# CHAPTER I

# PREFACE

## 1.1. Background

According to the Law of the Republic of Indonesia No. 1 of 2025, “a State-Owned Enterprise, hereinafter referred to as an SOE (BUMN), is a business entity that fulfills at least one of the following criteria:”

a) “All or the majority of its capital is owned by the Government of the Republic of Indonesia through direct equity participation; or”
b) “there exist special rights held by the Government of the Republic of Indonesia.”

It further explains that “the objectives of establishing State-Owned Enterprises are:”

a) “To generate profits;”
b) “to contribute to the development of the national economy in general and to state revenue in particular;”
c) “to act as pioneers in business activities that cannot yet be carried out by the private sector and cooperatives;”
d) “to empower, support, and develop partnerships with micro, small, and medium enterprises, cooperatives, and the community;”
e) “as a Persero, to provide and ensure the availability of high-quality and highly competitive goods and/or services;”
f) “as a Perum, to ensure the availability of goods and/or services for public benefit in order to fulfill essential public needs and strategic requirements; and”
g) “to develop strategic industries based on research, innovation, and technology in synergy with other countries” (Government of Indonesia, 2025).

According to the Ministry of Defense of the Republic of Indonesia (2025), “Deputy Minister of Defense Donny emphasized the importance of the role of supporting components within the national defense system. ‘A strong national defense is the primary foundation for the creation of national stability as an effort to support sustainable economic growth,’ stated the Deputy Minister of Defense.”

“The five designated industries are PT Len Industri (Persero), PT Pindad, PT Dirgantara Indonesia, PT PAL, and PT Dahana. All five are part of the DEFEND ID defense industry holding. This designation aims to strengthen the independence of the defense sector and to fulfill the Indonesian National Armed Forces’ weapons system requirements. The Deputy Minister of Defense also expressed hope that DEFEND ID would serve as a role model in carrying out state duties and functions, as well as in supporting the main and reserve components” (Ministry of Defense of the Republic of Indonesia, 2025).

Weygandt et al. (2022) defines accounting as “the information system that identifies, records, and communicates the economic events of an organization to interested users.” Within this broader discipline, financial accounting is identified as “the field of accounting that provides economic and financial information for investors, creditors, and other external users” (Weygandt et al., 2022).

“Financial accounting provides economic and financial information for investors, creditors, and other external users. The information needs of external users vary considerably. Taxing authorities, such as the State Administration of Taxation in the People’s Republic of China (CHN), want to know whether the company complies with tax laws. Regulatory agencies, such as the Financial Services Authority of Indonesia (IDN), want to know whether the company is operating within prescribed rules. Customers are interested in whether a company like Tesla Motors, Inc. (USA) will continue to honor product warranties and support its product lines. Labor unions, such as the Indian National Trade Union Congress (IND), want to know whether companies have the ability to pay increased wages and benefits to union members” (Weygandt et al., 2022).

According to Weygandt et al. (2022), “the system of collecting and processing transaction data and communicating financial information to decision-makers is known as the accounting information system. Factors that shape an accounting information system include the nature of the company’s business, the types of transactions, the size of the company, the volume of data, and the information demands of management and others.”

Weygandt et al. (2022) state that “most businesses use computerized accounting systems—sometimes referred to as electronic data processing (EDP) systems. These systems handle all the steps involved in the recording process, from initial data entry to preparation of the financial statements. Many companies upgraded their accounting information systems to prevent cybersecurity attacks. In addition, companies are utilizing new technologies.”

Weygandt et al. (2022) note that, “cloud-based storage permits employees to access records from different locations,” while “data automation and analytics tools help companies interpret large volumes of data to support enhanced decision-making and automating routine processes.” They further state that “in order to remain competitive, companies continually improve their accounting systems to provide accurate and timely data for decision-making.”

According to SAP SE (2026), “ERP stands for ‘enterprise resource planning.’ ERP software includes programmes for all core business areas, such as procurement, production, materials management, sales, marketing, finance, and human resources (HR).” “SAP was one of the first companies to develop standard software for business solutions and continues to offer industry-leading ERP solutions.” “The name SAP is an initialism of the company’s original German name: Systemanalyse Programmentwicklung, which translates to System Analysis Program Development.” “Today the company’s legal corporate name is SAP SE—SE stands for Societas Europaea, a public company registered in accordance with the European Union corporate law.”

SAP SE (2026) further states that "SAP helps companies and organizations of all sizes and industries run their businesses profitably, adapt continuously, and grow sustainably." "Traditional business models often decentralize data management, with each business function storing its own operational data in a separate database." "This makes it difficult for employees from different business functions to access each other's information." "Duplication of data across multiple departments increases IT storage costs and the risk of data errors." "By centralizing data management, SAP software provides multiple business functions with a single view of the truth." "This helps companies better manage complex business processes by giving employees of different departments easy access to real-time insights across the enterprise." "As a result, businesses can accelerate workflows, improve operational efficiency, raise productivity, enhance customer experiences—and ultimately increase profits." "The company's integrated applications connect all parts of a business into an intelligent suite on a fully digital platform, thereby replacing the process-driven, legacy platform."

