

Revealing Internal Control Practices in SME Capital Maintenance

Erna Lovita

Department of Accounting
Sekolah Tinggi Ilmu Ekonomi Indonesia Jakarta
Jakarta, Indonesia
ernalovita24@gmail.com

Gatot Prabantoro

Department of Management
Sekolah Tinggi Ilmu Ekonomi Indonesia Jakarta
Jakarta, Indonesia

Abstract—Research aims to find the practice of internal control of capital maintenance of small and medium enterprises (SMEs). Theoretically the results of this study can enrich the concept of capital maintenance that is appropriate for SMEs so it can be useful to encourage its growth. This research uses ethnomethodology approach through analysis phase: data reduction, data presentation, indexical, reflexivity and conclusion. Data collection is done through interview, observation and documentation. Interviews were conducted with several SME perpetrators. The results of the study found that the value of togetherness is very coloring various sides of life undertaken by the SMEs. Every day, they live side by side and work together, interact in their business activities, without having to be limited by business competition between one business actor and other business actors. The guidelines of life can be used as a role model in the current struggle of modernization that brings the concept of individualistic life in various facets of social life today. The maintenance of capital is done in a simple way by reflecting the operational value of: honesty value, trust, justice and love. Based on these values, the concept of capital maintenance found to maintain the sustainability of its business.

Keywords—*capital maintenance; ethnomethodology; small medium enterprises; honesty value*

I. INTRODUCTION

A large company will fully understand the concept of capital maintenance, which is one of the concepts of profit calculation with the consideration that the capital invested must be maintained. Profit or income is recognized if the capital has returned or can cover the capital spent on the business. According to accounting theory, the concept of capital maintenance is of two kinds, the concept of maintaining financial capital and the concept of maintaining physical capital. Financial capital maintenance concept called profits when issued capital still persists or known as payback. While the concept of physical capital maintenance will record a profit after deducting capital that is used overall in one period [1].

A small merchant might just assume that he has gained a profit if the money from the results of sales greater than the money which he carried when buying merchandise. Most likely does not take into account the balance of supplies, personal expenses, and wage labor. Almost all small entrepreneurs complained of a lack of capital. This is because the majority of them only bookkeeping income and expenses and do not calculate profit or loss appropriately. Including calculation of

capital, assets and debt is not taken into account. So that the business is still on the road but over time it turns out that its income is reduced and lost, its capital decreases and more debt. Lovita and Sunarsih expressing the problems and challenges often faced by SME is the lack of capital which is a very important factor in business development and the going concern of its business [2].

The problem can be anticipated if SMEs understand the concept of bookkeeping well. If the SME understands the concept of capital maintenance and can be applied appropriately, it does not rule out the possibility that in addition to generating maximum profit, the business will also continue to be sustainable and develop.

The existence of internal control for the company is the organization's plan and business method. This is to maintain assets, provide accurate and reliable information, encourage and improve the efficiency of the organization's work, and encourage conformity with established policies [3]. Further, the internal control process of an organization consists of five elements; the control environment, risk assessment, control activities, information and communication, and supervision [4]. So, internal control will encourage small entrepreneurs to carry out the concept of capital maintenance.

There is some research that uses a ethnomethodology approach, including research [5] about the practice of budgeting operational grant school. The findings obtained that the school principal, teachers, administrative employees, committees, trustees, parents and the management team BOS (Bantuan Operasional Sekolah) area is the core of actors that play a role in budgeting funds of BOS. The role of the actors depends on the pattern of budgeting that is run by the school, namely; the pattern of dominance of a single principal, special school group domination and domination of the school.

While the study of Kepramareni, using the ethnomethodology method or how to focus on how organizations MGPSR in the accountability practice [6]. The purpose of the research was to understand values how the practice of accountability in the Organization MGPSR. Previous research results become the basis for using ethnomethodology in this study.

The purpose of this research was to gain an understanding of SME about the concept of capital maintenance. Include to analyzing the practice of internal control in capital maintenance of SME.

II. METHOD

Belkaoui stated that the implication accounting is a multi of paradigm science [7]. The statement in the book sufficiently Belkaoui surprising, considering the approach used so far is still lumpy spirit positivism. However it must be admitted that it has contributed great to introduce different viewpoints against the accounting in a scientific community that currently tend to be dominated by the perspective of positivistic science. Opinions were expressed by Jensen as follows [8]:

“Accounting is an integral part of the structure of every organization, and a fundamental understanding of why accounting practices evolve as they do and how to improve them requires a deeper understanding about organizations than now exists in the social sciences.”

Attempts to acquire the correct knowledge will depend on the way up, when viewing different way then it will be different knowledge gained. Researcher using the ethnomethodology approach to achieve the research objectives. As stated by Garfinkel, the person who first introduced the method ethnomethodology [9], that:

“I use of the ethnomethodology to refer the investigation of the rational properties of indexing expressions and other practical actions as contingent ongoing accomplishments of organized artful practices of everyday life.”

