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## ANALYSIS OF THE INTERNAL CONTROL SYSTEM OF MERCHAND INVENTORY AT TAMIIMAH COLLECTION

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### ABSTRACT

*This research aims to understand the internal control system of merchandise inventory according to the COSO framework at Tamiimah Collection. This research method is conducted in Tamiimah Collection. The type of data used is primary data. The research method used in this research is descriptive qualitative. The research results show that the internal control system of merchandise in Tamimah Collection as a whole has not been properly implemented, there are still some internal control components that are not in accordance with the work of the COSO framework.*

*Keywords : Accounting Information System, Internal Control System, Merchandise Inventory, COSO*

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## 1. INTRODUCTION

Micro, Small, and Medium Enterprises (UMKM) have a very big role in supporting the Indonesian economy. Based on data from the Coordinating Ministry of Economic Affairs of the Republic of Indonesia, MSMEs contribute around 61% of the Gross Domestic Product (GDP) or equivalent to Rp9,580 trillion, and absorb around 117 million workers. One of the forms of MSMEs that plays a very important role in people's daily lives is a merchandise supply store. This store provides various basic and consumption needs, as well as being the spearhead in supporting the economic activities of the local community.

In carrying out its operational activities, merchandise inventory becomes the main asset that must be managed properly because it has a direct impact on business continuity. Therefore, an effective internal control system is needed to ensure the availability of goods is maintained, avoid losses due to misrecording, and increase management efficiency. The commonly used internal control framework is COSO (Committee of Sponsoring Organizations of the Treadway Commission) 2013, which consists of five main components: environmental control, risk assessment, control activities, information and communication, and monitoring.

Based on previous studies, many business actors have applied some COSO components, but have not yet thoroughly, so the effectiveness of control has not been maximized. This research is focused on the Tamiimah Collection Store, a store engaged in the sale of Muslim clothing since 2017. With a high volume of inventory, an adequate internal control system is required. This research aims to analyze the extent to which the internal inventory control system has been implemented in accordance with the COSO 2013



framework, in order to increase efficiency, minimize risk, and support sustainable business continuity.

## **2. LITERATURE REVIEWS**

### **2.1. Financial Accounting**

Financial accounting is an accounting area that provides financial information to external stakeholders (Warren, 2019:4). Financial accounting is related to recording transactions to periodic financial reporting guided by financial accounting standards (Bahri, 2020:4). Financial accounting is a field of accounting that involves recording all financial activities related to accounting. This field is specifically shown to process economic records thoroughly, starting from the arrangement of financial transactions to the presentation of data in the form of company financial statements (Hanggara, 2019:3).

### **2.2. Accounting Information System**

Accounting Information System according to Erica et al (2019:4) is an integrated framework in an entity that involves resources to transform economic data into the form of financial information used to shape operations and activities in institutions and to provide information about the entity. Richardson et al (2021:5) defines Accounting Information System as a system that records, processes, summarizes, reports and communicates business transaction results to provide financial and non-financial information to facilitate decision making.

### **2.3. Supply**

According to Rudianto (2020), Inventory is a number of finished goods, raw materials and goods in process owned by the company with the purpose of being sold or further processed. Inventory is the goods owned by the company to be resold or further processed into goods that are ready for sale. Trading companies and industrial companies generally have supplies whose number and type are not always the same as one company and another (IAI, 2019:175).

According to PSAK 14 (2018), inventory is an asset :

1. Available for sale in business activities;
2. In the production process for the sale; or
3. In the form of materials or equipment to be used in the production process or service provision.

### **2.4 Inventory Recording System**

#### **2.4.1. Periodic Recording System**

The amount of inventory will be determined periodically or periodically by doing a physical calculation and multiplying the number of units by the unit price to obtain the value of the inventory at that time. Every time a purchase occurs, the inventory will be recorded in the purchase account, while when the sale only the sales journal the amount of the selling price and does not count the cost of the sale. At the time of preparing financial statements at the end of the period, a physical calculation of inventory must be carried out to determine the value of the final inventory and the cost of sale.

