

Analysis of Inventory Accounting Implementation Based on PSAK No. 14 at PD. Karya Cipta Mandiri

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Abstract

Purpose - The objective of this research is to analyze the application of inventory accounting at PD. Karya Cipta Mandiri using PSAK No. 14 as a guideline.

Design/methodology/approach - The research method employed in this research is a qualitative method with a descriptive approach. Data collection is conducted through two main methods, that is direct observation and interaction via interviews.

Finding - The analysis results indicate that the company adopts the perpetual method for recording and the FIFO method for inventory valuation. Based on these findings, it is concluded that the implementation of inventory accounting at PD. Karya Cipta Mandiri is in accordance with the provisions of PSAK Number 14 regarding inventory.

Originality - This study analyzes the implementation of inventory in trading companies from an accounting perspective. It evaluates how the company conducts inventory accounting and compares it with inventory accounting in PSAK No. 14, which serves as the guideline for corporate accounting practices.

Keyword - PSAK No. 14, Inventory, Perpetual, FIFO

Paper Type – Research Paper



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Introduction

A trading company, as a typical business entity, engages in buying and selling of products as its primary activity. In its business ecosystem, it acts as an intermediary between producers and consumers, endeavoring to secure products from their sources and deliver them to customers with the aim of achieving profits. Trading companies have a primary activity of trading goods directly without any processing of the goods at all (Sedia et al., 2020). Unlike manufacturing companies that are active in the production process, trading companies exclusively focus on the distribution, marketing, and sales aspects. At the core of their operations, these companies emphasize success in selling the products in their hands by ensuring adequate availability of goods and managing the supply chain effectively. The supply chain itself is a set of activities related to the process of distributing goods starting from the earliest raw materials to become ready-to-use products by end consumers. Various parties involved in the supply chain, both directly and indirectly, work together with the ultimate goal of fulfilling consumer demand (Harsasi, 2016). Trading companies are one of the business entities involved in the supply chain with their role as distributors who distribute goods produced by manufacturing companies through the production process to end consumers.

Talking about the supply chain in trading companies, it is closely related to inventory procurement. Inventories are asset items owned by the company with the intention of being sold in normal business operations, or goods used in the process of making goods to be sold (Kieso et al., 2019). Inventory has a significant role in the company's business process, namely as a reserve stock of goods sold so that demand from customers can still be met without any constraints in terms of limited goods. Inventory is the most frequently circulated asset, as it is constantly in motion. The importance of inventory in a company lies in its ability to anticipate increased consumer demand, avoid future price increases, and maintain the smooth operation of the company's activities (Anwar et al., 2022). Well-managed inventory can help companies anticipate fluctuations in market demand caused by changes in customer trends in consuming certain types of goods or events such as natural disasters or other events that cause changes in customer preferences in choosing consumed products. In addition, good inventory management can also help companies in carrying out sales stock management and maintaining the smooth operation of the company. A company will face various issues if there are problems with its inventory, whether it be in the form of shortages or excess inventory. Therefore, accounting plays a crucial role in managing inventory (M. Dwiky Rama & Febransyah, 2023).

Seeing the significance of the role of inventory to the smooth running and continuity of the company's business, inventory management in the company needs to be done correctly, including in terms of recording its accounting. Inventory accounting involves recording and controlling trade goods owned by the company (Kieso et al., 2019). Inventory in the company is valued using several valuation methods, such as FIFO (First-in First-out), LIFO (Last-in Last-out) and Average cost. For the recording itself, there are two recording methods commonly used by companies to value their inventory, namely a periodic recording system that records the flow of inventory in and out only for a certain period and a perpetual recording system that records the flow of inventory in and out directly and in detail. Where the recording is done in real-time every time there is a flow of inventory movement. These two recording methods have their own advantages and disadvantages which also depend on the type of company using them. The implementation of different accounting methods will have varying impacts on the company (Syailendra, 2009). Therefore, it is important for companies to use inventory recording methods and valuation methods that are suitable for the type of

company, so that the flow of inventory movements can be recorded and valued properly which in turn can improve the smooth operation of the company.

