AKADEMIK E-ISSN 2774-888X
Jurnal Mahasiswa Ekonomi & Bisnis
Vol. 6, No. 2, Mei 2026

Analysis of Internal Control over Finished Goods Inventory in Improving Operational Effectiveness at PT Winner Prima Selaras

Ridwan Syahid[1], Mardani Supranata[2]
[1]Sekolah Tinggi Ilmu Ekonomi Bisnis Indonesia, Indonesia
[2]Perbanas Institute Jakarta, Indonesia
ridwan.syahid@yahoo.co.id[1], mardanisupranata2016@gmail.com[2]

Submitted: 31th December 2025 | **Edited**: 13th March 2026 | **Issued**: 01st May 2026

Cited on: Syahid, R., & Supranata, M. (2026). Analysis of Internal Control over Finished Goods Inventory in Improving Operational Effectiveness at PT Winner Prima Selaras. *AKADEMIK: Jurnal Mahasiswa Ekonomi & Bisnis, 6*(2), 1129-1139.

ABSTRACT

This study aims to evaluate the effectiveness of internal control over finished goods inventory implemented at PT Winner Prima Selaras. The research seeks to determine whether the existing internal control system has been adequately designed and applied to support effective inventory management. A quantitative analysis method was employed in this study to provide an objective assessment based on measurable data. Data collection was conducted using documentation and field notes obtained directly from PT Winner Prima Selaras. The data sources included both primary data and supporting documents, gathered through question-and-answer sessions with relevant personnel as well as documentation available at the research site. These data provided insight into the company's inventory management practices and internal control procedures. The data analysis technique involved examining and comparing theories related to inventory turnover and control effectiveness with the actual practices implemented by the company. Inventory turnover ratios were analyzed to assess whether the movement of finished goods aligned with the standards established by the company. The results of the study indicate that the internal control of finished goods inventory at PT Winner Prima Selaras has not yet been fully effective. This conclusion is evidenced by inconsistencies in the monthly execution of finished goods inventory turnover when compared to the company's predetermined standards during the 2016 period. Consequently, improvements in inventory control procedures are necessary to enhance operational effectiveness and ensure better inventory management performance.

Keywords: Internal Control, Finished Goods, Inventory Turnover, Effectiveness, Management Performance

INTRODUCTION

In the current competitive business environment, effective inventory management plays a crucial role in supporting operational efficiency and organizational sustainability. Finished goods inventory, as one of the most significant components of current assets, directly affects a company's ability to meet customer demand, control costs, and generate revenue. Weak control over finished goods inventory may result in excessive stock levels, increased holding costs, obsolescence, inaccuracies in financial

reporting, and inefficiencies in working capital utilization. Therefore, the implementation of an effective internal control system over finished goods inventory is essential to ensure that inventory is properly managed, safeguarded, and reported.

PT Winner Prima Selaras, as a company engaged in business activities that rely heavily on inventory availability, requires a reliable internal control system to support its operational effectiveness. However, in practice, companies often face challenges in implementing internal control procedures consistently, particularly in inventory monitoring, documentation, and turnover evaluation. Ineffective internal control may lead to discrepancies between physical inventory and accounting records, delayed decision-making, and suboptimal inventory turnover performance. These conditions can ultimately hinder the company's operational effectiveness and financial performance towards user performance (Supranata & Lailiyah, 2025).

This study discusses the importance of internal control over finished goods inventory in supporting the smooth execution of production activities and the achievement of corporate objectives amid rapid economic development (Fadillah et al., 2025). Inventory represents a significant component of current assets, particularly for manufacturing companies; therefore, its management requires special attention to prevent excessive costs and declines in sales resulting from mismatches in the quantity, type, or quality of goods (Kartikahadi et al., 2016). Weak internal control over inventory may lead to various problems, such as discrepancies between inventory records and physical stock, product damage, recording errors, and potential losses due to theft or misappropriation. Consequently, companies need to conduct periodic inventory inspections through stock opname activities to ensure the accuracy of inventory data and the actual condition of goods. PT Winner Prima Selaras, as a carton box manufacturing company with a wide variety of products and high inventory mobility, faces recurring inventory discrepancies during stock opname activities. This condition indicates the need for a more effective internal control system over finished goods inventory to prevent irregularities and enhance inventory management effectiveness so that it can support financial reporting (Ruwatie & Supranata, 2025).