Kieso et al. (2024) explain that, "accounting information systems rely on a process referred to as the accounting cycle," and that the "accounting cycle illustrates the steps companies follow each period to record transactions and eventually prepare financial statements."

"Required steps in the accounting cycle:"

1) "Analyze Business Transactions"
2) "Journalize the Transactions"
3) "Post to The Ledger Accounts"
4) "Prepare a Trial Balance"
5) "Journalize And Post Adjusting Entries: Deferrals/Accruals"
6) "Prepare an Adjusted Trial Balance"
7) "Prepare Financial Statements"
8) "Journalize and Post Closing Entries"
9) "Prepare a Post-Closing Trial Balance" (Weygandt et al., 2022).

Weygandt et al. (2022) state that "Steps 1–3 may occur daily during the accounting period. Companies perform Steps 4–7 on a periodic basis, such as monthly, quarterly, or annually. Steps 8 and 9—closing entries and a post-closing trial balance—usually take place only at the end of a company's annual accounting period."

According to Weygandt et al. (2022), "although it is possible to enter transaction information directly into the accounts, few businesses do so. Practically every business uses the basic steps in the recording process (an integral part of the accounting cycle):"

1) "Analyze each transaction in terms of its effect on the accounts."
2) "Enter the transaction information in a journal."
3) "Transfer the journal information to the appropriate accounts in the ledger."

The authors further note that "the steps in the recording process occur repeatedly."

Weygandt et al. (2022) also explain that "companies initially record transactions in chronological order (the order in which they occur). Thus, the journal is referred to as the book of original entry. For each transaction, the journal shows the debit and credit effects on specific accounts." They further note that "companies may use various kinds of journals, but every company has the most basic form of journal, a general journal. Typically, a general journal has spaces for dates, account titles and explanations, references, and two amount columns."

"The journal makes several significant contributions to the recording process:"

1) "It discloses in one place the complete effects of a transaction."
2) "It provides a chronological record of transactions."
3) "It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared" (Weygandt et al., 2022).

“Entering transaction data in the journal is known as journalizing. Companies make separate journal entries for each transaction. A complete entry consists of (1) the date of the transaction, (2) the accounts and amounts to be debited and credited, and (3) a brief explanation of the transaction” (Weygandt et al., 2022).

According to Kieso et al. (2024), “a company records in accounts those transactions and events that affect its assets, liabilities, and equities. The general ledger contains all the asset, liability, and equity accounts. An account shows the effect of transactions on a particular asset, liability, equity, revenue, or expense.” They further disclaim that “practice, companies do not record transactions originally in the ledger. A transaction affects two or more accounts, each on a different page in the ledger. Therefore, to have a complete record of each transaction in one place, companies use a journal, also called the book of original entry.”

“Each general journal entry consists of four parts: (1) a date, (2) the accounts and amounts to be debited (Dr.), (3) the accounts and amounts to be credited (Cr.), and (4) an explanation. A company enters debits first, followed by the credits (slightly indented). The explanation begins below the name of the last account to be credited and may take one or more lines. A company completes the “Ref.” column at the time it posts to the accounts” (Kieso et al., 2024).

A journal is defined as “an accounting record in which transactions are initially recorded in chronological order,” while a general journal is “the most basic form of journal,” and journalizing is “the entering of transaction data in the journal” (Weygandt et al., 2022).

Weygandt et al. (2022) “The entire group of accounts maintained by a company is the ledger. The ledger provides the balance in each of the accounts as well as keeps track of changes in these balances. Companies may use various kinds of ledgers, but every company has a general ledger. A general ledger contains all the asset, liability, and equity accounts.”

“The procedure of transferring journal entries to the ledger accounts is called posting. This phase of the recording process accumulates the effects of journalized transactions into the individual accounts. Posting involves the following steps:”

1) “In the ledger, in the appropriate columns of the account(s) debited, enter the date, journal page, and debit amount shown in the journal.”
2) “In the reference column of the journal, write the account number to which the debit amount was posted.”
3) “In the ledger, in the appropriate columns of the account(s) credited, enter the date, journal page, and credit amount shown in the journal.”
4) “In the reference column of the journal, write the account number to which the credit amount was posted.”

“Posting should be performed in chronological order. That is, the company should post all the debits and credits of one journal entry before proceeding to the next journal entry. Postings should be made on a timely basis to ensure that the ledger is up-to-date” (Weygandt et al., 2022).

Weygandt et al. (2022) elaborate further that, “the reference column of a ledger account indicates the journal page from which the transaction was posted. (After the last entry has been posted, the accountant should scan the reference column in the journal, to confirm that all postings have been made.) The explanation space of the ledger account is used infrequently because an explanation already appears in the journal.”

“Basic steps in the recording process:”

1) “Transaction”
2) “Basic Analysis”
3) “Equation Analysis”
4) “Debit–Credit Analysis”
5) “Journal Entry”
6) “Posting” (Weygandt et al., 2022).

