ISSN: 2456-7760

# EFFECT OF ACCOUNTING OF LIABILITY TO PERFORMANCE OF THE COMPANY (Case Study Manufacturing Companies in Bekasi, West Java)

Siti Choiriah

Department of Accounting, Faculty of Economic and Business

Mercu Buana Universities, Jakarta-Indonesia.

**Abstract**

This study aims to determine the effect of responsibility accounting on corporate performance. This research is a causal research with quantitative descriptive approach with the object of research on organizational structure, reporting, budget and corporate control on the performance of manufacturing companies in Bekesy, West Java. The research data is primary data obtained directly through the research questionnaire distributed to the research respondents. The variable of this study consists of independent variables consisting of four variables namely organizational structure, budget, control and reporting. For the dependent variable is company performance. Data analysis used is Structural Equation Model (SEM) with Partial Least Squares (PLS) approach. The results of this study indicate that the Budget and Control positive effect on company performance.

**Keywords:** Accounting Accountability, Corporate Performance

## A. Background

Competition between companies in the current era of globalization can not be avoided, many companies in the era of globalization competing with each other to improve its performance. To coordinate the company's activities in achieving its objectives, strategies are set up as guidance in achieving its objectives. As it is known that the company's purpose in a competitive economic condition is to obtain maximum profit with the company's growth in the long term and also to maintain the survival of the company itself.

Accountability accountability is an accounting system used to measure the performance of each responsibility center in accordance with the information that managers need for the operation of their responsibility centers as part of the management control system according to Samryn (2012: 76). Accounting for actual accountability arises as a result of the given authority and how to account for it in the form of a written report. Accountability of good accountability, in its application must establish or authorize expressly, because of this authority will lead to a responsibility. With such authority and responsibility will facilitate the control of the deviations that occur. With accounting accountability, the leadership can grant authority and responsibility to the lower management level more efficiently without directly monitoring all the company's activities.

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Each Company is generally oriented to earn profits so that the company improves its performance, especially the improvement of the company's financial performance. Financial performance is a formal business that has been done by a company that can measure the success of the company in generating profits, so as to see the prospects, growth, and potential development of both companies by relying on existing resources.

A company can be said successful when it has reached the standards and objectives that have been set. Financial performance is a picture of the achievement of the company's success can be interpreted as a result that has been achieved on various activities that have been done. Controlling financial performance through accounting responsibility can be executed by organizing the planning of a system of recording on corporate finance, critically review the review data, calculate, measure and provide solutions to the company's finances in a certain period.

Controls undertaken by management aim to assess the responsibilities of each work unit for the work performed by each employee, through the control of the investment, the costs incurred and the revenue generated in each department or division (Anwar, 2012). Companies need to exercise control over financial performance so that corporate finances can be directed, monitored, so that no violation of financial records, tight financial controls can motivate managers to manipulate data.

Many previous studies on accountability accounting According to Riana Frowzier (2011) accountancy accountability can be used as a management tool within a company or organization that has a large scope in decentralizing and divisional to manage the Company. Meanwhile, according to Moses, et al (2012) said that accounting accounting system is not motivational when the manager does not have it and this could be the cause of the accounting system ineffective accountability. The result of Hutabarat (2009) shows that the application of accountancy accountability has a positive effect on company performance. Similarly, research

Trisnawati (2006) and Adriana (2013) in which the results showed that the implementation of accounting accountability positively affect the company's performance.

The phenomenon of this research is where it is currently examining how accounting responsibility has been made by manufacturing companies located in Bekesy, West Java. Accounting for accountability, is this accounting system that recognizes the various responsibilities centres of the entire enterprise that reflect the plans and actions of each responsibility centre by determining its financial performance. The accounting system of accountability is a method of controlling the financial performance of the Company, while the financial performance is a formal business that has been done by companies that can measure the success of the company in generating profit, so as to see the prospects, growth, and potential development of both companies by relying on existing resources. Because of the above, mascarpone lititemotivasiun tukp research with Title "Influence Accounting Accountability To Company Performance"

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Identification of problems

Problem identification is the number of problems in the company such as unrecorded spending, resource wastage and inefficiency.

