# CHAPTER I

INTRODUCTION

1.1   Research Background

Every business organization operates to produce goods or services needed in an economic system and seek profit (Kurtz & Boone , 2002). In seeking profit, a company must carry out a series of activities to create products that can be sold to buyers. All of these business activities have their respective functions in ensuring that a business organization may operate smoothly and generate profits each period. There are five main business activities which are divided into: inbound logistics, operations, outbound logistics, marketing, and sales & service (Romney & Steinbart, 2014).

In every activity that is carried out above, obviously companies will incur costs (buying raw materials, producing products, paying employees, etc.) and earn income on goods or services that are offered to consumers. Every income or expense that occurs as a result of these five activities is recorded and reported through the accounting function. Accounting is an information system, which measures business activities, processes data into reports and communicates the results to decision makers who will make decisions that can affect business activities (Harrison Jr., Hongren, Thomas, & Suwardy, 2012).

For this reason, accounting function is very important and crucial in any organization. As time goes by, the accounting process has also experienced development, from initially being done completely manually with books and paper,

to now being assisted and implemented with software or applications on various electronic devices. Software or applications used to assist business activities are now referred as management information systems. According to Bodnar & Hopwood (2013), management information systems can be interpreted as a collection of hardware and software designed exclusively to be able to integrate data into one valid and useful digital information.

Recently many types of information systems have been created and implemented in businesses. One of them is the accounting information system (AIS). An accounting information system can be defined as a system organized to collect, enter, process, and store data and an organized way to store, manage, control and report information in certain ways and procedures (Romney & Steinbart, 2014). With a clear and well-ordered system, accounting information can be generated from existing data such as sales requests, number of sales units, transaction dates, etc. The accounting information system is an important key in decision making process for every business.
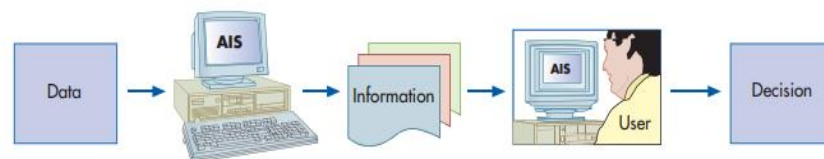
Source: Romney & Steinbart, 2014

Figure 1.1
Illustration of AIS

Although in fact, many business owners and management especially at the level of MSME have not implemented an accounting information system. There are still many companies that do transactions without recording and processing data

properly which actually could have been useful for their future business development. It has resulted in many MSMEs still "blind" and do not carry out proper accounting (https://money.kompas.com, accessed on 19 March 2020 at 09.15 WIB).

With the failure of activities and process of an accounting information system, a company will lack of reliable information colletions as a basis for taking future economic steps. In practice, without reliable accounting information a company can not see the trend of its sales, reduce its costs, and decide the best strategy to improve its profit.

One of the MSMEs that does not have a good accounting information system yet is UD Dior 77. UD Dior 77 is a family business that is classified as a micro enterprise that focuses on selling interlining fabrics and chicken eggs. This company located in Darmo Indah Timur 2/ G-10, Surabaya.

Source: Documentation

Figure 1.2
Office of UD Dior 77

UD Dior 77 can be classified as micro enterprise since its condition falls on the criteria for MSME which are having net assets of Rp. 50 million (excluding land and buildings for business premises) and annual sales of Rp. 300 million. This MSME can be said as a family business since all of the owners are part of a family. They currently have five employees in their organization that work on delivering goods and administrative job.

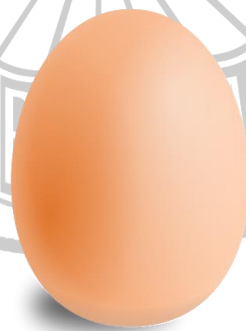Source: Documentation

Figure 1.3
Interlining Fabric

This business has been operating since 1985 where initially the only product they sold at the time was shoes. In 1998 around the monetary crisis in Indonesia, the owners of this MSME decided to stop producing and selling shoes due to the high cost of raw materials. They chose to shift their product to interlining fabrics (Figure 1.3). The fabrics are bought from suppliers, and then sold to many customers such as tailors or boutiques in Surabaya.

For interlining fabrics, UD Dior 77 has used accounting software named "Dior" to record all of their transactions, this system itself has been made by software developers that they hired several years ago. This software has been used

since then and because of it, the database for this software is too big and making the software cannot run smoothly and well due to the large number of records that have been stored. The current system also does not have the feature for calculating and displaying income statement. So, in order to create the income statement, one of the owners which is Mrs. Lely Rahayu is responsible to calculate their profit or loss for each month manually.

The reports that can be executed by the "Dior" software are as follows: sales reports, inventory reports, return goods reports, account receivable, and account payable reports. It can be concluded that the current system is not fully compatible for their accounting function and decision-making process, thus UD Dior 77 owner wishes to replace the existing system with newer and more suitable software.