Weygandt et al. (2022) explain that chart of accounts is "a list of accounts and the account numbers that identify their location in the ledger." Kieso et al. (2024) state "the number and type of accounts differ for each company. The number of accounts depends on the amount of detail management desires." They further disclose that "most companies have a chart of accounts. This chart lists the accounts and the account numbers that identify their location in the ledger. The numbering system that identifies the accounts usually starts with the statement of financial position accounts and follows with the income statement accounts."

"Companies can prepare financial statements directly from the adjusted trial balance. Companies prepare the income statement from the revenue and expense accounts. Next, they use the Retained Earnings and Dividends accounts and the net income (or net loss) from the income statement to prepare the retained earnings statement. Companies then prepare the statement of financial position from the asset and liability accounts and the ending Retained Earnings balance as reported in the retained earnings statement" (Weygandt et al., 2022).

Weygandt et al. (2022) convey that "IFRS requires that a complete set of financial statements be presented annually. Along with the current year's financial statements, companies must also provide comparative information from the previous period. In other words, a complete set of financial statements and related notes for two years must be reported."

"A complete set of financial statements comprise the following:"

1) "A statement of financial position at the end of the period."
2) "A statement of comprehensive income for the period to be presented either as:"
    a) "One single statement of comprehensive income."
    b) "A separate income statement and statement of comprehensive income. In this situation, the income statement is presented first."
3) "A statement of changes in equity."
4) "A statement of cash flows."

5) “Notes, comprising a summary of significant accounting policies and other explanatory information” (Kieso et al., 2024).

Kieso et al. explain “financial statements are the principal means through which a company communicates its financial information to those outside the business. These statements provide a company’s history quantified in money terms. The financial statements most frequently provided are (1) the statement of financial position, (2) the income statement (or statement of comprehensive income), (3) the statement of cash flows, and (4) the statement of changes in equity. Note disclosures are an integral part of each financial statement.”

According to Weygandt et al. (2022), a statement of financial position is “a financial statement that reports the assets, liabilities, and equity of a company at a specific date,” and “is like a snapshot of the company’s financial condition at a specific moment in time (usually the month-end or year-end).” Kieso et al. (2024) similarly state that “the statement of financial position, also referred to as the balance sheet, reports the assets, liabilities, and equity of a business enterprise at a specific date,” and that it “provides information about the nature and amounts of investments in enterprise resources, obligations to creditors, and the equity in net resources.” They further explain that it “helps in predicting the amounts, timing, and uncertainty of future cash flows,” and that “by providing information on assets, liabilities, and equity, the statement of financial position provides a basis for computing rates of return and evaluating the capital structure of the enterprise.” In addition, “analysts use information in the statement of financial position to assess a company’s risk and future cash flows,” including assessments of “liquidity, solvency, and financial flexibility.”

Weygandt et al. (2022) explain that “the statement of financial position lists assets at the top, followed by equity and then liabilities,” and that “total assets must equal total equity and liabilities.” Kieso et al. (2024) note that “the IASB indicates that the parts and subsections of financial statements are more informative than the whole,” and therefore “discourages the reporting of summary accounts alone.” Instead, “companies should report and classify individual items in sufficient detail to permit users to assess the amounts, timing, and uncertainty of future cash flows," which also facilitates evaluation of "liquidity and financial flexibility, profitability, and risk." To classify items, they state that "companies group those items with similar characteristics and separate items with different characteristics," and that "companies should report separately:"

1) "Assets and liabilities with different general liquidity characteristics."
2) "Assets that differ in their expected function in the company's central operations or other activities."
3) "Liabilities that differ in their amounts, nature, and timing."

They further emphasize that "statement of financial position accounts are classified," such that "a statement of financial position groups together similar items to arrive at significant subtotals," and that "the material is arranged so that important relationships are shown."

According to Weygandt et al. (2022), the income statement is "a financial statement that presents the revenues and expenses and resulting net income or net loss of a company for a specific period of time," and "lists revenues first, followed by expenses. Then, the statement shows net income (or net loss). When revenues exceed expenses, net income results. When expenses exceed revenues, a net loss results." They further note that "the income statement does not include investment and dividend transactions between the shareholders and the business in measuring net income."

Kieso et al. (2024) state that "the income statement is the report that measures the success of company operations for a given period of time," and that "it is also often called the statement of income or statement of earnings." They also state that "the business and investment community uses the income statement to determine profitability, investment value, and creditworthiness," and that "it provides investors and creditors with information that helps to predict the amounts, timing, and uncertainty of future cash flows," and that "the income statement helps users of financial statements predict future cash flows in a number of ways."

According to Weygandt et al. (2022), "in some cases, a company must prepare a comprehensive income statement in addition to its income statement. A company prepares this second statement if it has other comprehensive income items. Other comprehensive income items are not part of net income but are considered important enough to be reported separately. A company adds other comprehensive income to net income to arrive at comprehensive income." They further define a comprehensive income statement as "a financial statement that presents items that are not included in the determination of net income, referred to as other comprehensive income."

Kieso et al. (2024) similarly state that "companies include items that bypass the income statement in a measure called comprehensive income. Comprehensive income includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income, therefore, includes the following: all revenues and gains, expenses and losses reported in net income, and all gains and losses that bypass net income but affect equity. These items—non-owner changes in equity that bypass the income statement—are referred to as other comprehensive income."