**Formulation of Research Problems**

Based on the above background then the formulation of the problem in this study are:

1. How Big The Organizational Structure Affects Corporate Performance.

2. How Big the Budget System Affects Corporate Performance.

3. Several Great Control Systems have an effect on to Company Performance.

4. How Big the Reporting System Affects Corporate Performance.

**Research purposes**

The purpose of this study is to look at the relationship of accountability to corporate performance.

Benefits of research

This research is expected to provide benefits for:

a. Policy Maker

This research is expected as a consideration for the company or management by dealing with problems especially accounting issues

b. Business Practitioners

his research is expected to be an input for business practitioners in accounting accountability analysis at company.

c. Academy practitioner

The results of this study is expected to be a material input for the development of science academics, especially the accounting field of accounting analysis of accountability on corporate performance.

**A. Theoretical Review**

**Agency Theory**

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In agency theory, Jensen Heckling defines agency relationships as a contract whereby one or more (principal) hires another person (agent) to perform services for their benefit by delegating some decision-making authority to the agent. Agency theory or agency theory is a basic theory in the company's business practices used so far. The agency theory is a concept that explains the contractual relationship between principal and agents. The Principal Party is the giving party the mandate of the other party's keeper is the agent to perform all activities on behalf of the principal, in the capacity as a decision maker according to Jansen, Smith, (1984)

**Accounting Accountability**

According to Warner (2014: 1077) Accounting Accountability is the process of measuring and reporting operational data by the responsibility centre. According to Romney and Steinhart (2012: 497) Accounting Accountability is done by generating a set of reporting correlations that break the overall performance of the organization with the most specific subunits directly controlling their activities. According to William (2009: 113) Accounting responsibility (responsibility accounting) is a program that covers the entire operations management to whom the accounting division, cost, or budget provides technical in the form of periodic control reports. Responsibility reporting is the reporting phase of responsibility accounting. The report of responsibility is the accountability report. Managers who have the authority to control activities know that they will be held accountable for the actions they take. Reports of responsibilities are made periodically and provided not only

According to Hansen and Mown (2007: 107) Accounting Accountability is a fundamental control tool for managers and is described by four essential elements:

(1) assigning responsibilities;

(2) establishing performance measures or benchmarks;

(3) evaluating performance; and

(4) set rewards.

The purpose of responsibility accounting is to influence the behaviour of individual and organizational initiatives in such a way as to be aligned to achieve a common goal or goal. Three types of accounting systems are accounting: financial (functional), activity-based, and strategy-based.

It can be concluded that the role of good accountability account ability must have a

predetermined standard. According to (Malady, 1997) the conditions for being able to apply

accounting are:

Organizational structure

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The organizational structure describes a clear flow of responsibility, authority, and position for each work unit of each level of management, in addition to clearly describing the division of tasks.

It can be concluded that the role of good accountability account ability must have a predetermined standard. According to (Milady, 1997) the conditions for being able to apply accounting are:

**1. Budget**

Each responsibility centre must participate in budget preparation because the budget is a description of the work plan of the Managers to be implemented and as a basis for the assessment of its work.

**2. Classification of costs**

Not all costs incurred in a part can be controlled by the Manager, only controlled costs should be accounted for. Separating costs into controlled costs and uncontrolled costs is necessary in accounting accountability.

**3. Accounting System**

Costs incurred are collected for each manager level, then costs should be classified and coded according to the management level contained within the organizational structure.

**4. Cost Reporting System**

The accounting section of each month creates an accountability report for each cost center. Each month beginning the report is recapitulated on the basis of the total cost of last month listed in the cost card.

