

Accounting Analysis in Accounts Receivable Management to Minimize the Risk of Uncollectible Receivables at ALS Hotel and Resort

N L M Puri Suwantari¹⁾, I M Ariana²⁾, and P Adi Suprpto³⁾

Accounting Department - Politeknik Negeri Bali

Jalan Kampus Bukit Jimbaran, Kuta Selatan, Badung, Bali – 80364

E-mail to :

¹⁾ purisuwantari20@yahoo.com

²⁾ madeariana@pnb.ac.id

³⁾ adisuprpto@pnb.ac.id

Abstract: ALS Hotel and Resort applies a credit policy in its operations. The high level of credit sales owned by the hotel, which is followed by the high number of delinquent receivables, has the potential to become uncollectible accounts. Therefore, proper management of accounts receivable is required. This research aims to determine the effect of the application of accounts receivable accounting treatment on the effectiveness of accounts receivable management in minimizing the risk of uncollectible receivables at ALS Hotels and Resort. This research used data obtained through unstructured interviews, observation, and documentation. The data analysis technique used was descriptive qualitative analysis technique and quantitative descriptive. The results of this research showed that the accounting treatment for ALS Hotel and Resort accounts receivable was following the Financial Accounting Standards. Accounts receivable management effectiveness was not yet effective because hotel management has not considered all 5C principles. The receivables collection policy has not been optimal due to the receivable turnover ratio and average collection period that show sub-standard results and impact on the arrears and billing ratios. The suitability of accounting treatment for accounts receivable provides relevant information that the management of accounts receivable to minimize uncollectible receivables has not been effective.

Keywords: Accounting Treatment, Accounts Receivable, Management, Uncollectible Receivables

1. Introduction

The development of the tourism sector in Bali has resulted in intense competition by several businessmen engaged in the hotel industry, thus requiring hoteliers to have a strategy to be able to win this competition. The strategy that can be applied by the company is to increase sales volume through the application of a credit policy. The implementation of this policy creates a claim or receivable.

Receivables are rights or claims to debtors (third parties) for products and services that have been enjoyed by the debtor concerned [1]. Receivables provide benefits for the company, but also have the risk of delays in cash receipts until uncollectible receivables arise. Therefore, it requires the management of accounts receivable. Accounts receivable management is the management of accounts receivable to optimize credit policy, namely achieving a balance between costs resulting from credit policies and

benefits derived from credit policies [2]. Account receivable management is needed to manage and control accounts receivable; thus, it can reduce the number of losses due to uncollectible accounts.

ALS Hotel and Resort, a hotel service company that has been established since 2015 and is experiencing a high level of competition located in Petitenget, Seminyak, Kerobokan Kelod, North Kuta, Badung. The hotel has 240 rooms, as well as other supporting facilities such as SPA, restaurant, boutique, kids club, meeting room, gym, bar, pool, and laundry. Facing fierce competition and maximizing profits, ALS Hotel and Resort implements a credit sales policy. ALS Hotel and Resort has three types of receivables, namely Guest Ledger, City Ledger (travel agent-overseas and travel agent-domestic), and Credit Card. The classification of accounts receivable at ALS Hotel and Resort 2017-2019 is presented in Table 1 as follows:

Table 1. Classification of Accounts Receivable at ALS Hotel and Resort in 2017-2019

Year	Amount Receivable	Not Yet Due	Account Receivable in Arrears
2017	8,771,932,857	4,415,109,655	4,356,823,202
2018	12,262,457,462	6,926,465,940	5,335,991,522
2019	12,152,433,052	6,196,096,462	5,956,336,590

Based on Table 1, it can be seen that the increase in the amount of arrears receivables over the last three years indicates an increase in credit risk, thus resulting in hotel operations being unable to operate optimally. Therefore, to minimize the risk of uncollectible receivables, hotel management must begin to increase the supervision of accounts receivable activity to the credit sales can run smoothly, and receivables can be immediately turned into cash. Besides, it is also deemed necessary to evaluate the accounting receivables treatment for accounts receivable to make in accordance with applicable accounting recording standards to the information on the presentation of receivables in the financial statements reflects the actual situation and produces information that is not misleading and influences decision making for management and other parties with interest in financial statements. Based on the description above, it is deemed necessary to raise accounting issues in accounts receivable management to minimize uncollectible receivables' risk.