"In addition to a statement of comprehensive income, companies are also required to present a statement of changes in equity. Equity is generally comprised of share capital—ordinary, share premium—ordinary, retained earnings, and the accumulated balances in other comprehensive income. The statement reports the change in each equity account and in total equity for the period. The following items are disclosed in this statement:"

1) "Accumulated other comprehensive income for the period."
2) "Contributions (issuances of shares) and distributions (dividends) to owners."
3) "Reconciliation of the carrying amount of each component of equity from the beginning to the end of the period."

“Companies often prepare the statement of changes in equity in column form. In this format, they use columns for each account and for total equity” (Kieso et al., 2024).

According to Weygandt et al. (2022), the statement of cash flows is “a financial statement that summarizes information about the cash inflows (receipts) and cash outflows (payments) for a specific period of time,” and “provides information on the cash receipts and payments for a specific period of time.” They state that “the statement of cash flows reports (1) the cash effects of a company’s operations during a period, (2) its investing activities, (3) its financing activities, (4) the net increase or decrease in cash during the period, and (5) the cash amount at the end of the period.” Kieso et al. (2024) explain that “companies classify cash receipts and cash payments during a period into three different activities in the statement of cash flows—operating, investing, and financing activities, defined as follows:”

1) “Operating activities involve the cash effects of transactions that enter into the determination of net income.”
2) “Investing activities include making and collecting loans and acquiring and disposing of investments (both debt and equity) and property, plant, and equipment.”
3) “Financing activities involve liability and equity items. They include (a) obtaining resources from owners and providing them with a return on their investment, and (b) borrowing money from creditors and repaying the amounts borrowed.” (Kieso et al., 2024)

They further state that “reporting the sources, uses, and net increase or decrease in cash helps investors, creditors, and others know what is happening to a company’s most liquid resource,” and that “because most individuals maintain a checkbook and prepare a tax return on a cash basis, they can comprehend the information reported in the statement of cash flows.”

According to Kieso et al. (2024), “notes are an integral part of reporting financial statement information. Notes can explain in qualitative terms information related to specific financial statement items. In addition, they can provide supplemental data of a quantitative nature to expand the information in financial statements. Notes also can explain restrictions imposed by financial arrangements or basic contractual agreements. Although notes may be technical and difficult to understand in some cases, they provide meaningful information for the user of the financial statements.” They further state that “an item that meets the definition of an element should be recognized in the financial statements. In situations in which an element is not recognized in the financial statements (for example, due to existence or measurement uncertainty), the company may provide information relevant to the item through disclosure in the notes.”

They further state that “the notes to financial statements generally amplify or explain the items presented in the main body of the statements. If the main body of the financial statements gives an incomplete picture of the performance and position of the company, the notes should provide the additional information needed. Information in the notes does not have to be quantifiable, nor does it need to qualify as an element. Notes can be partially or totally narrative. Examples of notes include descriptions of the accounting policies and methods used in measuring the elements reported in the statements, explanations of uncertainties and contingencies, and statistics and details too voluminous for presentation in the financial statements. The notes can be essential to understanding the company’s performance and position.”

According to Weygandt et al. (2022), “there are also two optional steps in the accounting cycle. As you have seen, companies may use a worksheet in preparing adjusting entries and financial statements. In addition, they may use reversing entries.” They also note that “there’s also one other avoidable step of the accounting cycle: correcting entries,” defining correcting entries as “entries to correct errors made in recording transactions.”

Weygandt et al. (2022) further state that "unfortunately, errors may occur in the recording process," and that "companies should correct errors, as soon as they discover them, by journalizing and posting correcting entries." They explain that "if the accounting records are free of errors, no correcting entries are needed," and that "you should recognize several differences between correcting entries and adjusting entries." They emphasize that "adjusting entries are an integral part of the accounting cycle," whereas "correcting entries, on the other hand, are unnecessary if the records are error-free." They also state that "companies journalize and post adjustments only at the end of an accounting period," while "companies make correcting entries whenever they discover an error," and clarify that "adjusting entries always affect at least one statement of financial position account and one income statement account," whereas "correcting entries may involve any combination of accounts in need of correction," and that "correcting entries must be posted before closing entries."

According to Weygandt et al. (2022), there are two users of accounting data:

1) "Internal Users"

   "Internal users of accounting information are managers who plan, organize, and run the business. These include marketing managers, production supervisors, finance directors, and company officers. In running a business, internal users must answer many important questions."

2) "External Users"

   "External users are individuals and organizations outside a company who want financial information about the company. The two most common types of external users are investors and creditors. Investors (owners) use accounting information to decide whether to buy, hold, or sell ownership shares of a company. Creditors (such as suppliers and bankers) use accounting information to evaluate the risks of granting credit or lending money."

According to Romney et al. (2024), "the revenue cycle is a recurring set of business activities and related information processing operations associated with providing goods and services to customers and collecting cash in payment for those sales," and that "the primary external exchange of information is with customers." They further state that "the revenue cycle's primary objective is to provide the right product in the right place at the right time for the right price." In achieving this objective, Romney et al. (2024) explain that "the four basic revenue cycle activities are:"

1) 'Sales order entry."
2) "Shipping."
3) "Billing."
4) "Cash collections.'"