**Performance Measurement**

According to Garrison, Noreen, and Brewer (2010: 32) In carrying out control functions, managers try to ensure that the plan is being implemented. Feedback, a signal of whether operations are on track, is the key to effective control. Van Doormen (2015: 20) Performance management at the company explores performance, as well as performance measurement and makes performance information useful for management. Performance management is a type of management that combines and uses performance information for decision making.

**a. Company Performance Measurement**

Performance measurement is done to meet three intentions. First, measurement is intended to help improve company performance. Performance measures are intended to help companies focus on the goals and objectives of the work unit program Secondly, performance measures are

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used for resource allocation and decision-making. Third, performance measures are intended to achieve public accountability and improve institutional communications.

**b. Key Elements of Performance measurement**

According to V. Warrant (2015: 08) the main elements of performance measurement are:

1. Establish organizational goals, goals and strategies

2. Formulate indicators and measures of performance.

3. Measuring the level of achievement of organizational goals and objectives.

4. To measure performance by measuring how much the organization's goals and objectives are achieved.

5. Performance evaluation (feedback, assessment of organizational progress, improving the quality of decision making and accountability).

To measure performance by evaluating performance by:

1. Feedback that is how the achievement of performance as the basis of organizational management for the next improvement.

2. Assessment of organizational progress: Performance appraisal conducted every period with the assessment of criteria. If the achievement is lower than the predetermined objectives, it is necessary to find the source of the cause.

3. Improving the quality of decision making and accountability: performance measurement will generate information for management decision making and help assess management success.

**c. Information Used For Performance Measurement**

**1. Financial Information**

According to V. Warrant (2015: 110) The assessment of the financial performance report is measured based on the budget already made. The assessment is done by analyzing the variance (difference or difference) between actual and budgeted performance. The variance analysis outlines focus on:

a. Variance of revenue (revenue variance)

b. Expenditure variance

1. Variant of routine expenditure (recurrent expenditure variance)

2. Variance of investment / capital expenditure (capital expenditure variance)

After analyzing the variance, then identify the source of the cause of the variance by tracing the variance to the lowest management level. This is done to know the specific unit

**2. Nonfinancial Information**

According Mardiasmo (2009: 123) Nonfinancial information can be used as another benchmark. Nonfinancial information can add confidence to the quality of the management control process.

**B. Previous Research Results**

Many previous studies on accountability accounting According to Riana Frowzier (2011) accountancy accountability can be used as a management tool within a company or organization that has a large scope in decentralizing and divisional to manage the Company. Meanwhile, according to Moses, et al (2012) said that accounting system of accountability is not motivational when the manager does not have it and this could be the cause of accounting system accountability is not effective. The result of Hutabarat (2009) shows that the application of accountancy accountability has a positive effect on company performance.

Similarly, research Trisnawati (2006) and Adriana (2013) in which the results showed that the implementation of accounting accountability positively affect the effectiveness. Thought Framework

Based on the conclusion of the above understanding that Accounting Accountability is an accounting system that is structured based on organizational structure, which explicitly separates the task, authority and responsibility of each management level. Accountability encourages individuals, especially managers to play an active role in achieving company goals effectively and efficiently.

**Organizational Structure (X1)**

Organizational structure is an arrangement and the relationship between each part and the existing position in an organization or company in carrying out operational activities to achieve the desired goals and in want. Organizations are structured in such a way that the authority and responsibilities of each leader are clear. Thus authority flows from top to bottom management. The organizational structure clearly illustrates the separation of work activities between each other and how relationships of activities and functions are limited.

Based on previous research, Adana et al (2017) conducted a study on the effect of accounting information on management controls, stated the implementation of organizational structure marked by the division of organizational units, clear division to the unit, the firmness of duties and responsibilities and the organization clarify the relationship of superiors with subordinates which has a higher impact on the implementation of its organizational structure, management control is increasing and concludes that the organizational structure has a positive impact on management control.