2. Literature Review

2.1 Accounts Receivable

Accounts receivables are rights or claims to debtors (third parties) for products and services that have been enjoyed by the debtor concerned [1]. Receivables can be classified into two categories, namely for financial reporting purposes and classified in the balance sheet [3]. Receivables are arising from the existence of a credit sales policy that provides various benefits, namely increasing sales, increasing profits, and winning the competition [4]. The presence of receivables will cause risks such as the risk of not being paid for all receivables, not being paid part of the receivable, late settlement of accounts receivable, and risk of being capitalized [5]. The costs incurred include the cost of write-off accounts receivable, accounts receivable collection costs, and administrative costs [4].

2.2 Accounting Treatment

The accounting treatment for accounts receivable, the stages that regulate the requirements for the presentation of account receivables in the financial statements, thus accounts receivables can be presented fairly and in a relevant. Based on Financial Accounting Standards, the accounting treatment for accounts receivable is assessed by three factors: recognizing accounts receivable, measurement of accounts receivable, presentation, and disclosure of accounts receivable [6].

2.3 Accounts Receivable Management

Accounts receivable management is the management of accounts receivable to achieve optimal credit policy, namely making a balance between the costs resulting from the credit policy with the benefits obtained from the policy [2]. Credit analysis is an analysis used to assess whether or not credit is given [7]. The purpose of credit analysis is to ensure creditworthiness. Credit quality is strongly influenced by the five 5C variables, character, capacity, capital, collateral, and condition [1].

Sales on credit will affect the company's overall financial performance. Therefore, management needs to assess the performance of the accounts receivable [7]. Assessment of accounts receivable management performance can use several ratios that are directly related to accounts receivable. That is receivable turnover, average collection period, arrears ratio, and billing ratio.

2.4 Uncollectible Receivable

Uncollectible receivable is a loss of income that requires, through a proper entry in the article journal recording in the account, a decrease in trade receivable assets as well as a decrease related to profit and shareholder equity [3]. The recording method can be done in two ways, namely, the direct elimination method and the allowance method [3]. The calculation of uncollectible receivables using the allowance method can be done using the age of receivable analysis. The age receivables analysis is classified based on the age characteristics of each receivable based on the receivables' due date by applying different percentages to the age of the receivables. Recovery of uncollectible receivables can be in the form of rescheduling, reconditioning, and restructuring [8].

3. Research Method

This research used qualitative and quantitative data types sourced from primary data and secondary data. Primary data sources were data obtained directly by the writer in this research, including interviews with Credit Managers and observations related to credit policies and accounting treatment for accounts receivable at ALS Hotels and Resort, while secondary data or data obtained from other parties through documentation in the form of financial reports, aging schedule accounts receivable, total credit sales, total receivables, ALS Hotel and Resort credit policy for 2017-2019.

The data analysis technique used was descriptive qualitative analysis techniques and quantitative descriptive analysis. Qualitative descriptive analysis by analyzed the suitability of ALS Hotel and Resort's accounts receivable accounting treatment with Financial Accounting Standards, analysis of 5 credit criteria in providing credit facilities, and compliance with receivables collection. Quantitative descriptive analysis by analyzed the performance of ALS Hotel and Resort's accounts receivable through the calculation of financial ratios related to accounts receivable, including receivable turnover ratio, average collection period, arrears ratio, and billing ratio.

4. Result and Discussion

4.1 Suitability of Accounts Receivable Treatment with Financial Accounting Standards at ALS Hotels and Resorts

4.1.1 Recognition of Accounts Receivable

Recognition of receivables is closely related to the recognition of revenue. It is generally recognized and recorded when the process of generating profit is completed and realized. ALS Hotel and Resort recognizes receivables when the service delivery process has been completed and is recognized based on the exchange rate of the assets sold between the parties conducting the transaction. The exchange rate in question is the value to be paid by the debtor at a predetermined time and proven by documentary evidence called an invoice, such as the hotel recognizing a receivable for the transaction by Lotus Asia Tours in the amount of Rp17,323,667. This shows that the recognition of receivables at ALS Hotel and Resort in accordance with the applicable Financial Accounting Standards, namely PSAK No. 23, which states that revenue relating to sales of services transactions should be recognized by reference to the level of completion of the transaction at the transaction date [6].