Romney et al. (2024) explain that "the revenue cycle begins with the receipt of orders from customers," and that "the sales department, which reports to the vice president of marketing, typically performs the sales order entry process, but increasingly customers are themselves entering much of this data through forms on a company's website storefront." They further state that "the sales order entry process entails three steps: taking the customer's order, checking and approving customer credit, and checking inventory availability." They describe that "the second basic activity in the revenue cycle is filling customer orders and shipping the desired merchandise," which "consists of two steps: (1) picking and packing the order and (2) shipping the order," and that "the warehouse and shipping departments perform these activities." Romney et al. (2024) also note that "the third basic activity in the revenue cycle involves billing customers," which "involves two separate, but closely related, tasks: invoicing and updating accounts receivable," and conclude that "the final step in the revenue cycle is collecting and processing payments from customers."

According to Romney et al. (2024), "the expenditure cycle is a recurring set of business activities and related information processing operations associated with the purchase of and payment for goods and services," and that "in the expenditure cycle, the primary external exchange of information is with suppliers (vendors)." They further state that "the primary objective in the expenditure cycle is to minimize the total cost of acquiring and maintaining inventories, supplies, and the various services the organization needs to function." To achieve this objective, Romney et al. (2024) explain "the four basic expenditure cycle activities are:"

1) "Ordering materials, supplies, and services."
2) "Receiving materials, supplies, and services."
3) "Approving supplier invoices."
4) "Cash disbursements."

Romney et al. (2024) explain that "the first major business activity in the expenditure cycle is ordering inventory, supplies, or services," which "involves first identifying what, when, and how much to purchase, and then choosing from which supplier to purchase." They further describe that "the second major business activity in the expenditure cycle is the receipt and storage of ordered items," noting that "these two steps are distinct processes because each is performed by a different organizational function." Romney et al. (2024) also state that "the third main activity in the expenditure cycle is approving supplier invoices for payment," and conclude that "the final activity in the expenditure cycle is paying suppliers."

"Internal control is a process designed to provide reasonable assurance regarding the achievement of company objectives related to operations, reporting, and compliance. In more detail, the purposes of internal control are to safeguard assets, enhance the reliability of accounting records, increase efficiency of operations, and ensure compliance with laws and regulations" (Weygandt et al., 2022).

Arens et al. (2024) state "a system of internal control consists of policies and procedures designed to provide management with reasonable assurance that the company achieves its objectives and goals. These policies and procedures are often called controls, and collectively they make up the entity's system of internal control. Management typically has three broad objectives in designing an effective internal control system:"

1) “Reliability of reporting. This objective relates to internal and external financial reporting as well as nonfinancial reporting; however, in this chapter we focus our discussion on the reliability of external financial reporting. Management is responsible for preparing financial statements for investors, creditors, and other users. Management has both a legal and professional responsibility to be sure that the information is fairly presented in accordance with reporting requirements of accounting frameworks such as U.S. GAAP and IFRS. The objective of effective internal control over financial reporting is to fulfill these financial reporting responsibilities.”
2) “Efficiency and effectiveness of operations. Controls within a company encourage efficient and effective use of its resources to optimize the company’s goals. An important objective of these controls is accurate financial and nonfinancial information about the company’s operations for decision making”
3) “Compliance with laws and regulations. Public, nonpublic, and not-for-profit organizations are required to follow many laws and regulations. Some relate to accounting only in-directly, such as environmental protection and civil rights laws. Others are closely related to accounting, such as income tax regulations and anti-fraud legal provisions.”

They further explain that “management is responsible for establishing and maintaining the entity’s system of internal control. Management is also required to publicly report on the operating effectiveness of those controls.”

“Management, not the auditor, must establish and maintain the entity’s internal controls. This concept is consistent with the requirement that management, not the auditor, is responsible for the preparation of financial statements in accordance with applicable accounting frameworks such as GAAP or IFRS. Two key concepts underlie management’s design and implementation of internal control—reasonable assurance and inherent limitations” (Arens et al., 2024).

Weygandt et al. (2022) highlighted that “internal control systems have five primary components as listed below:”

1) "**A control environment**. It is the responsibility of top management to make it clear that the organization values integrity and that unethical activity will not be tolerated. This component is often referred to as the "tone at the top."
2) "**Risk assessment**. Companies must identify and analyze the various factors that create risk for the business and must determine how to manage these risks."
3) "**Control activities**. To reduce the occurrence of fraud, management must design policies and procedures to address the specific risks faced by the company."
4) "**Information and communication**. The internal control system must capture and communicate all pertinent information both down and up the organization, as well as communicate information to appropriate external parties."
5) "**Monitoring**. Internal control systems must be monitored periodically for their adequacy. Significant deficiencies need to be reported to top management and/or the board of directors."