The consideration using ethnomethodology in this study are; The first, ethnomethodology refers to the study of how an individual within a community or organization to act and behave with the culture that embraced, as well as trying to understand the daily life of the individual in the organizations examined. Jeacle states that ethnomethodology is suitable as an approach to solve problems of everyday life [10].

Second, its provide information how the SME practice internal control in operation and maintain going concern of company. Researcher want to know in depth the process of internal control that is simple but able to walk optimally guarantee the operations of the company's operations and encourage its growth. Another phenomenon that you want to know is whether there are ‘values’ that affect internal control practices.

The last consideration of researchers using this methodology is ethnomethodology approach is a derivative of phenomenology. Ethnomethodology experts tend to focus on action and interaction, while phenomenology focuses on awareness and culture. Ethnomethodology experts tend to emphasize validity. The ethnomethodology tend to emphasize the validity of the actors, while the phenomenological doubt the validity of the actors [11].

A. Data Collection Procedure in Ethnomethodology

Researchers in the research of ethnomethodology can use the research model approach with three stages and ten steps. The first stage is the stage of introduction to the field, the second stage is the stage of the research field and the third stage is the stage of the research report.

- Stage of the introduction of the field, there are three steps to do researchers in the early stages. The first step is the general observation that aims to find out the reality generally occur in the field that became the location and subject of research ethnomethodology. The second step is to conduct public interviews and continued with the third step is to define the focus and subject/informant research.
- Field research phase, the second phase is the phase where the researchers doing the real field data collection. At this stage consists of five main steps. As for the focus at this stage is the step where the researchers did interview focused participation and observation.
- The stage of the research report, there are two steps in this stage i.e., discussing the new proposition with the existing theory. Next followed the last steps i.e. write research report ethnomethodology.

B. Analysis in Ethnomethodology

Garfinkel using the three stages of analysis in the study of everyday activities mutually agreed members of the group [9]. The practice of internal control as a form of mutual agreement of each individual in the organization therefore will be analyzed using the following stages. The first phase is the analysis of indexing, the next stage of the analysis of reflectivity and last stage of contextual action analysis.

Researchers in the study ethnomethodology can use the research model approach with three stages and ten steps. The first stage is the stage of introduction to the field, the second stage is the stage of the research field and the third stage is the stage of the research report.

III. RESULTS AND DISCUSSION

In this study researchers do retrieval data source with the purposive technique. Purposive is the technique of taking data sources with particular consideration of, among other things of the same kind of business that is in the area of convection. Another consideration is the company has been running within a minimum of 5 years. This has been the consideration of researchers, since the application of the maintenance of capital will be observed in a long time. Therefore researchers choose informants below can represent the most people know about the policy and the maintenance of capital applied in his business.

TABLE I. LIST OF INFORMANTS

No.	Name	Position	Information
1.	Mrs. Ida	Owner CV Maju Bersama	Informant 1 (I1)
2.	Mr. Untung	Owner UD Konveksi Kulit	Informant 2 (I2)
3.	Mr. Juned	Owner UD Celia Rian	Informant 3 (I3)
4.	Mrs. Lani	Manager Indah Busana Store	Informant 4 (I4)

A. The Concept of Capital Maintenance

Informant 1, based on the information stated by Mrs. Ida as the owner of CV Maju Bersama, she only kept the capital for the purposes of production. Fixed capital only exists when the initial capital is disbursed to build the business. Generally, the data can be presented as follows:

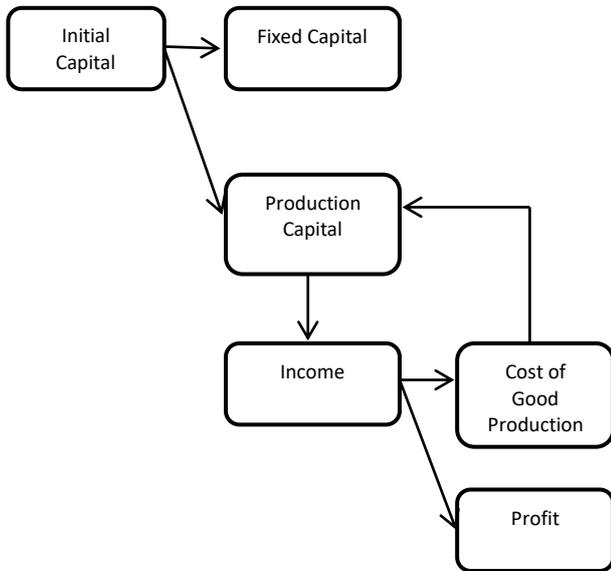


Fig. 1. Capital maintenance concept - maintain production capital

- Informant 2, according to Mr. Untung, owner of UD Konveksi Kulit, besides maintaining capital production he was also keeping the sum of the initial capital. Every month, some of the income will be saved as fixed capital. The fixed capital is a reserve fund for the replacement of equipment and business equipment, if needed. The general description that can be presented is as follows:

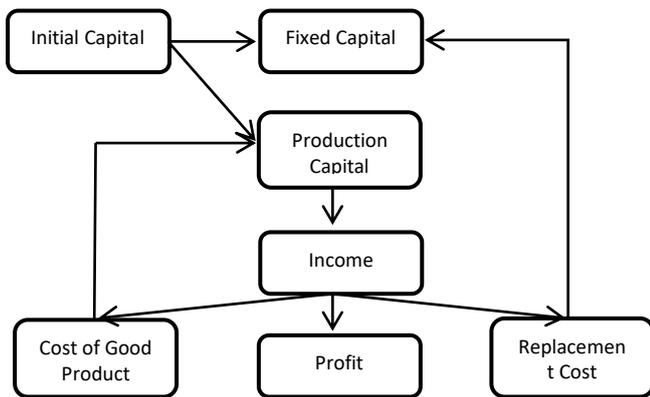


Fig. 2. Capital maintenance concept - maintain initial capital

- Informant 3, according to Mr. Juned as the owner of UD Celia Rian the concept of capital maintenance that he applied was the same as the capital maintenance concept applied by Pak Untung. There is a difference, if Pak Untung sets aside a fixed capital fund from his

monthly income, then Mr. Juned sets aside a reserve fund as a replacement for fixed capital from income every day.

- Informant 4, based on the narrative from Mrs. Lani, owner of Indah Busana Store, the concept of capital maintenance used exactly as stated by Pak Untung. However, to maintained production capital, she also maintains fixed capital, the initial capital to establish a business by saving a portion of income every month.

B. Analysis using Ethnomethodology Approach

Based on information which collected from each informant, there are 2 outline:

- Maintenance of production capital, in this case Mrs. Ida as the owner of CV Maju Bersama, every sale of sales turnover is not set aside for initial capital or fixed capital. She saves a portion of income for production capital. Capital maintenance practices carried out by Mrs. Ida certainly have risks. In the long run, it is feared that it will affect the going concern of the company. Production capital will decrease to replace damaged equipment and equipment. While the company does not have reserve funds for fixed capital. The company will find it difficult to expand its business.
- Fixed capital maintenance, the approach applied by Pak Untung as the owner of UD Konveksi Kulit, Mr. Juned as the owner of UD Celia Rian and Mrs. Lina as managers of Indah Busana Stores. The practice of capital maintenance is to maintain initial capital or fixed capital. That is, the initial capital is maintained in amounts for sudden and unexpected needs. This practice allows SMEs to expand at the right time. Capital availability is also very useful in overcoming business constraints. For example there is an increase in raw material prices and additional operational costs, SMEs can anticipate it quickly. For example, Mr. Untung, he managed to open two stores in different places, when he saw a big business opportunity. Its management is assisted by reliable employees.

IV. CONCLUSION

Based on the results of the discussion and field findings that the researchers have presented, the following conclusions of researchers are related to the concept of SME entrepreneurs' capital maintenance in Rawamangun:

For capital maintenance, researchers find that Mrs. Ida is the only one who only maintains production capital. While other SMEs are very concerned about the initial capital invested in the business. During ten years Ida's business was still stagnant while Mr. Untung's business had successfully opened two new stores. Likewise with Mrs. Lani, there is no need to worry that the production capital will be eroded if at any time it is necessary to replace machines, cabinets or other fixed assets. She uses the approach to maintenance the amount

of initial capital invested, so the initial capital is used to a precaution.

REFERENCES

- [1] Kieso DE, Weygandt JJ, Warfield TD. *Intermediate Accounting*. IFRS Edition, Wiley Plus; 2015.
- [2] Lovita E, Sunarsih U. "Experimental Study: Improved Financial Performance of SME's Through Knowledge Development and Training (A Case Study PIK Pulogadung - East Jakarta)," *Int J Appl Bus Econ Res*, 2015;13(7):5745-60.
- [3] Romney MB, Steinbart PJ. *Accounting Information Systems*. 13th edition., New Jersey, 07458: Pearson Education, Inc.; 2015.
- [4] Bodnar GH, Hopwood WS. "Accounting Information Systems." 11th ed., Prentice Hall; 2013.
- [5] Rahayu S. *Penganggaran Dana Bantuan Operasional Sekolah (Perspektif New Institutional Sociology)*, Universitas Brawijaya; 2015.
- [6] Kepramareni P. "Sekala and Niskala Accountability practices in the clan-based organization MGPSR in Bali, Indonesia," *Sci Res J*, 2014;2(2):1-5.
- [7] Belkaoui AR. *Accounting Theory*, Published by Cengage Learning; 2004.
- [8] Jensen MC. *Organization Theory and Methodology*, *Account Rev*, 1983;LVIII(2):319-39.
- [9] Garfinkel H. *Studies in Ethnomethodology*, New Jersey: Prentice Hall. Inc. Englewood, Cliffs; 1967.
- [10] Jeacle I. "Accounting and Popular Culture: Framing a Research Agenda, Accounting," *Audit Account J*, 2012;25(4):1.
- [11] Wirawan I. *Teori-teori Sosial dalam Tiga Paradigma*, PT Fajar; 2012.