Based on these considerations, this research focuses on analyzing the internal control of finished goods inventory at PT Winner Prima Selaras in 2016, with the

objective of examining how such internal control can improve inventory management effectiveness and support the company's overall performance

The urgency of this study arises from the need to evaluate whether the internal control of finished goods inventory at PT Winner Prima Selaras has been implemented effectively and whether it contributes to improving operational effectiveness. By analyzing internal control practices and inventory turnover performance, this research seeks to identify weaknesses in the existing system and assess their impact on operational efficiency. The findings of this study are expected to provide valuable insights for management in strengthening internal control mechanisms, improving inventory management practices, and supporting more effective operational decision-making (Tesalonika Sasikome, Adelia Priskayani Jura, Filiysia Rembet, Gabriella Syalomitha Darotong, Andreuw Kristian Pantow, 2025) and has a role in supporting the effectiveness of the internal control system over raw material inventory (Amrulloh, 2025). Moreover, this research contributes academically by enriching empirical evidence related to internal control and inventory management effectiveness in business organizations.

LITERATURE REVIEW

Inventory

Inventory is defined as assets held by an entity for sale in the ordinary course of business, in the process of production for such sale, or in the form of materials and supplies to be consumed in the production process or in the rendering of services. According to the International Accounting Standards Board (IASB, 2018) through IAS 2 Inventories, inventory includes goods purchased and held for resale, finished goods produced, and work in progress, as well as raw materials awaiting use in production. Kieso, Weygandt, and Warfield (2019) explain that inventory represents a significant component of current assets and plays a critical role in supporting operational continuity and revenue generation. Furthermore, Wild, Shaw, and Chiappetta (2017) state that inventory management is essential because excessive inventory can increase holding costs and risk of obsolescence, while insufficient inventory may disrupt operations and reduce customer satisfaction, a well organized internal control system can improve operations (Putri Wulan Akay, Yelly Paendong, 2025).

Therefore, inventory serves not only as a physical asset but also as a strategic resource that must be managed efficiently to balance cost control and service level objectives. In academic and practical perspectives, inventory is closely associated with working capital management, operational efficiency, and financial performance, making it a key element in organizational decision-making and internal control systems.

Inventory turnover

Inventory turnover is a financial and operational ratio that measures how efficiently a company manages its inventory by indicating how many times inventory is sold and replaced during a specific accounting period. According to Kieso, Weygandt, and Warfield (2019), inventory turnover reflects the relationship between the cost of goods sold and average inventory, showing how effectively inventory is utilized to generate sales. Brigham and Ehrhardt (2017) define inventory turnover as an indicator of operational efficiency that demonstrates how quickly a firm converts inventory into revenue.

A higher inventory turnover ratio generally indicates efficient inventory management, strong sales performance, and lower holding costs, while a lower ratio may suggest overstocking, weak demand, or poor inventory control. Furthermore, Weygandt, Kimmel, and Kieso (2020) explain that inventory turnover is closely linked to liquidity and working capital management, as excessive inventory ties up funds that could be used for other operational needs. Therefore, inventory turnover is widely used by management, investors, and analysts to evaluate inventory control effectiveness, operational efficiency, and overall business performance. In academic and practical contexts, inventory turnover serves as a key metric in assessing how well an organization aligns inventory levels with sales activities and market demand.

Internal Control

Internal control is defined as a process designed and implemented by an organization’s board of directors, management, and other personnel to provide reasonable assurance regarding the achievement of organizational objectives related to operations, reporting, and compliance. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2017), internal control aims to enhance operational effectiveness and efficiency, ensure the reliability of financial reporting, and promote compliance with applicable laws and regulations. Romney and

Steinbart (2016) emphasize that internal control consists of policies, procedures, and practices established to safeguard assets, maintain accurate accounting records, and prevent or detect errors and fraud in a timely manner. These findings emphasize the importance of implementing strong internal controls to prevent fraud (Soewarno et al., 2024). Furthermore, Arens, Elder, and Beasley (2018) describe internal control as an integrated system that supports management in controlling business activities and reducing operational risks. Effective internal control requires the proper implementation of control components, including control environment, risk assessment, control activities, information and communication, and monitoring. Therefore, internal control plays a critical role in supporting organizational accountability, improving decision-making quality, and ensuring sustainable business performance. A well-designed internal control system does not eliminate all risks but provides reasonable assurance that organizational objectives can be achieved efficiently and effectively build strong internal controls on a regular basis (Thakkar et al., 2025).

Effectiveness

Effectiveness refers to the extent to which an organization is able to achieve predetermined goals and objectives through the optimal use of available resources. According to Robbins and Judge (2016), effectiveness is the degree to which an organization attains its goals, focusing on outcomes rather than processes. Daft (2018) defines effectiveness as an organization's ability to produce desired results by aligning strategies, structures, and resources. Furthermore, Sutrisno (2017) explains that effectiveness emphasizes the success of activities in achieving targets that have been planned within a specific time frame. Thus, effectiveness reflects the level of success in accomplishing organizational objectives in accordance with established standards and expectations (Adusupalli, 2024).