According to Arens et al. (2024), "the control environment consists of the actions, policies, and procedures that reflect the overall attitudes of top management, directors, and owners of an entity about internal control and its importance to the entity." They further explain "the five underlying principles related to the control environment include a commitment to integrity and ethical values; having an independent board of directors that is responsible for oversight of internal controls; establishing appropriate structures and reporting lines; maintaining a commitment to attracting, developing, and retaining competent personnel; and holding individuals accountable for internal control responsibilities."

"Each of the five components of an internal control system is important. Here, we will focus on one component, the control activities. Because these activities are the backbone of the company's efforts to address the risks it faces, such as fraud. The specific control activities used by a company will vary, depending on management's assessment of the risks faced. This assessment is heavily influenced by the size and nature of the company" (Weygandt et al., 2022).

According to Weygandt et al. (2022), "the six principles of control activities are as follows:"

1) "Establishment of responsibility"
2) "Segregation of duties"
3) "Documentation procedures"
4) "Physical controls"
5) "Independent internal verification"
6) "Human resource controls."

Weygandt et al. (2022) clarify "an essential principle of internal control is to assign responsibility to specific employees. Control is most effective when only one person is responsible for a given task." They further express that "establishing responsibility often requires limiting access only to authorized personnel, and then identifying those personnel. For example, the automated systems used by many companies have mechanisms such as identifying passcodes that keep track of who made a journal entry, who entered a sale, or who went into an inventory storeroom at a particular time. Use of identifying passcodes enables the company to establish responsibility by identifying the particular employee who carried out the activity."

Arens et al. (2024) similarly highlight the importance of "Proper Authorization of Transactions and Activities. Every transaction must be properly authorized if controls are to be satisfactory. If any person in an organization could acquire or expend assets at will, complete chaos would result. Authorization can be either general or specific. Under general authorization, management establishes policies and subordinates are instructed to implement these general authorizations by approving all transactions within the limits set by the policy. General authorization decisions include the issuance of fixed price lists for the sale of products, credit limits for customers, and fixed reorder points for making acquisitions. Specific authorization applies to individual transactions. For certain transactions, management prefers to authorize each transaction." They also emphasize "the distinction between authorization and approval is also important. Authorization is a policy decision for either a general class of transactions or specific transactions. Approval is the implementation of management's general authorization decisions."

Weygandt et al. (2022) express that the control activity "segregation of duties is indispensable in an internal control system. There are two common applications of this principle:"

1) "Different individuals should be responsible for related activities."
2) "The responsibility for recordkeeping for an asset should be separate from the physical custody of that asset."

They elaborate further that "the rationale for segregation of duties is this: The work of one employee should, without a duplication of effort, provide a reliable basis for evaluating the work of another employee."

According to Weygandt et al. (2022), there are two needed forms of segregation of duties:

A. "Segregation of Related Activities"
   "Making one individual responsible for related activities increases the potential for errors and irregularities."
B. "Segregation of Recordkeeping from Physical Custody"
   "The accountant should have neither physical custody of the asset nor access to it. Likewise, the custodian of the asset should not maintain or have access to the accounting records. The custodian of the asset is not likely to convert the asset to personal use when one employee maintains the record of the asset, and a different employee has physical custody of the asset. The separation of accounting responsibility from the custody of assets is especially important for cash and inventories because these assets are very vulnerable to fraud."

Arens et al. (2024) similarly note "four general guidelines for adequate separation of duties to prevent both fraud and errors are especially significant for auditors:"

1) "**Separation of the Custody of Assets from Accounting**. To protect a company from embezzlement, a person who has temporary or permanent custody of an asset should not account for that asset. Allowing one person to perform both functions increases the risk of that person disposing of the asset for personal gain and adjusting the records to cover up the theft."
2) "**Separation of the Authorization of Transactions from the Custody of Related Assets**. It is desirable to prevent persons who authorize transactions from having control over the related asset, to reduce the likelihood of embezzlement."
3) "**Separation of Operational Responsibility from Record-Keeping Responsibility**. To ensure unbiased information, record keeping is typically the responsibility of a separate department reporting to the controller."
4) "**Separation of IT Duties from User Departments**. As the level of complexity of IT systems increases, the separation of authorization, record keeping, and custody often becomes blurred. To compensate for these potential overlaps of duties, it is important for companies to separate major IT-related functions from key user department functions."

Weygandt et al. (2022) note that "documents provide evidence that transactions and events have occurred." They go on to expound that "companies should establish two procedures for documents:"

1) "Whenever possible, companies should use prenumbered documents, and all documents should be accounted for. Prenumbering helps to prevent a transaction from being recorded more than once, or conversely, from not being recorded at all."
2) "The control system should require that employees promptly forward source documents for accounting entries to the accounting department. This control

measure helps to ensure timely recording of the transaction and contributes directly to the accuracy and reliability of the accounting records."