4.1.2 *Measurement of Accounts Receivable*

The receivables' measurement includes when recognized and how much receivables must be recorded for the amount presented to show a reasonable value. Accounts receivable measurement at ALS Hotel and Resort measured at the amount stated on the invoice. The recognized receivables amount is the exchange price, or the contract rate agreed between the hotel and the debtor in accordance with the services provided.

Determine the net realization value, ALS Hotel and Resort each reporting has evaluated objective evidence of impairment of receivables by calculating the estimated uncollectable receivables using the allowance method or reserve method through the analysis of receivables age. Therefore, receivables contained in the financial position statements for the period 2017 amounted to Rp10,311,381,062, the period 2018 amounted to Rp15,191,175,176, and for the period 2019 amounted to Rp15,483,734,687 represents the amount receivable after the allowance of uncollectible accounts.

Based on the above discussion, if it is related to the applicable Financial Accounting Standards in PSAK No. 55, which states that financial assets measured at fair value for those recognized on initial recognition [6]. Fair value as the price to be accepted or price to be paid (PSAK No. 68) [6]. Accounts receivable are measured as the present value of the estimated future cash receipts, and accounting requires receivables reporting at their net realizable value or an amount that is expected to be collectible. Thus, in terms of measuring receivables, ALS Hotel and Resort has measured receivables in accordance with applicable Financial Accounting Standards.

4.1.3 *Presentation and Disclosures of Accounts Receivable*

ALS Hotel and Resort presents and discloses receivables in its financial position statements as part of its current assets in net amounts after deducting the allowance for uncollectible receivables by disclosing the impairment in a separate account. When linked with the applicable Financial Accounting Standards in PSAK No. 1, which states the entity classifies assets as current assets as if the entity expects to realize the assets within twelve months after the reporting period. PSAK No. 50, which explains that the presentation of financial assets and financial liabilities presented on a net or net realization value by disclosing impairments in separate accounts, therefore, in terms of presentation and disclosure of receivables at ALS Hotel and Resort has been in accordance with Financial Accounting Standards.

4.2 *Effectiveness of Accounts Receivable Management at ALS Hotel and Resort*

4.2.1 *Credit Policy at ALS Hotels and Resort*

4.2.1.1 *5C Analysis*

Credit standard is one of the company's criteria to select the subscribers who will be given credit and how much should be given [9]. Credit standards are used as a reference for screening prospective debtors in the process of providing credit facilities. Lending the credit to travel agents is carried out using the 5C analysis, namely character, capacity, capital, condition, and collateral [1].

ALS Hotel and Resort in providing credit facilities to prospective debtors only meets three C factors in providing credit facilities to travel agents. Two unfulfilled factors are capital and conditions. This is because supporting data in the form of the financial statement is optional to be attached; thus, prospective debtors are reluctant to provide supporting data, which makes the capital factor tends to be ignored and considered fulfilled. The condition factor is not considered because hotel management prioritizes receivables' smooth payment by looking at prospective debtors' ability to pay off their debts. Based on the three C factors analyzed showing that the entire travel agent has met the requirements of character, capacity, and collateral, so in terms of providing credit facilities to travel agents, ALS Hotel and Resort has not fully considered the 5C factor.

4.2.1.2 *Policy for Collection and Billing of Accounts Receivable*

Accounts receivable collection and billing policies fully implemented by the credit department, led by the Credit Manager, and assisted by Account Receivables with responsibility as part of administration and collection. The procedure for collecting and billing accounts receivable at ALS Hotel and Resort

begins by sending invoices to the travel agent who has obligations to the hotel. Invoice delivery is carried out once a week. This is in accordance with the invoicing policy owned by ALS Hotel and Resort, but not all invoices are sent, the payment received on time. This occurs because there are no strict sanctions for debtors who make payments past the due date, and there is also no discount for debtors who make payments before the due.