H1: Organizational Structure System has a positive effect on Company Performance

**Budget (X2)**

Each responsibility center must participate in budgeting as the budget is a description of the Manager's work plan that will be implemented and as a basis for his or her job appraisal. Responsibility accounting is useful to explain the role of a Manager because in the preparation of the budget is defined who or which party is responsible for the implementation of activities achievement of corporate goals. The budget is a plan that is arranged systematically in the form and is expressed in monetary unit covering all activities of the company for a certain period (period) in the future. Since the plan is set out in terms of monetary units, the budget is often referred to as the financial plan.

Based on previous research Andani (2017) stated changes in management control in line with changes in budget implementation marked the process of budgeting, the role of managers in budgeting, the role of budget in planning, reporting budgetary deviations and budget evaluation, so the higher the impact of the implementation of planning then the effectiveness of control is increasing and concludes that the Budget has a positive impact on management control.

H2: The Budget System has a positive effect on Management control.

**Control (X3)**

Control must be immediately implemented in order to avoid any major losses, control is an important step in order that any deviation that occurs is analyzed as soon as possible. Control is the process of monitoring activities to ensure that the activities are completed as planned and the process of correcting any significant deviations. Management controls must be supported by good organizational structure, so that the achievement of organizational goals, in accordance with what has been planned.

Based on previous research Adana (2017) conducted a study on the influence of accounting information on management control, the higher application of accountancy management control accountability is increasing, and vice versa decreasing the implementation of controls management control decreased and concluded that Control positive impact on management control.

H3: Control System positively affects Company Performance.

**Reporting (X4)**

Reporting is a record that provides information on accountability activities and the results submitted to the authorities. management in the form of delivery of progress or results of activities or giving information concerning all matters related to duties and functions to higher officials. both orally and in writing so that in receipt of the report can get an idea how the implementation of the tasks of the reporter. In addition, reporting is a record that provides

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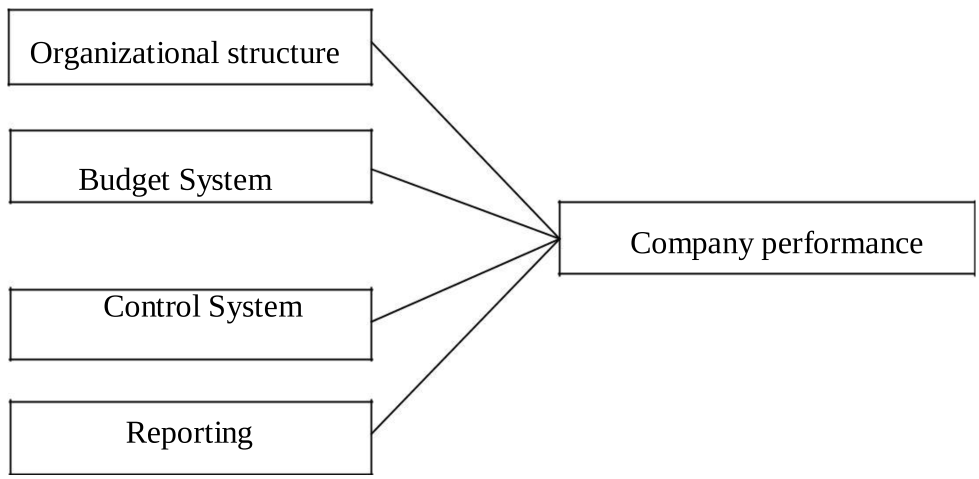
information about a particular activity and the results submitted to the authorities or related to a particular activity (Sagan, 2003).

Based on previous research Adana (2017) conducted research on the influence of accounting information on management control, the higher application of accounting reporting accountability then the effectiveness of management controls are increasing, and vice versa. It concludes that Reporting has a positive impact on management control.

H4: The Reporting System has a positive effect on Company Performance.