#### **2.4.2 Perpetual Recording System**

The company will always know the details of the quantity and value of its inventory at all times. This happens because when a purchase transaction occurs, inventory will be recorded in the inventory account, while when a sales transaction occurs, in addition to recording the sales journal, the cost of the sale will also be taken into account and recorded.

### **2.5 Internal Control System**

Internal control is a process and procedure that is carried out in order to provide adequate guarantees and ensure that the control objectives are met (Rahmawati and Sumarno, 2020:15). Internal control is a policy and procedure designed to provide a proper certainty for

management that the company has achieved its goals and objectives. Management has three general objectives in designing an effective internal control system, namely the reliability of financial statements, efficiency and effectiveness of operations, and compliance with laws and regulations (Hery, 2019:132).

COSO (2013:3) defines internal control as a process involving a board of commissioners, management, and other personnel designed to provide adequate confidence in the achievement of organizational goals including the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

According to COSO which is written in the book Lathifah (2021:5) the purpose of internal control is:

1. Operations Objectives are related to the security of company assets.
2. Reporting Objectives are related to the preparation of reports (reliableness) to be used by organizations and stakeholders
3. Compliance Objectives are related to compliance with applicable regulations and laws

## 2.6. Internal Control Component

The Committee of Sponsoring Organization of The Treadway Commission (COSO) divides the internal control components into five things, namely:

- a. Control environment is the overall attitude of the organization that affects the awareness and actions of the organization's personnel regarding control. And the factors that form the control environment in an organization are the value of integrity and ethics, competence, philosophy and management style, organizational structure, division of authority and responsibility, policy and other things.
- b. Risk assessment is determining risk in all aspects of the organization and determining the strength of the organization through risk evaluation and consideration of goals in all areas of operation to ensure that all parts of the organization work in harmony.
- c. Control activities are the implementation of policies and procedures set by management to ensure that the organization's goals can be achieved. For example, division of authority and responsibility, separation of duties, documentation, honest employees and others.
- d. Information and communication is a system that allows people or entities to obtain and exchange information needed to carry out, manage and control their operations.
- e. controlling is a dynamic rational evaluation of the information provided for management control purposes. The internal control system needs to be monitored to assess the quality of the system performance and it should be done continuously (IAI 2019:98-99).

### 1. Control Environment.

- a. Showing commitment to integrity and ethical values. Organizations consisting of several individuals must show commitment to integrity and ethical values.
- b. Carrying Out Supervisory Responsibilities  
The board of directors or audit committee must have independence in overseeing the development and performance of internal controls.
- c. Establishing Structure, Authority, and responsibility  
Management, with the supervision of the board of directors, determines the right structure, reporting line, authority, and responsibility in achieving goals.
- d. Demonstrate Commitment to Competence  
Organizations demonstrate a commitment to acquire or attract, develop and retain competent individuals in line with the organization's goals.
- e. Enforcing Accountability

- Organizations encourage individuals to take responsibility for the organization's internal control.
2. Risk Assessment
    - a. Setting a clear goal  
The organization clearly sets goals to enable identification and risk assessment related to the goal.
    - b. Identify and Analyze Risks  
Organizations identify risks to the achievement of organizational goals across the scope and analyze risks as a basis for determining how to manage those risks.
    - c. Fraud Risk Assessment  
Organizations consider the potential for fraud in conducting a risk assessment towards the achievement of goals.
    - d. Identify and analyze significant changes  
Organizations identify and assess changes that can have a significant impact on the organization's internal control system.
  3. Control Activity
    - a. Selecting and developing control activities  
Organizations choose and develop control activities that will contribute to minimizing the risk of achieving goals until they reach an acceptable level of risk tolerance.  
Choosing and developing general control over technology
    - b. Organizations select and develop general control activities over technology to support the achievement of goals.
    - c. Deploying Control Activities Through Policies and Procedures  
Organizations implement control activities through policies that set what is expected and set policies into action through procedures.
  4. Information and Communication
    - a. Using Relevant Information  
Organizations obtain or produce and use relevant and quality information to support the functioning of internal controls.
    - b. Communicate internally  
Data obtained from the results of interviews with store owners, employees, and field observations show that communication between owners and employees, as well as between fellow employees, runs smoothly. Regarding the inventory of goods, communication is also effective, where if there is a problem related to inventory, the employee immediately conveys it to the owner.
    - c. Communicate externally  
Data obtained through interviews with store owners shows that communication between Tamiimah Collection and outside parties, especially with suppliers, is running well. There is no major problem that occurs in the relationship. Suppliers are also quick to meet store requests and regularly provide information about new clothing products.
  5. Monitoring
    - a. Conducting continuous evaluation and or separate evaluation  
The results of the interview with the shop owner revealed that the owner carried out a thorough inspection that included checking the warehouse, store, inventory reports, and physical inspection of clothes once a month. In the case of inventory supervision, only the store owner is