SAK (Financial Accounting Standards) as a guideline that serves as a reference in recording accounting for companies in Indonesia has regulated the accounting treatment for inventory in PSAK (Statement of Financial Accounting Standards) No. 14, both in terms of recording, recognition, measurement, valuation, and how it is presented in the financial statements has been explained in this statement. First published in 1995, PSAK 14 has undergone various adjustments and revisions until the most recent adjustment in 2017. PSAK 14 explains how the accounting treatment of inventory is carried out, such as how the recognition of inventory as an asset that is also presented in the financial statements, namely by measuring at the higher value between acquisition cost and net realizable value. All matters related to accounting for inventory are explained in this PSAK 14 so that companies can use it as a guideline in managing their inventory accounting.

PD. Karya Cipta Mandiri is a company engaged in trading in the Serang area, Banten. As a trading company, inventory is the main focus of the company apart from the sales aspect. This study aims to determine how the company's accounting treatment of its trading goods inventory. Using PSAK 14 as the main reference on how accounting treatment of inventory is correct and in accordance with standards, this study will analyze whether the implementation of inventory accounting at PD. Karya Cipta Mandiri is in accordance with PSAK 14 or still requires further adjustment.

Theoretical Framework and Hypothesis

A Supplies

Referring to the Indonesian Institute of Accountants (2017) in PSAK No. 14 Revised 2017, it reveals that inventory is an asset that has the following classification:

- a. Sold in daily business activities;
- b. In the course of production for such sale; or
- c. In the form of materials or equipment used in the production process or service delivery.

According to (Cindy Permata Dewi, 2022) Inventory is goods that are stored for later use, sold during a certain period, or sold in the future period in response to existing demand. Inventory consists of raw material inventory, inventory of goods in the production process, and finished goods inventory, inventory of goods stored before sales or marketing (Cindy Permata Dewi, 2022). The amount of inventory held by a company will affect the smoothness of the production process as well as the effectiveness and efficiency of operations. Therefore, inventory needs to be tightly controlled to ensure the company's financial performance remains optimal (Faizal et al., 2022).

Inventory Recording

Inventory recording in general, companies can choose to use a periodic system or a perpetual system, but at this time many companies are already using a perpetual system. According to Rudianto (2012), the physical/periodic system is a technique used for inventory control where the inflow and outflow of products is not recorded directly and completely does not determine value. Inventory Determination If necessary, actual/direct supply of goods will be carried out at the distribution center. perpetual method is an inventory recording strategy

used to measure inflows and outflows and is recorded in detail. This method requires an inventory card to record the entire inventory as a whole, starting from the receipt and issuance of inventory items and the purchase price. Therefore, if you use this method to keep a journal as a sales transaction, you must record the cost of sales for each sales transaction (Rudianto, 2012).

Inventory Valuation

Determination of inventory valuation in accounting is known by 3 methods, namely the FIFO (First-in First-out), LIFO (Last-in Last-out) and Average cost methods.

a. FIFO (First-in First-out)

The FIFO method is a method used to record inventory of goods sold is the first item to enter the warehouse. With FIFO, cost allocation is determined based on the order in which costs are incurred, so there is little possibility of manipulating profits. In addition, with FIFO, the unit available in the ending inventory is the last purchased unit, so the reported cost is close to or equal to the replacement cost at the end of the period (Umar Tauhid & Muhamad Saddam, 2021).

b. LIFO (Lift-in Last-out)

The LIFO method assumes that records are made when the goods sold are the most recently entered goods into the warehouse. LIFO tends to have a stable impact on gross profit margins because it connects the high current cost of purchasing goods with higher selling prices when prices rise. With LIFO, inventory is created using costs that were not included in the original purchase. If the company uses LIFO for a long period of time, the difference between the current value and the LIFO cost will become larger (Umar Tauhid & Muhamad Saddam, 2021).

c. Average cost (Average)

The average method charges the same average cost for each unit. This method is based on the assumption that goods sold should be purchased at any price. The average method prioritizes the method that is easier to use, whether it is entered first or last (Umar Tauhid & Muhamad Saddam, 2021).

Statement of Financial Accounting Standards (PSAK) No. 14 Revised 2017 on Inventory

PSAK (Statement of Financial Accounting Standards) is the main guideline used by accountants in order to conduct financial reports. PSAK is a statement of financial accounting standards which is a framework for the procedures for preparing, treating, and presenting financial statements. PSAK 14 regarding inventory is an accounting standard used to prepare financial statements about assets available for sale by an ordinary or production business. The purpose of PSAK 4 is to regulate the accounting treatment for inventory. The key issues in inventory accounting are the determination of the amount of cost recognized as an asset and the subsequent accounting treatment of that asset until revenue is recognized. This statement provides for determining cost, cost recognition, net realizable value and cost formula (Indonesian Institute of Accountants, 2017).