Likewise, Arens et al. (2024) confirm the importance of "Adequate Documents and Records. Documents and records are the records upon which transactions are entered and summarized. They include such diverse items as sales invoices, purchase orders, subsidiary records, sales journals, and employee time reports. Many of these documents and records are maintained in electronic rather than paper formats. Adequate documents are essential for correct recording of transactions and control of assets." They continue to explain "certain principles dictate the proper design and use of documents and records. Documents and records should be:"

1) "Prenumbered consecutively to facilitate control over missing documents and records and as an aid in locating them when they are needed at a later date. Prenumbered documents and records are important for the completeness assertion."
2) "Prepared at the time a transaction takes place, or as soon as possible thereafter, to minimize timing errors."
3) "Designed for multiple use, when possible, to minimize the number of different forms."
4) "Constructed in a manner that encourages correct preparation. This can be done by providing internal checks within the form or record."

Weygandt et al. (2022) state that "most internal control systems provide for independent internal verification. This principle involves the review of data prepared by employees. To obtain maximum benefit from independent internal verification:"

1) "Companies should verify records periodically or on a surprise basis."
2) "An employee who is independent of the personnel responsible for the information should make the verification."

3) "Discrepancies and exceptions should be reported to a management level that can take appropriate corrective action." (Weygandt et al., 2022)

Further highlighting that "independent internal verification is especially useful in comparing recorded accountability with existing assets." They clarify "other common examples are the reconciliation of a company's cash balance per books with the cash balance per bank, and the verification of the perpetual inventory records through a count of physical inventory."

Correspondingly, Arens et al. (2024) explain "the need for independent checks arises because internal controls tend to change over time, unless there is frequent review. Personnel are likely to forget or intentionally fail to follow procedures, or they may become careless unless someone observes and evaluates their performance. Regardless of the quality of the controls, personnel can make errors or commit fraud." They elucidate "personnel responsible for performing internal verification procedures must be in-dependent of those originally responsible for preparing the data."

According to Weygandt et al. (2022), petty cash is "a cash fund used to pay relatively small amounts." They explain that "better internal control over cash disbursements is possible when companies make payments by check. However, using checks to pay small amounts is both impractical and a nuisance. For instance, a company would not want to write checks to pay for postage due, working lunches, or taxi fares. A common way of handling such payments, while maintaining satisfactory control, is to use a petty cash fund to pay relatively small amounts. The operation of a petty cash fund, often called an imprest system, involves:"

1) "Establishing the fund."
2) "Making payments from the fund."
3) "Replenishing the fund"

Weygandt et al. (2022) further expound "two essential steps in establishing a petty cash fund are as follows:"

1) "Appointing a petty cash custodian who will be responsible for the fund."

2) “Determining the size of the fund.”

They clarify that “ordinarily, a company expects the amount in the fund to cover anticipated disbursements for a three- to four-week period.”

According to Weygandt et al. (2022), “the petty cash custodian has the authority to make payments from the fund that conform to prescribed management policies,” and that “usually, management limits the size of expenditures that come from petty cash.” They further state that “it may not permit use of the fund for certain types of transactions (such as making short-term loans to employees).” They explain that “each payment from the fund must be documented on a prenumbered petty cash receipt (or petty cash voucher),” and that “the signatures of both the fund custodian and the person receiving payment are required on the receipt.” They also note that “if other supporting documents such as a freight bill or invoice are available, they should be attached to the petty cash receipt,” and that “the petty cash custodian keeps the receipts in the petty cash box until the fund is replenished.” In addition, they state that “the sum of the petty cash receipts and the money in the fund should equal the established total at all times,” and that “management can (and should) make surprise counts at any time (or use an independent person, such as an internal auditor) to determine the correctness of the fund.”

Weygandt et al. (2022) further explain that “the company does not make an accounting entry to record a payment when it is made from petty cash,” because “it is considered both inexpedient and unnecessary to do so,” and that “instead, the company recognizes the accounting effects of each payment when it replenishes the fund.” They state that “the petty cash custodian initiates a request for reimbursement,” and that “the individual prepares a schedule (or summary) of the payments that have been made and sends the schedule, supported by petty cash receipts and other documentation, to the treasurer’s office.” They explain that “the treasurer’s office examines the receipts and supporting documents to verify that proper payments from the fund were made,” and that “the treasurer then approves the request and issues a check to restore the fund to its established amount.” They further note that “at the same time, all supporting documentation is stamped ‘paid’ so that it cannot be submitted again for payment," and clarify that "the reimbursement entry does not affect the Petty Cash account," because "replenishment changes the composition of the fund by replacing the petty cash receipts with cash," but "it does not change the balance in the fund."

According to Weygandt et al. (2022), "value-added taxes (VAT) are used by tax authorities more than sales taxes (over 100 countries require that companies collect a value-added tax)," and "a value-added tax is a consumption tax." They explain that "this tax is placed on a product or service whenever value is added at a stage of production and at final sale," and that "a VAT is a cost to the end user, normally a private individual, similar to a sales tax." They emphasize that "a VAT should not be confused with a sales tax," because "a sales tax is collected only once at the consumer's point of purchase," whereas "in a VAT taxation system, the VAT is collected every time a business purchases products from another business in the product's supply chain." Weygandt et al. (2022) further define current liabilities as "obligations that a company expects to pay within one year or the operating cycle, whichever is longer," therefore VAT payable arises when a VAT obligation is due within the operating cycle and must be recognized as a current liability to be settled in the near term.