Framework

## A. HYPOTHESIS

Responsibility accounting is a system that measures the outcomes achieved by each responsibility centre according to the information required by managers to operate their responsibility centres. Information Accountability reflects the scores made by each manager in using various resources to execute the manager's role in achieving company goals.

Based on the foundation of the theory and the results of previous research that has been presented, the hypothesis is arranged as follows:

H1: Structure System Organization has a positive effect on Company Performance

H2: Budget System has a positive effect on Company Performance.

H3: Control System positively affects Company Performance.

H4: The Reporting System has a positive effect on Company Performance.

## RESEARCH METHODS

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**Research design**

The research method used in this research is quantitative analysis method that is research that emphasizes the analysis on numerical data or numbers obtained by statistical methods and conducted on inferential research or in the framework of hypothesis testing to obtain the significance of the relationship between the variables studied.

**Population and Sample**

The population of this research is Manufacturing Company in Bekesy West Java. The target sample is the accounting, finance and budget execution staff at the manufacturing company in Bekesy West Java. In this study known population has a chance to be selected as a subject in the sample and the population is homogeny, then the design of sampling is used by sample random sampling. The sample size was calculated using solving method with the formula:

$n = N / (1+ (N e ^ 2))$

Information:

n: number of samples N: number of population

e: fault tolerance limit

## A. RESEARCH DATA

Data collection methods used by means of direct observation and the authors to collect data by

the method as follows:

Primary data

Primary data is obtained through field research which is data collection technique by doing direct observation (observation) and data collected through questionnaire / revelation of questionnaire addressed to respondents to obtain fact and factual information from respondent.

Secondary Data

Secondary data is obtained from library research which is data collection technique using information collected from available sources such as textbook, journal, related to research, and previous research report related to the discussion.

## B RESEARCH VARIABLE

Independent variable

Independent variable or independent variable is explanatory. This variable is usually regarded as a predictor or cause variable due to or causing the dependent variable (Saharan, 2006: 117). This study has variables including the following: Accounting Responsibility by having dimensions of budget, relevant, materiality, reliability and balance

Dependent variable

Dependent variable is a variable influenced by independent variable or independent variable (now, 2003). In this study using the dependent variable that is: performance measurement has dimensions of financial perspective and customer satisfaction perspective. The relationship between dimensions and variables is reflective. The dimension of financial perspective has 3 (three) indicators which are reflective indicators. The dimension of customer satisfaction perspective has 3 (three) indicators which are reflective indicators.

Table 4.1 Variable Operational Definition

| Variables | Dimension | Indicator | Scale | Item |
|---|---|---|---|---|
| **Organizational structure ( $X_1$ )** | Unit of the Organization unit | a. Revenue center<br>b. Cost center<br>c. Profit center<br>d. Investment center.<br>e. Load an organizational work unit<br>f. Supervision of organizational work<br>g. Budgeting<br>h. The level of corporate management | Ordinal | 1<br>2<br>3<br>4<br>5<br>6<br>7<br>8 |
| **Budget ($X_2$ )** | Budget Process | i. Budget process<br>j. Accountability<br>k. Budget management<br>l. Budget planning<br>m. Budgetary deviation<br>n. Budget evaluation<br>o. Revised budget | Ordinal | 9<br>10<br>11<br>12<br>13<br>14<br>15 |
| **Control ($X_3$)** | Control manager | p. Manager's Responsibility<br>q. Consistency<br>r. Management irregularities | Ordinal | 16<br>17<br>18 |
| | Task control | s. Setting a spending limit<br>t. Division of work area<br>u. Company performance | Ordinal | 19<br>20<br>21 |
| | Performance reports | v. Hold regular meetings<br>w. Make a report<br>x. Analyze the report | Ordinal | 22<br>23<br>24 |
| **Reporting ($X_4$)** | Accountability Reporting | y. Accountability Report | Ordinal | 25 |
| | Reporting Analysis | z. Control reports<br>aa. Report results | Ordinal | 26<br>27 |
| **Measurement Performance (Y)** | Financial Perspective | bb. The realization of the operational cost of its budget<br>cc. Use of operational funds efficiently and effectively<br>dd. Program synchronization with performance as per service standard | Ordinal | 28<br>29<br>30 |
| | Perspective of Customer Satisfaction | ee. Checking the course of the program.<br>ff. Clear control of activities<br>gg. Activities / programs that suit customer demands<br>hh. Institution Performance Accountability Report. | Ordinal | 31<br>32<br>34<br>35 |