allowed to enter the warehouse, while employees are responsible for supervising the store's operations.

b. Evaluate and communicate weaknesses or shortcomings

The results of interviews with shop owners, employees, and observations show that every problem that arises in the store is always conveyed by employees to the owner. Overall, the owner realized that there was a weakness in Tamiimah Collection and tried to make improvements. However, the repairs made have not been fully successful, so the weakness is still a big problem for the store.

### **3. RESEARCH METHODOLOGY**

#### **3.1. Type of Reseach**

The type of research used in this research is qualitative research with a descriptive approach. According to Fatihudin (2020:29) Research Qualitative is research that uses more subjective data, including research and disclosure based on perception to gain understanding of social and human phenomena. This research aims to analyze the inventory of merchandise carried out by the Tamiimah Collection store.

#### **3.2 Place and Time of Research**

The chosen research location is Tamiimah Collection Store, President Shopping Center Jl. Walanda Maramis, Pinaesaan, District. Wenang, Manado City, North Sulawesi. The research implementation time starts in October 2024 until it is completed.

#### **3.3 Type, Sources fo Data, and Data Collection Methods**

##### **3.3.1 Type of Data**

The type of data used in this research is the type of qualitative data. Because it uses qualitative data, researchers take data in the form of descriptions of words and sentences or descriptions.

##### **3.3.2 Sources of Data**

This research uses primary data as the data source. Primary data is data obtained directly and is usually obtained through direct interviews, surveys or questionnaires. Interviews are conducted directly with the informant and also reviewed documents and those relevant to the research.

##### **3.3.3 Data Collection Methods**

This research uses data collection methods that include direct interviews with store owners and employees, documentation in tje form of documents and notes relevant to the research topic, as well as field observations conducted to verify the accuracy of information obtained from interviews and documentation.

#### **3.4 Method of Analysis Data and Processes**

This research uses a descriptive analysis method. In research this, will be explained or described what happened in the company according to with data obtained from the research object.

1. The first step is to collect data from the research object by conducting interviews, documentation and observations.
2. The second step, will determine what data is most relevant and useful for research.
3. The next step is to analyze the data that has been obtained. The researcher analyzed whether the store's internal control system was in accordance with the research indicators in this case based on the COSO Internal Control Integrated Framework.
4. The last step that is done is to draw The last step that is done is to draw conclusions according to the results obtained from the research that has been carried out and give suggestions.

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## **4. RESULTS AND DISCUSSIONS**

### **4.1 Results**

#### **4.1.1 Overview of Tamiimah Collection Store**

Tamiimah Collection is a Small and Medium Micro Enterprise (UMKM) which is included in the category of small businesses, which sells various Muslim clothes. UMKM which started operating since 2017 is located in President Shopping Center Jl. Walanda Maramis, Pinaasaan, District. Wenang, Manado City, North Sulawesi. Tamiimah Collection has a turnover of around Rp350,000,000 - Rp400,000,000 per year.

#### **4.1.2 Merchandise Inventory Internal Control System at Tamiimah Collection**

##### **1. Control Environment**

###### **c. Commitment to integrity and ethical values**

Commitment to integrity and ethical values

Tamiimah Collection shows awareness of integrity and ethics, but does not have written rules about honesty or discipline. This causes regulations to be often ignored, and employee behavior guidelines especially regarding inventory management are not clearly available.

