzing the data in order to obtain a clear picture on objekyang studied, in order to be concluded.

According to Moh. Nasir, Phd. (2003:71) is a descriptive analytical study aimed to investigate the activity and human work and the results of such research can provide recommendations for future purposes.

The technique used to obtain these data include :

1. Research Field.

The collection of research data by directly contacting the company that became the object of research to collect primary data, the techniques used were interviews with competent authorities to observe directly to the companies concerned by way of :

- a. Circulate the questionnaire is to provide a list of questions that were distributed to the respondents, the respondents simply select one of the answers that have been provided (close ended questionnaire) is Yes, Neutral, and Not.
- b. Interviews were conducted either with the leaders and authorities are officers of the company to obtain data relating to the research problem.
- c. Direct observation of observing and recording data sources to be analyzed, in this case is to see for them the object under study.

2. Research Library (Library Research) that leverage data from the literature that is closely related to the material covered. This data source is used as the theoretical foundation in obtaining a good evaluation of the data source object of study.

There are three variables that were analyzed do the adequacy of internal controls, effective control of production costs and the benefits of the implementation of the internal control system to control the efficiency of production costs.

a. Adequacy of Internal Control

Overall it can be concluded that the internal control has been applied very adequate of all components of the Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring.

b. Effectiveness production cost control

- Deviations Production costs not significant can be seen that all the production target difference of actual production is above the specified criteria in the company, which is above 100 % and it can be concluded that there is no significant deviation of production costs due to the realization of the cost of production is greater than the specified budget is 101.77 % and supported by the use of management control systems on production costs used by the company.

- Product Quantity Fit Your Budget

The resulting production quantity PT. PUPUK KUJANG CIKAMPEK is large accordance with the budgeted and parts production have been able to meet the production quantity with budgeted in the amount of 104.59 %. Totally the production department can still meet the production quantity in accordance with the budget.

- The Right Time of Production

To ensure the timeliness of production, the company is always evaluating employee performance and provide guidance to employees regularly. Companies are always trying to improve the performance of its employees in order to please the customers.

- Quality Products Generated

Products that have been produced by PT. PUPUK KUJANG CIKAMPEK already had standards accordance with the standards established by the company. PT. PUPUK KUJANG CIKAMPEK able to penetrate the international market, which is the goal export country is a state of Asia. This shows that the product of PT. PUPUK KUJANG CIKAMPEK have a good quality, this is the result of the inspection and evaluation. Production process, perform experiments and innovations to improve the quality of both product and production process.

Based on the research it can be concluded that the internal control may:

a. Encourage achievement production cost effectiveness

From the results of research conducted at PT. PUPUK KUJANG CIKAMPEK that the production process is generally effective. With the adequate management control, the company is able to

minimize the deviation cost of production so that managers are able to take the action on deviations that would be useful as a management tool in promoting the achievement of cost effectiveness of production.

- b. Motivating managers to achieve production target as the production Budget Production quantity produced by PT. PUPUK KUJANG CIKAMPEK are large accordance with budgeted. This is due to the preparation of the program and budget is sufficient so as to encourage managers in achieving production targets within budget and to supervise the activities and expenditures contained in the company so that it can be used as a tool in evaluating the effectiveness of the production plan.
- c. Motivating the production managers to produce on the right time.
Managers are motivated to perform timely production at PT. PUPUK KUJANG CIKAMPEK is in compliance. It can be seen from the implementation of management control systems seen in the implementation of budget control, performance measurement, reporting and analysis. To ensure the timeliness of production, the company always evaluating employee performance and provide a guidance to employees regularly. Companies are always trying to improve the performance of its employees in order to please the customers.
- d. Motivating managers to produce with highly quality products
Level standards set by the company is a motivation for employees to produce quality products in accordance with consumer demand.

4. CONCLUSION

Base on this research there is a conclusion as:

- a. The Adequation of Internal Control is very High
- b. The Efectivity of Production Cost Control can be seen as:
 - Deviations Production Costs Not Significant
 - Product Quantity Fit Your Budget
 - Production of Do the Right Time
 - Quality Products Generated
- c. Internal Control can:
 - Encourage achievement Production Cost Effectiveness
 - Motivating Managers Achieve Target Production In accordance with the Articles of Production
 - Motivating The production order Production Managers Do Right time
 - Motivating Managers In Produce Quality Products
- d. The influence of Internal Control toward Production Cost Control Efectivity is 86% based on statistical data.

ACKNOWLEDGEMENT

The author would like to thank PT. PUPUK KUJANG CIKAMPEK, West Java, Indonesia which is cooperatively supporting for this research.

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