**Verifikatif**

This method is used to test the influence of each variable involved in the research by using Structural Equation Model (SEM) with Partial Least Square (PLS) approach. The use of SEM

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PLS method because the measurement model is formed by variables that have indicators in the form of reflective. Model in SEM PLS including outer model (measurement model) and inner model (structural modern). Here is an explanation of both models.

**Outer Model (Measurement Model)**

The design of the measurement model in this study using the second order model, the first factor is the dimension while the second factor is the research variable. The second factor measurement model is a model that connects a latent construct with a variable manifest. The latent construct consists of Accountability Accounting. While the first factor measurement model is a model that connects dimensions and indicators. Latent Construct The Effect of Accounting Accountability has 6 (six) manifest variables namely; Budget, Relevant, Materiality, Reliability, Balance between cost and benefits. While Performance Measurement has 2 manifest namely: Financial Perspective and Perspective of customer satisfaction

**Inner Model (Structural Model)**

Inner model is often called inner relation structural model and substantive theory that is to describe the relationship between latent variables based on substantive theory. In this study the structural model to test the hypothesis can be described as follows:

a. Evaluation of Outer Model (Measurement Model)

1) Measurement of validity and reliability of each indicator is used significance value loading factor that is if loading factor value 0,5 - 0,6 then indicator is considered enough for amount of latent variable 3 (three) until 7 (seven).

2) The measure used to construct convergent validity at the construct level is AVE (Average Variance Extracted). The indicator will be maintained if the AVE value is greater than 0.5.

3) The acceptable limit value for the composite reliability level is $\geq 0.7$, although it is not an absolute standard.

4) To test the discriminate validity by looking at the value of cross loading for each variable should be worth 0.7.

b. Inner Model Evaluation (Structural Model)

Measured using Q-Square predictive relevance with the formula Q2 = 1 (1-R12) (1-R22) ...

(1-Rp2)

**RESULTS AND DISCUSSION**

This chapter discusses the analysis of data and research results and collected samples. The data in this research is analyzed by using structural equation modelling (SEM) as multivariate

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analysis tool so that it has higher flexibility to link theory and data. This research uses Smart PLS software as a tool to solve SEM problems. This research was conducted by spreading questionnaires of 70 questionnaires to managers / system managers / supervisors / senior staff who have worked for approximately 5 years from 10 manufacturing companies in

Bekesy West Java. From 70 sheets of returned questionnaires returned as many as 60 sheets of questionnaires Terms of use Structural Equation Modelling (SEM) PLS is a minimum sample size of 30 and this study has met these requirements. The non-return questionnaire amounted to 10 questionnaires or 14.28%. The non-return questionnaire is probably caused by the questionnaire not reaching the respondent's hands or due to the busyness of the respondents.

B. Assumption Test and Quality of Research Instruments B.1. Validity test

Testing the validity of data in this study is to use PLS software with Outer Model is Convergent Validity by looking at the correlation between score item or indicator with the score construct. The indicator is considered valid if it has a correlation value above 0.7. However in the development phase correlation of 0.5 to 0.6 is still acceptable (Ghostly 2014). Discriminate Validity can be seen with square root of average variance extracted value of each construct or AVE value where the value of each misconstruction must be greater than 0.5. Test Validity is divided into two namely Convergent Validity and discriminate validity.