###### **d. Supervision Implementation**

Supervision of inventory is carried out directly by the owner, including salespeople and cashiers, even without a formal system.

###### **e. Structure, authority, and responsibility**

Determination of structure and responsibility is still done orally during recruitment. The organizational structure has not covered all important functions, causing overlapping tasks.

###### **f. Commitment to competence**

Selection criteria include a minimum of high school graduates, honest, disciplined, communicative, and experience in managing supplies. Training is given to cashiers before duty.

###### **g. Accountability**

The owner emphasizes the employee's responsibility for his duties and is firm about the loss or damage of goods, as an effort to maintain operational quality.

##### **2. Risk Assessment**

###### **h. Setting goals**

The store aims to get profit and serve customers well. Salespeople are required to record inventory on demand, and report products that customers are interested in but are not available.

###### **i. Risk identification and analysis**

Risks include out of stock, loss, or damage. Retrieving goods from the warehouse is done when the stock is almost out, causing accumulation. Quality inspection is only carried out once a month.

###### **j. Fraud risk assessment**

Risks such as internal cheating or loss due to buyers are overcome mainly through trust in employees and periodic inspection of incoming goods.

###### **k. Analysis of significant changes**

The owner conducts supervision through employees and evaluation (internal or external) every month to detect problems or changes in inventory.

##### **3. Control Activities**

###### **l. Selecting and developing control activities**

The results of interviews with store owners and employees, inventory reports are specially made by matching the model of goods received from suppliers with

previous stocks, then checking the sales records. Physical control at Tamiimah Collection is focused on inventory storage. The warehouse where the supplies are stored is in the shop owner's house. Every purchase plan is carried out by the owner, and every transaction of purchasing goods also requires authorization from the owner, who simultaneously receives the goods. Meanwhile, in sales activities, direct authorization from the owner is not required because the sales process in the store runs quickly.

**m. Choose and develop general control over technology.**

The results of the interview with the store owner, the inventory recording of Tamimah Collection is still manual and the sales records are still using books.

**n. Spreading control activities through policies and procedures.**

As a result of the interview with the owner, Tamiimah Collection has policies and procedures in the store's operational activities, but the policies and procedures are not made in writing. Each procedure is delivered directly by the owner to the employee, including procedures for handling inventory from purchase to sale, standard procedures for employee service, and other procedures.

**4. Information and Communication**

**o. Use of relevant information**

Inventory records are quite adequate based on previous purchases, sales, and stocks. The owner also has a special personal note.

**p. Internal communication**

Communication between owners and employees as well as between employees is effective; inventory issues are conveyed directly to the owner.

**q. External communication**

Relationships with suppliers are going well; suppliers respond quickly and regularly provide new product information.

**5. Monitoring**

**r. Continuous or separate evaluation**

The owner does a physical inspection of the warehouse, store, and inventory report every month. Employees are not allowed to enter the warehouse.

**s. Evaluation and communication of weaknesses**

Employees convey all problems to the owner. Although the owner is aware of the weakness, there is no fully effective repair.

**4.2. Discussions**

**4.2.1 Analysis of the Inventory of Merchandise Internal Control System Using The COSO Framework in Tamimah Collection**

**1. Control Environment**

Tamiimah Collection shows a commitment to integrity, ethics, and competence by setting qualifications such as high school graduates who are honest, disciplined, and have good communication, also provide training to cashiers and emphasize the experience of saleswomen in inventory management; however, the store does not have a written policy on honesty, discipline, and standards of behavior related to inventory, so there is often an overlap of tasks—such as a saleswoman helping the cashier and vice versa—without a formal reporting structure or independent supervision, because all operations and reporting are currently supervised directly by the business owner, which is reasonable for small scales even though independent supervision is an important element in internal control. Even so, accountability is reflected through the assignment of responsibility to employees for loss or damage to goods. Based on the Control Environment COSO 2013 framework, an effective internal control

environment includes commitment to integrity and ethical values, independent supervision (currently by the owner), determination of organizational structure and clear authority and responsibility, attention to competence, and enforcement of accountability.