Measurement of inventories is based on cost or net realizable value, whichever is lower. Inventory cost includes all purchase costs, conversion costs, and other costs incurred until the inventory is in its current condition and location. Purchase costs include purchase price, import duties, other taxes, transportation costs, handling costs, and other costs directly attributable to the acquisition of finished goods, materials, and services. Trade discounts, rebates, and other similar items are deducted in determining purchase costs. Conversion costs include costs that are directly attributable to the units produced, such as direct labor costs. Other miscellaneous costs are included in inventory costs only to the extent that they are incurred in order for the inventory to be in its current condition and location (Indonesian Institute of Accountants, 2017).

The financial statements disclose several things, namely the accounting policies used in measuring inventory, including the cost formula used; the total carrying amount of inventory and the carrying amount according to the appropriate classification for the entity; the carrying amount of inventory and the amount recorded at fair value less costs to sell; the amount of inventory recognized as an expense during the period (Indonesian Institute of Accountants, 2017).

Research Methodology

The type of research used in this study is descriptive method. Descriptive analysis is a method for explaining or analyzing research results, but is not intended to draw broader conclusions (Sugiyono, 2016). Qualitative research method is a philosophy of postpositivism (more precisely phenomenology) used to study scientific conditions whose instrument is the researcher himself. This data collection technique is analyzed qualitatively with an emphasis on meaning. Qualitative research methodology aims to analyze and describe a phenomenon or object of study through social activities, attitudes, and perceptions of individuals and community groups (Sugiyono, 2016).

The research location chosen in this study is PD. Karya Cipta Mandiri which is located at Link. Pejaten Kec. Serang City, Banten. The research place was taken because the company is engaged in trading so that the author is interested in conducting research at the company. In addition, the authors want to find out whether the company has carried out inventory recording in accordance with PSAK No. 14.

The data source of this research is primary data, namely data taken directly from the company's premises, in this case PD. Karya Cipta Mandiri in Serang City, Banten. In this study, data collection was carried out in the following ways:

1) Observation

Observation is a direct observation of a particular object to obtain the results to be observed.

2) Interview

Interview is a method of collecting data by asking various questions both structured and unstructured to the object to be studied.

Result and Discussion

Research Result

The results of research conducted at PD Karya Cipta Mandiri regarding the application of inventory accounting. PD Karya Cipta Mandiri is a company engaged in trading with the business of selling dry meatballs with the type of inventory stored is finished material which will later be resold without any modification or further processing of the product.

The recording method used by PD Karya Cipta Mandiri uses a perpetual system because the recording is done by recording transactions related to inventory based on the time the transaction occurs. To record cash purchases of trade goods in the company, the company records the journal as follows:

Merchandise Inventory (D)	Rp xxx	
Cash (K)		Rp xxx

Meanwhile, to record the purchase of trade goods on credit, the company records the journal as follows:

Merchandise Inventory (D)	Rp xxx	
Trade Payables (K)		Rp xxx

To record the sale of trade goods in cash, the company records the journal as follows:

Cash (D)	Rp xxx	
Sales (K)		Rp xxx
Cost of Goods Sold (D)	Rp xxx	
Merchandise Inventory (K)		Rp xxx

To record the sale of trade goods on credit, the company records the journal as follows:

Accounts Receivable (D)	Rp xxx	
Sales (K)		Rp xxx
Cost of Goods Sold (D)	Rp xxx	
Merchandise Inventory (K)		Rp xxx

PD Karya Cipta Mandiri applies expense recognition by recording the journal entry as follows:

Cost of Goods Sold (D)	Rp xxx	
Merchandise Inventory (K)		Rp xxx

In carrying out its activities, the company applies the FIFO (First-in First-out) method, which means that the first inventory that enters the company is the first inventory to be sold. PD Karya Cipta Mandiri uses the FIFO method in its recording because this method assumes that the first items to enter the inventory are the first to be sold.

The first time the item is sold. This helps reflect a more actual acquisition price, reduces the risk of inventory value adjustments, and provides more accurate information for calculating net income. The inventory measurement method applied by the company uses standard cost where goods are sold at retail or unit prices. This relates to FIFO recording which requires that the first item in must be the first item out.