Based on the follow-up policy on accounts receivable that are due, sent a reminder letter consists of a reminder letter I, reminder letter II, reminder letter III, and final reminder letter—the sentence contained in the reminder letter made with strong warning words. Still, the realization is not in accordance with the policy, and the hotel only encourages the debtor to pay the receivables within the time limit set by the Credit Manager. This results in the debtor not responding and tends to ignore the reminder letter.

4.2.2 Performance Assessment of Account Receivable at ALS Hotel and Resort

4.2.2.1 Receivable Turnover Ratio

Table 2. Receivable Turnover
at ALS Hotel and Resort in 2017-2019

Year	Receivable Turnover (times)		
	Travel Agent- Overseas	Travel Agent- Domestic	Credit Card
2017	13.75	14.26	57.83
2018	10.83	11.53	49.58
2019	9.48	9.35	44.72

Based on Table 2, the accounts receivable turnover ratio calculation in 2017 - 2019 for travel agent-overseas sub receivables is 13.75 times; 10.83 times; and 9.48 times. The travel agent-domestic sub receivables have a turnover ratio of receivables in 2017 - 2019 of 14.26 times; 11.53 times; and 9.35 times, then for sub credit card receivables in 2017 - 2019 is 57.83 times; 49.58 times; and 44.72 times.

Accounts receivable turnover standard that has been set by hotel management, which is 12 times a year. Overall, the performance of accounts receivable turnover at ALS Hotel and Resort is below the established standards. The low realization of the turnover rate indicates the lack of an effective collection process at ALS Hotels and Resorts because the deviation of the receivables turnover rate from the set standard indicates that working capital remains longer. It is difficult to turn into cash; thus, it can disrupt hotel operations.

This is also shown in research that also obtained the results that the billing of Company X receivables calculated by the receivable turnover ratio does not show effective results due to the low turnover of receivables caused by poor receivables billing efficiency [10].

4.2.2.2 Average Collection Period

Table 3. Average Days of Receivables Collection
at ALS Hotel and Resort in 2017-2019

Year	Average Collection Period (days)		
	Travel Agent- Overseas	Travel Agent- Domestic	Credit Card
2017	27	26	6
2018	34	32	7
2019	39	39	8

Receivables collection is closely related to the accounts receivable turnover ratio. The higher the accounts receivable turnover, the faster the average days of collection of accounts receivable. Based on Table 3, the average days of collection of accounts receivable in 2017 - 2019 for travel agent-overseas sub receivables are 27 days, 34 days, and 39 days. The travel agent-domestic sub-accounts receivable in 2017 - 2019 are 26 days, 32 days, and 39 days, then for credit card sub receivables in 2017 - 2019 are 6 days, 7 days, and 8 days. Compared with the standards set by hotel management, the calculation results indicate that the billing policy at ALS Hotels and Resorts is less efficient. The realization of the average days for the collection of accounts receivable is slow because it does not reach the standard set, which is 30 days. Therefore, it has a bad impact on the company because the capital embedded in the receivables is getting longer; thus, it cannot be used in the company's operations [11].

4.2.2.3 Arrears Ratio

Table 4. Arrears Ratio
at ALS Hotel and Resort in 2017-2019

Year	Arrears Ratio		
	Travel Agent-Overseas	Travel Agent-Domestic	Credit Card
2017	5.16%	4.40%	0.66%
2018	2.49%	4.82%	1.23%
2019	7.09%	2.89%	0.91%

Based on Table 4, it can be seen that the arrears ratio fluctuates. The ratio of arrears for travel agent-overseas sub-accounts receivable in 2017 - 2019 is 5.16%; 2.49%; and 7.09%. Travel agent-domestic sub receivables in 2017 - 2019 in amount of 4.40%; 4.82%; and 2.89% thereafter, for credit card sub receivables in 2017 - 2019 in amount of 0.66%; 1.23%; and 0.91%. The fluctuation in the arrears ratio was caused by the receivables turnover ratio and the average collection period, which were still under the hotel management standard.

The result of the calculation of the arrears ratio on travel agent-overseas, travel agent-domestic, and credit card is not so large. Still, it shows there are still outstanding receivables at the end of the period to be charged in the financial position of the next period [12].