METHOD

The research method applied in this study is a quantitative analysis approach. The analysis is conducted by exploring and applying relevant theories related to finished goods inventory turnover and effectiveness at PT Winner Prima Selaras. This approach enables an objective evaluation of the company's inventory management performance based on measurable indicators. The data required for this study consist of the

company's financial statements for the year 2016, which serve as the primary source for calculating inventory turnover ratios and assessing the effectiveness of internal control over finished goods inventory. Through quantitative measurement and theoretical comparison, this study provides an academic assessment of inventory control effectiveness.

RESULT

The magnitude of inventory turnover calculation reflects the level of a company's operational effectiveness. Inventory turnover indicates how many times inventory is replaced within a certain period, meaning how often goods are purchased and subsequently sold. This ratio serves as an important performance indicator in evaluating how efficiently a company manages its inventory resources. A higher inventory turnover rate generally suggests that inventory is managed effectively, as goods move quickly from storage to sales, reducing the risk of obsolescence and excessive holding costs. Conversely, a low inventory turnover rate may indicate inefficiencies such as overstocking, weak demand, or ineffective inventory control policies.

Furthermore, a higher inventory turnover rate is closely associated with lower working capital requirements. When inventory circulates more rapidly, the amount of capital tied up in inventory decreases, allowing the company to allocate its working capital to other productive activities. Efficient inventory turnover also supports better cash flow management and enhances overall operational performance. Therefore, analyzing inventory turnover provides valuable insight into a company's ability to balance inventory availability with cost efficiency. In an academic context, inventory turnover is widely used as a key financial ratio to assess operational effectiveness, managerial efficiency, and the overall effectiveness of inventory control within an organization.

Table 1. Sales Data and Finished Goods Inventory at PT Winner Prima Selaras

Months	Sales	Beginning Inventiory	Ending Inventory	Average Inventory
January	187.122.845	198.005.087	118.594.134	158.299.611
February	291.317.196	198.005.087	118.594.134	158.299.611
March	250.764.305	198.005.087	118.594.134	158.299.611
April	407.265.085	198.005.087	118.594.134	158.299.611
May	431.461.437	198.005.087	118.594.134	158.299.611
June	461.842.730	198.005.087	118.594.134	158.299.611

Months	Sales	Beginning Inventiory	Ending Inventory	Average Inventory
July	135.306.825	198.005.087	118.594.134	158.299.611
August	279.569.097	198.005.087	118.594.134	158.299.611
September	293.051.079	198.005.087	118.594.134	158.299.611
October	418.678.684	198.005.087	118.594.134	158.299.611
November	307.703.218	198.005.087	118.594.134	158.299.611
December	310.935.125	198.005.087	118.594.134	158.299.611

Source: Financial Report of PT Winner Prima Selaras, 2025

Table 2. Sales Details, Average Inventory, Inventory Turnover, Finished Goods Inventory Turnover Period January – December

Months	Sales	Average Inventory	Inventory Turnover	Turnover of Finished Goods
January	187.122.845	158.299.611	1,18	26 Days
February	291.317.196	158.299.611	1,84	15 Days
March	250.764.305	158.299.611	1,58	20 Days
April	407.265.085	158.299.611	2,57	12 Days
May	431.461.437	158.299.611	2,73	11 Days
June	461.842.730	158.299.611	2,92	10 Days
July	135.306.825	158.299.611	0,85	36 Days
August	279.569.097	158.299.611	1,77	18 Days
September	293.051.079	158.299.611	1,85	16 Days
October	418.678.684	158.299.611	2,64	12 Days
November	307.703.218	158.299.611	1,94	15 Days
December	310.935.125	158.299.611	1,96	16 Days

Source: Financial Report of PT Winner Prima Selaras, 2025

Table 3. Comparison of Average Finished Goods Inventory Turnover with PT Winner Prima Selaras Standards During 2016

Months	Finished Goods Inventory Turnover	Company Standard	Effective / Ineffective
January	1,18	2	Ineffective
February	1,84	2	Ineffective
March	1,58	2	Ineffective
April	2,57	2	Effective
May	2,73	2	Effective
June	2,92	2	Effective
July	0,85	2	Ineffective
August	1,77	2	Ineffective
September	1,85	2	Ineffective
October	2,64	2	Effective
November	1,94	2	Ineffective
December	1,96	2	Ineffective

Source: Financial Report of PT Winner Prima Selaras, 2025

Based on the data presented in Tables 1 and 2, it can be observed that the average finished goods inventory at PT Winner Prima Selaras remained constant

throughout the year, while monthly sales fluctuated significantly. These fluctuations directly affected the inventory turnover ratio and the turnover period of finished goods. Months with higher sales volumes, such as April, May, June, and October, recorded higher inventory turnover rates and shorter turnover periods, indicating more efficient inventory movement. Conversely, months with lower sales, particularly January, July, and several months toward the end of the year, showed low inventory turnover and longer turnover periods. This condition suggests that finished goods were held in storage for longer periods, which may reflect weaknesses in inventory planning, monitoring, and internal control implementation.