Meanwhile the other product which is chichken egg (Figure 1.4) was initially supplied by their own farm that was owned by the owners' older brother, but since this man passed away the source of supply is changed to different suppliers until nowadays.

Source: Documentation

Figure 1.4
Chicken Egg

Unlike the interlining fabrics, the recording of transactions for chicken eggs is still totally done by a manual bookkeeping, which is very risky for errors and mistakes. Apart from these matters, the accounting activities in this company can be considered not going well since it is marked by the disorderly use of notes and the absence of experts who fully understand accounting at UD Dior 77.
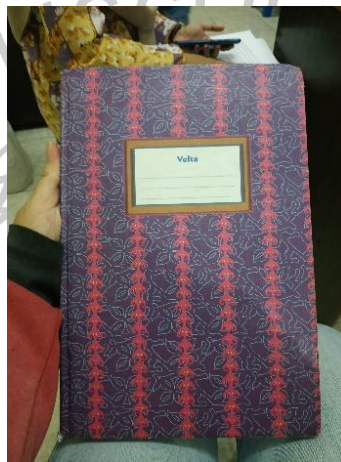
Source: Documentation

Figure 1.5
Notebook of Income Statement

Based on these phenomena, it can be concluded that the information system at UD Dior 77 has been implemented, but it is still conventional and inefficient. Management of this company has been keeping track of transactions in conventional and semi-manual way. It can be concluded that UD Dior 77 needs information about their business activities, but due to the lack of understanding about accounting and the quality of the current used software, this MSME does not have an optimized accounting information system that can facilitate and ease their accounting function.

Based on the facts described above, this study aims to design an accounting information system for UD Dior 77. This new accounting information system is a desktop-based software by the name of "Larudi" (Laba Rugi Dior). This software is created in Microsoft Access 2019 using the waterfall approach for its SDLC. Right after Larudi software finished, it will go through the testing process first using black box testing and PIECES analysis method.

This research is important because many business organizations, especially at the level of MSME should understand and use a reliable accounting information system. It is a vital function to be applied in business, since financial information can only be obtained by the help of accounting information system, and it is useful for learning and understanding the business process in order to make wiser future decisions. In addition, by looking at previous researches on similar topic, this research is also important because this type of research really helps the research subjects to get more aware and willing to apply an accounting information system. By conducting qualitative research with a case study approach at UD Dior 77, it is hoped that the proposed accounting information system can be applied in order to provide greater benefits for business owners and management.

1.2 Research Problem

1. How is the design of the accounting information system that can be proposed to UD Dior 77?

2. How is the analysis of the designed accounting information system in this study in UD Dior 77?

1.3   <u>**Research Objectives**</u>

1.   Designing an accounting information system that can be proposed to UD Dior 77.

3.   Analyzing the designed accounting information system in this study in UD Dior 77.

1.4   <u>**Research Benefits**</u>

  a. Theoretical benefits:

This research is an idea that researchers build as a solution to existing phenomena. Therefore, this research is expected to be able to add insight and knowledge about the implementation of accounting information systems in a business.

  b. Practical benefits:

Through this research, it is hoped that the research subject which is UD Dior 77 can implement a new accounting information system in an orderly manner so it can provide more benefits for the subject's business.

1.5   <u>**Systematics of Proposal Writing**</u>

This thesis is divided into five chapters which consist of other sub-chapters in it, while the explanation is as follows:

CHAPTER 1: INTRODUCTION

This chapter provides a general overview of this research, namely the analysis and design of accounting information systems at UD Dior 77. The several sub-chapters in this chapter are the background, problem

formulation, research objectives, research benefits, and a systematic explanation of the writing of this research.

CHAPTER 2: LITERATURE REVIEW

This chapter describes the similarities and differences between this research and previous studies which are still related and strengthen this research. In addition, this chapter also describes theories, models, and operational definitions related to this research, such as accounting information systems (Romney & Steinbart, 2014), systems development (Bodnar & Hopwood, 2013), system development life cycle (Satzinger, Jackson, & Burd, 2011), black box testing, PIECES analysis model (Ragil, 2010), and MSME. At the end of the chapter, there is a framework that underlies this research.

CHAPTER 3: RESEARCH METHOD

This chapter explains the research design in which this research uses qualitative approach with the case study method, research boundaries, data collection sources and methods, research subjects, and analysis methods and system design.

CHAPTER 4: RESULT AND DISCUSSION

This chapter contains the result and analysis on the research subject which include company profiles company products, organizational structure, and company's current accounting information system. It is continued with the explanation of proposed accounting information

system that may fix the weaknesses of the previous one in UD Dior 77.

CHAPTER 5: CONCLUSION

This chapter contains conclusions that answer research questions and research summaries, contains limitations experienced by researchers while conducting research, and contains the implications of the research findings.