4.2.2.4 Billing Ratio

Table 5. Billing Ratio
at ALS Hotel and Resort in 2017-2019

Tahun	Billing Ratio		
	Travel Agent-Overseas	Travel Agent-Domestic	Credit Card
2017	90.76%	90.35%	98.54%
2018	92.26%	90.27%	97.26%
2019	87.00 %	93.31%	97.97%

Based on Table 5, it can be seen that the billing ratio also fluctuates. The billing ratio for travel agent-overseas sub-accounts receivable from 2017 to 2019 is 90.76%; 92.26%; and 87.00%. The travel agent-domestic sub-accounts have a collection ratio in 2017-2019 of 90.35%; 90.27%; and 93.31% later, for credit card sub receivables in 2017-2019 amount of 98.54%; 97.26%, and 97.97%. This fluctuating

collection ratio is due to the receivable turnover ratio and the average days of the collection, which are still under the standard set by hotel management.

The difficulty in collecting accounts receivable causes uncollectible receivables to become accumulate and results in high working capital embedded in the form of receivables. The increase in the number of receivables, which was not followed by good billing, resulted in the hotel management having difficulty converting receivables into cash; thus, the hotel operations became disrupted and hampered [13].

4.3 The Effect of Accounts Receivable Accounting Treatment at ALS Hotel and Resort on Accounts Receivable Management Effectiveness Assessment.

The appropriate accounting treatment of receivables applied by ALS Hotel and Resort supports the fairness of receivables value that has been presented in financial reporting reflected in the financial position report. The value of the receivables presented is used by the hotel management to assess receivables management's effectiveness to make further decisions for the company's sustainability.

The presentation of accounts receivable in the financial position statement is a net realizable value that will affect the assessment of the receivables' management effectiveness as measured by the performance of financial ratios related to receivables. The value of the receivables presented will affect the calculation of the accounts receivable turnover ratio and the average days of the receivables because the calculation of the two ratios uses the ratio of the value of the receivables presented in the statement of financial position.

The application of accounting treatment, in accordance with the Financial Accounting Standards, causes the receivables presented in the financial statements, showed the net realizable value, namely gross receivables reduced by the reserve for losses on accounts. Thus, the amount of final accounts receivable has decreased, followed by a decrease in the average receivables and will produce a receivable turnover ratio that is higher. The high receivable turnover ratio, then the average collection period of accounts receivable, will be faster, which indicates that the quicker the receivables turn into cash. Accounting Standards will show that the company's effectiveness in collecting its receivables is getting better; thus, the working capital invested in receivables is getting lower [14]. The suitability of the accounting treatment of accounts receivable owned by ALS Hotel and Resort with the Financial Accounting Standards has a positive effect on the assessment of the effectiveness of accounts receivable management at ALS Hotels and Resort and information regarding the activities and performance of accounts receivable is not misleading for users of financial statements.

5. Conclusions

Based on the results and previous discussions can be concluded that the accounting treatment of accounts receivable at ALS Hotel and Resort is fully in accordance with the Financial Accounting Standards indicated on the sales of recognized credits when the service delivery process has been completed and has been issued invoices, as well as recording receivables at the time of the transaction. The initial measurement of accounts receivable is measured by the amount that can be realized. The account receivables are presented to the current asset group at their net realization value after deducting the uncollectible receivables' allowance.

Accounts receivable management of ALS Hotel and Resort in 2017-2019 reflected the ineffective receivable management. This is shown from the crediting standards applied by the hotel management has not fully taken into account all the principles of 5C, namely only assessing from character, capacity, and collateral to accept the application of credit facilities from prospective debtors. The collection and billing receivables policy has less impact in the efforts to increase payments by debtors, namely the absence of strict sanctions for travel agents whose payments exceed the due date and the absence of discounting for travel agents who pay their bills on time. The accounts receivable performance at ALS Hotel and Resort as measured by the maximum unfulfilled ratio because it was caused by two of the three sub-accounts receivable that showed the receivables turnover ratio and the average collection period under the standard set by the hotel management.

The accounting treatment of accounts receivable at ALS Hotel and Resort has a positive influence on the assessment of the effectiveness of accounts receivable management. The suitability of the accounts receivable accounting treatment applied by hotel management affected the financial statements that value accounts receivable presented fairly and relevantly. Thus, the information about the activities and performance of accounts receivable is not misleading for the users of financial statements.

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