According to Kieso et al. (2024), "receivables (often referred to as loans and receivables) are claims held against customers and others for money, goods, or services," and that "for financial statement purposes, companies classify receivables as either current (short-term) or non-current (long-term)." They explain that "companies expect to collect current receivables within a year or during the current operating cycle, whichever is longer," and that "they classify all other receivables as non-current," further noting that "receivables are further classified in the statement of financial position as either trade or non-trade receivables." Weygandt et al. (2022) state that "the relative significance of a company's receivables as a percentage of its assets depends on various factors," and that "to reflect important differences among receivables, they are frequently classified as (1) accounts receivable, (2) notes receivable, and (3) other receivables." They explain that "other receivables include non-trade receivables such as interest receivable, loans to company officers, advances to employees, and income taxes refundable," and emphasize that "companies generally report them as separate items in the statement of financial position." They also note that "companies report receivables from employees separately in the financial statements," because "sometimes these receivables are not the result of an 'arm's-length' transaction."

According to the IFRS Foundation (2025), "unconditional receivables and payables are recognized as assets or liabilities when the entity becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash." Kieso et al. (2024) state that "a company should clearly identify any anticipated loss due to uncollectible accounts, the amount and nature of any non-trade receivables, and any receivables used as collateral," and that "major categories of receivables should be shown in the statement of financial position or the related notes." They further note that "for receivables arising from unusual transactions (such as sale of property, or a loan to associates or employees), companies should separately classify these as long-term, unless collection is expected within one year." The IFRS Foundation (2025) further states that "except for trade receivables, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset," and that "if an entity recognizes financial assets using settlement date accounting, any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognized for assets measured at amortized cost." They define that "the settlement date is the date that an asset is delivered to or by an entity," and that "settlement date accounting refers to (a) the recognition of an asset on the day it is received by the entity, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity."

## 1.2. Internship Aims and Objectives

The internship program was conducted to provide practical exposure to the professional working environment, particularly in the field of financial accounting. The aims and objectives of this internship are as follows:

1) To obtain hands-on experience in financial accounting activities within a corporate environment.
2) To understand and participate in financial accounting processes, including transaction recording, documentation review, and accounting data processing using accounting information systems.
3) To develop professional skills such as accuracy, responsibility, teamwork, and effective communication in a workplace setting.
4) To enhance adaptability and work ethics by engaging directly with daily operations and established organizational procedures.

## 1.3. Time and Procedure of Internship

### 1.2.1. Time of Internship

The internship was carried out over a period of four months, beginning on 21 July 2025 and concluding on 21 November 2025. This duration fulfilled the university's requirement of completing a minimum of 640 working hours. During this period, the author worked five days a week, from Monday to Friday, with a daily schedule of 07:30–16:30 WIB, totaling eight working hours per day. The internship was conducted in the Accounting Division of PT Dirgantara Indonesia, with the author primarily assigned to the Financial Accounting Department while also interacting with other units within the Accounting Division as needed.

### 1.2.2. Procedure of Internship

The internship procedure was carried out in reference to the requirements explained in the Technical Guidelines for Writing Student Internship Reports at Multimedia Nusantara University (2021), with few divergences due to changes in the official internship website. The procedure consists of three stages:

1) "Submission Stage"

a) "Students access https://prostep.umn.ac.id/web/, then log in using the Log In for UMN option available on the top right corner of the page. Enter student email and password registered in SSO UMN to log in."
b) "Select the Registration menu, and choose log in using UMN SSO email and password, select the Registration menu, choose Career Acceleration Program Track 1 activity, and New Company preference."
c) "Fill in internship location details (multiple submissions allowed), await approval from PIC Program and Head of Study Program; if rejected, revise and resubmit."
d) "Upon approval, download MBKM Cover Letter (MBKM 01) from the Cover Letter menu to submit to the company for acceptance letter."
e) "Continue to Complete Registration menu and upload the acceptance letter and complete registration with personal data, company details, and supervisor info to receive MBKM Card (MBKM 02)."

2) "Implementation Stage"
   a) "Before starting, enroll in Internship Track 1 course via MyUMN (my.umn.ac.id) after meeting prerequisites: active student with at least 90 SKS, Semester GPA ≥2.5, and completing internship orientation."
   b) "During internship period, conduct at least 8 counseling meeting sessions input via the Exam menu in Pro-Step and log daily tasks (new task entry) as attendance proof in Daily Task menu, verified by supervisor and advisor for minimum of 800 hours."
   c) "Field supervisor and academic advisor complete Evaluation 1 and performance assessment forms on the platform"
3) "Final Stage"
   a) "After completing 800 hours, register for defense in Register Exam menu to obtain Evaluation 2; meet requirements including 8 consultations, approved MBKM 01-04 forms, no financial debts, and evaluations."

b) “Upload pre-defense report in Register Exam menu; advisor verifies—if rejected, revise via helpdesk.umn.ac.id; if approved, finalize defense registration.”
c) “Conduct defense; examiners and supervisor input Evaluation 2 scores—if passed, prepare final report approved by advisor and examiners, verified by Head of Program; upload revised report and view grades on MyUMN.”