B.1.2 Discriminate validity can be in the following table:

Table 5.7 Test of Discriminate Validity and Composite Reliabilit

| Measurement Model | Results Measurement Model | | Critical Value | Model Evaluation |
|---|---|---|---|---|
| Discriminate Validity | Variable | AVE | | |
| | Organizational Structure (X1) | 0,432 | >0,5 | Invalid |
| | Budget (X2) | 0.587 | | Valid |
| | Control (X3) | 0.419 | | Invalid |
| | Reporting (X4) | 0,463 | | Invalid |
| | Company performance | 0,432 | | Valid |

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| Composite Reliability | Variable | Composite Reliability | | |
|---|---|---|---|---|
| | Organizational Structure (X1) | 0,778 | >0,7 | Valid |
| | Budget (X2) | 0,877 | | Valid |
| | Control (X3) | 0,918 | | Valid |
| | Reporting (X4) | 0,777 | | Valid |
| | Company performance | 0,836 | | Valid |

*Adjusted R-square*

| | *Adjusted R-square* |
|---|---|
| Company Performance Measurement | **0,286** |

(Source: Data processed by researchers, 2018)

RESULT OF HYPOTHESES TESTING ON COMPANY PERFORMANCE

| Hypothesis | Path Coefficient | Sampel mean | Std. Dev | T Statistics (\|O/ STDEV\|) | P Value | Hipotesis |
|---|---|---|---|---|---|---|
| Effect of Organizational Structure on Company Performance | 0,064 | 0,092 | 0,145 | 0,444 | 0,657 | Rejected |
| Budget Influence on Company Performance | 0,237 | 0,216 | 0,148 | 1,971 | 0.135 | Accepted |
| Effect of Control on Company Performance | 0,365 | 0,374 | 0,096 | 3,804 | 0,000 | Accepted |
| The Influence of Reporting on Corporate Performance | 0,296 | 0,293 | 0,197 | 1,497 | 0,135 | Rejected |

Source: Data processed by researchers, 2018

Relationship between variables can be said significant if it has a t-statistic value greater than 1.96. Estimation of the relationship between variables can be seen in table 5.9 above. Hypothesis 1 states that the Organizational Structure has a positive and significant relationship to the Company Performance is shown with the original value of estimate samples of 0.237 and T-statistics of 0.444 (smaller than t-arithmetic, 1.96). This means that Hypothesis 1 is rejected and rejected H1.

Hypothesis 2 states Budget Influence has significant relation to Organizational Performance indicated by original value of estimate sample equal to 0,237 and T-statistic equal to 1,971 (bigger than t-hitting, 1.96). It means Hypothesis 2 is received and Received H1

Hypothesis 3 states Control has a significant relationship to Company Performance indicated by the original value of estimate samples of 0.365 and T-statistics of 3.804 (greater than t-count, 1.96). It means Hypothesis 3 Accepting and receiving H3

Hypothesis 4 states Reporting has a positive and significant correlation to Company Performance indicated by the original value of estimate sample equal to 0.296 and T-statistic equal to 1,497 (smaller than t-hitting, 1.96). This means that Hypothesis 4 is rejected and rejected H4

## Conclusion

Based on the results of research that has been obtained can be concluded that together there are two variables that significantly influence the Budget and Control variables have a positive effect on Company Performance. and the relationship of performance measurement is significant at the 5% level.

Based on the above conclusions then the authors suggest for further research should

1. For the Company, the Company shall enhance its organizational structure, management control and reporting by conducting periodic monitoring and evaluation of the programs undertaken so that its work in accordance with the plan. In addition, it requires the coordination of each section so that each program quickly implemented in accordance with the schedule and use accountability as a tool of control.

2. For Further Researcher, In relation to the above, the researcher suggests that the next researcher can use another dimension, to be more precise to measure the performance measurement on Private Company so that its performance can be felt optimally by the society.

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