Referring to Table 3, the comparison between actual inventory turnover and the company's standard of two inventory rotations per month reveals that internal control over finished goods inventory has not been consistently effective. Only four months April, May, June, and October met or exceeded the established standard, while the remaining months were classified as ineffective. This inconsistency indicates that the existing internal control system has not been fully successful in ensuring stable and efficient inventory turnover throughout the year. As a result, the internal control over finished goods inventory at PT Winner Prima Selaras requires improvement to enhance operational effectiveness, minimize excessive inventory accumulation, and support better alignment between inventory management practices and the company's performance standards.

Table 4. Comparison of Average Finished Goods Inventory Turnover with PT Winner Prima Selaras Standards During 2016

Months	Finished Goods Supply Day	Company Standard	Effective / Ineffective
January	26 Days	15 Days	Ineffective
February	15 Days	15 Days	Ineffective
March	20 Days	15 Days	Ineffective
April	12 Days	15 Days	Effective
May	11 Days	15 Days	Effective
June	10 Days	15 Days	Effective
July	36 Days	15 Days	Ineffective
August	18 Days	15 Days	Ineffective
September	16 Days	15 Days	Ineffective
October	12 Days	15 Days	Effective
November	15 Days	15 Days	Effective
December	16 Days	15 Days	Ineffective

Source: Financial Report of PT Winner Prima Selaras, 2025

Based on the data presented in Table 4, the comparison between the actual finished goods supply days and the company's standard of 15 days indicates variations in inventory holding performance throughout the year. Several months, including January, March, July, August, September, and December, exceeded the established standard, meaning that finished goods remained in the warehouse longer than intended. The longest supply period occurred in July, reaching 36 days, which reflects a significant slowdown in inventory movement. These conditions suggest inefficiencies in inventory distribution, demand forecasting, or coordination between production and sales functions, which may increase storage costs and the risk of inventory obsolescence.

On the other hand, effective inventory control performance was observed in April, May, June, and October, where finished goods supply days were below the 15-day standard, indicating faster inventory turnover and better alignment with management targets. Although February and November recorded supply days equal to the standard, the overall results show that inventory control effectiveness was not consistently achieved throughout the year. This inconsistency demonstrates that the internal control over finished goods inventory at PT Winner Prima Selaras has not been optimally implemented, thereby limiting its contribution to improving operational effectiveness. Strengthening internal control procedures, particularly in inventory monitoring and coordination across departments, is necessary to ensure that finished goods inventory levels consistently meet the company's efficiency standards.

CONCLUSION

After conducting a comprehensive analysis of internal control over finished goods inventory at PT Winner Prima Selaras, it can be concluded that the internal control system currently implemented has not yet operated effectively. The findings indicate that several control components have not been optimally applied to support efficient inventory management and safeguard company assets. Weaknesses were identified in the consistency of inventory monitoring, control procedures, and the alignment between established standards and actual practices. As a result, the company faces potential risks related to inventory inefficiency, inaccuracies in inventory records, and suboptimal inventory turnover performance. The lack of effective internal control may also hinder

management's ability to make timely and accurate operational decisions. Therefore, improvements in internal control policies, supervision mechanisms, and periodic evaluation processes are necessary to enhance the effectiveness of finished goods inventory management. Strengthening these controls is expected to improve operational efficiency, minimize potential losses, and support better financial reporting reliability.

Recommendations

Based on the research findings, several recommendations can be proposed to improve the effectiveness of internal control over finished goods inventory at PT Winner Prima Selaras. First, the company should strengthen its internal control system by clearly defining responsibilities and segregation of duties related to inventory management, storage, and recording to reduce the risk of errors and irregularities. Second, management is advised to implement regular and periodic inventory turnover evaluations to ensure that inventory movement aligns with the standards established by the company. Third, the adoption of a more structured inventory monitoring system, supported by accurate documentation and timely reporting, is necessary to enhance inventory control effectiveness. Additionally, conducting periodic internal audits and providing adequate training for employees involved in inventory management can improve compliance with internal control procedures. For future research, it is recommended to expand the scope of analysis by incorporating multiple periods and additional variables, such as operational efficiency and risk management, to obtain more comprehensive and generalizable results.

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