PD Karya Cipta Mandiri's inventory disclosure is presented in the financial statements in the form of a profit and loss statement, and a statement of financial position. Inventory disclosure refers to the process of presenting information about the amount, value, and nature of inventory in a company's financial statements. This includes details such as inventory valuation methods, ending inventory value, changes in inventory value, and inventory-related risks. This helps the company to assess the company's performance process in the financial statements.

Discussion

According to PSAK 14, it explains that inventory is goods available for sale in operational business activities; in the process of manufacturing and / or transportation; or the form of materials or equipment (supplies) used in the production or service delivery process. In the inventory company, only one type is available, namely finished materials and which will later be resold to customers in the company's operational activities. Therefore, in accordance with the definition of inventory according to PSAK 14, PD Karya Cipta Mandiri's inventory is in accordance with PSAK 14.

The recording method used in the company is the perpetual method. The perpetual method is an inventory recording where the inventory of trade goods and the cost of goods sold is continuously updated every time a sales or purchase transaction occurs. By using the perpetual method, companies can monitor inventory in real-time, so that companies have better visibility into their inventory levels and can take necessary actions if there is a shortage or excess inventory. Based on PD Karya Cipta Mandiri's inventory recording, it illustrates that the company's recording is in accordance with PSAK 14.

Inventory valuation at PD Karya Cipta Mandiri uses the FIFO method based on the results of interviews with the company owner, namely the first item that enters the warehouse, the first item that comes out. This is also in accordance with PSAK 14 that one of the inventory valuations uses the FIFO method. In addition, in its measurement, the company uses standard costs where goods are sold at retail prices or units. With the application of using standard costs the company is in accordance with PSAK 14. Inventory disclosure in the company is presented in the financial statements in the form of income statements and statements of financial position. This is in accordance with what is stated in PSAK 14 that inventories can be disclosed using the income statement or statement of financial position. The following table analyzes the comparison of PD Karya Cipta Mandiri's accounting recording of trading inventory with PSAK 14:

Tabel 1
Comparison of accounting recording in PD Karya Cipta Mandiri and PSAK 14

Analysis	PD Karya Cipta Mandiri	PSAK No. 14	Description
Recording Method	Cash Purchase of Inventory		As per
	Merchandise Inventory (D)	Merchandise Inventory (D)	
	Cash (K)	Cash (K)	
	<hr/>		
	Purchasing Inventory on Credit		As per
	Merchandise Inventory (D)	Merchandise Inventory (D)	
	Trade Payables (K)	Trade Payables (K)	
	<hr/>		
	Cash Sales of Inventory		As per
	Cash (D)	Cash (D)	
	Sales (K)	Sales (K)	
	Cost of Goods Sold (D)	Cost of Goods Sold (D)	
	Merchandise Inventory (K)	Merchandise Inventory (K)	
	<hr/>		
	Inventory Sales on Credit		As per
	Receivables (D)	Receivables (D)	
	Sales (K)	Sales (K)	
	Cost of Goods Sold (D)	Cost of Goods Sold (D)	
	Merchandise Inventory (K)	Merchandise Inventory (K)	
	<hr/>		
Recognition as an Expense	Cost of Goods Sold (D)	Cost of Goods Sold (D)	As per
	Merchandise Inventory (K)	Merchandise Inventory (K)	
<hr/>			

Assessment Method	FIFO	FIFO, LIFO	As per
Inventory Measurement	Using the standard or retail cost method	Using the standard or retail cost method	As per
Inventory Disclosure	Income statement and statement of financial position	Income statement and statement of financial position	As per

Conclusions

The analysis conducted at PD. Karya Cipta Mandiri regarding its inventory accounting reveals the results that inventory in this company has received accounting treatment in accordance with PSAK 14. Using the perpetual method as the recording method, the flow in and out of inventory is recorded in real-time with the aim that inventory can be monitored and the company has better visibility of inventory. For valuation, inventory is valued using the FIFO (First-in First-out) method where the first incoming goods will take precedence to be sold, the goal is to more accurately map costs to goods. Regarding its presentation, inventory is presented in the income statement and statement of financial position.

Based on the conclusions of the analysis related to inventory accounting at PD. Karya Cipta Mandiri, this study provides advice to companies to be able to maintain the inventory accounting method currently used, be it the perpetual method as a recording method or the FIFO method as a valuation method, both of which are considered to be in accordance with the relevance of the accounting method.

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