## **2. Risk Assessment**

According to COSO (2013), organizations must set clear goals to enable related risks to be identified and assessed, identify and analyze risks throughout the organization, consider potential fraud in risk assessment, and recognize and assess significant changes that may affect internal control systems. In practice, Tamiimah Collection has set business goals such as making profits and providing good service and quality, which paves the way for the identification of risks such as lack of stock, loss of goods, and products that are less in demand. The store also considers the risk of fraud from internal and external parties through the inspection of incoming goods, although the supervision has not yet used technology such as CCTV, and evaluates changes in inventory and demand periodically to adjust the internal control system.

## **3. Control Activities**

Tamiimah Collection Store so far has implemented quite adequate control activities, although it is still manual. The store owner specifically records inventory and matches new clothing models with previous records and sales, as well as managing the purchase and receipt of goods by himself. Physical control focuses on storage in the owner's home warehouse, while in sales employees can transact without the need for direct authorization from the owner because the process is fast. However, COSO (2013) emphasized that organizations must choose and develop control activities that are able to minimize risk to an acceptable level of tolerance, as well as develop general control over technology, and implement policies in writing through procedures to turn expectations into real action.

## **4. Information and Communication**

Tamiimah Collection has applied the principle of "Information and Communication" from COSO (2013) effectively in controlling the internal inventory of its merchandise. This store obtains and uses relevant and quality information, such as records of incoming and outgoing goods, remaining stock, and special reports from the owner, to monitor the movement of goods and evaluate profit and loss. Internal communication between owners and employees runs smoothly, ensuring inventory issues can be handled immediately. In addition, external communication with suppliers also runs well, with suppliers being responsive and often providing information about new products. The implementation of this reliable information system and effective communication supports a strong internal control function, in accordance with the COSO guidelines (2013).

## **5. Monitoring**

Continuous evaluation and separate evaluation are two important approaches in internal control systems according to COSO (2013). Continuous evaluation is carried out routinely in daily business processes, while separate evaluations are carried out periodically to provide an objective and in-depth view of the effectiveness of internal control. At Tamiimah Collection, continuous evaluation has been carried out through routine inspections by the store owner every month, including checking in warehouses, stores, and inventory reports. In addition, the saleswoman conducts a daily inspection of the clothing inventory in the store. However, separate evaluation has not been applied optimally. Although employees convey problems related to internal control to the owner, communication of internal control weaknesses has not been carried out in a timely manner to responsible parties, such as senior management, in accordance with

the principles of COSO (2013). This indicates that the evaluation and communication of internal control weaknesses has not been fully effective at Tamiimah Collection.

## 5. CONCLUSION AND RECOMENDATIONS

### 5.1 Conclusion

Based on the research results, the internal control system of merchandise inventory at Tamimah Collection is not fully in accordance with the components within the COSO framework. From the five main components, there are seven principles that have not been properly applied. Specifically, in the control environment component, the principle that is not in accordance is the commitment to integrity and ethics as well as the establishment of the structure of authority and responsibility. In the risk assessment component, the principle of risk identification and analysis as well as fraud risk assessment has not been applied properly. In the control activity component, the general control principle of technology has not been appropriate, although other principles have been applied well. Information and communication components as well as internal monitoring have been applied in accordance with the principles of COSO. Overall, although some principles have been applied well, there are still shortcomings in the application of COSO principles in the internal control system at Tamiimah Collection.

### 5.2 Recommendations

1. For further research, it is recommended to expand the references used so that the explanation can be more in-depth. In addition, it is recommended that further research add guidelines in analyzing the internal control system of merchandise inventory, taking into account the use of frameworks other than COSO.
2. For store owners, it is recommended to start implementing an internal inventory control system for merchandise that suits the store's needs. This can be done by studying the recommendations that have been submitted and making them a guideline in managing the internal control of store supplies.

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