Analysis of Uncollectible Receivables and Their Impact on Profitability at The Legian Bali

K E Rahayu*, C Ardina, and M Sumartana
Accounting Department - Politeknik Negeri Bali
Jalan Kampus Bukit Jimbaran, Kuta Selatan, Badung, Bali – 80364

*E-mail to: enyrahayu147@gmail.com

Abstract. The application of a credit system is one strategy that could be used by a company to increase sales. Sales made on credit will automatically increase account receivable and if accounts receivable not appropriately managed, it can become uncollectible accounts. This study aims to determine the condition of uncollectible accounts and their impact on profitability at The Legian Bali. The data used in this research are credit sales, account receivable aging schedule, accounts receivable policy data, and profit/loss data. The data collected by conducting interviews, documentation and observation. The analysis technique used descriptive/qualitative analysis techniques using financial ratio formulas. The results of this study indicate the number of account receivables that are due and not yet collected is still relatively large. The large number of uncollectible accounts results in less turnover of accounts receivable into cash and this causes the average collection days for accounts to be longer. The longer time for collecting accounts receivable will produce a higher risk of bad debts due to the increasing number of outstanding accounts receivable and lowering the hotel receivables collection ratio. In 2017, 2018, and 2019 the arrears ratio calculation results are 8%, 12%, and 11%. Meanwhile, the results of the calculation of the billing ratio in 2017, 2018, and 2019 are 92%, 88% and 89%. The existence of uncollectible accounts which is quite large from year to year has a bad effect on profitability because of the inefficient collection of accounts receivable by hotels which causes the capital invested in receivables to be higher.

Keywords: Uncollectible Accounts Receivable, Profitability

1. Introduction

The intense competition in running a business makes every company have to be able to dominate the market in an effort to increase sales. The Legian Bali is a five-star hotel in the Seminyak area. In order to increase sales, The Legian Bali gives an offer by making sales on credit. Credit sales will automatically increase accounts receivable. If the receivables are not managed properly, there is a risk of becoming uncollectible accounts. Therefore, in order for credit sales to continue to provide profit, The Legian Bali created a credit policy to regulate everything regarding credit sales. However, in reality internal control over accounts receivable has not worked well, resulting in ineffective collection of accounts receivable resulting in increased risk of bad debts. The higher the bad debts, the higher the working capital needed to finance the company's receivables. The greater the expense, the greater the value of the income deduction which will result in the smaller the profit generated [1]. Table 1 shows the accounts receivable from The Legian Bali in 2017, 2018 and 2019.

Table 1. Account Receivable
At The Legian Bali in 2017, 2018, and 2019

Year	Amount of Receivable	Allowance for Bad Debt	Uncollected Receivable
2017	5.374.139.570	268.706.979	738.889.862
2018	7.944.972.183	397.248.609	1.470.259.261
2019	6.276.836.069	313.841.803	976.073.334

In table 1 can be seen in 2017 the amount of receivables is Rp5,374,139,570 and amounts to Rp738,889,862 is un collectible receivables, in 2018 the amount of receivables was Rp7,944,972,183 and amounted to Rp1,470,259,261 was uncollectable receivables, and in 2019 the total receivables amounted to Rp6,276,836,069 and Rp976,073,334 were uncollectible receivables.

2. Literature Review

2.1 Account Receivable

Receivables are claims to other parties due to the delivery of goods or services made on credit [2]. Receivables are classified into two events, that are for financial reporting purposes and in the balance sheet [3]. In addition to providing benefits, receivables can also provide losses due to risks that may arise such as the risk of not paying all receivables, the risk of not paying some receivables, the risk of late settlement, and the risk of investing in capital in the form of receivables [4]. The costs arising from the existence of accounts receivable are receivable write-off fees, accounts receivable collection costs, administrative costs, and source funds costs [5].

2.2 Uncollected Receivable

Bad debts came from customers who cannot pay due to decreased sales turnover [3]. The write-off of bad debts can be done using two methods, that are the direct method and the indirect method [6]. To minimize the existence of uncollectible accounts, it is important for companies to conduct credit analysis to assess whether or not a credit is given to debtors [7].

2.3 Profitability

Profitability is the company's ability to earn profits in relation to sales, total assets, and own capital [8]. A high level of profitability indicates that the company's business continuity is going well.

3. Methodology

This study use two types of data, namely qualitative and quantitative data. Qualitative data is data in the form of sentences obtained by conducting interviews with several employees at the Finance Department, especially employees in charge of account receivables regarding accounts receivable policies, credit standards, debt collection and collection policies at The Legian Bali. While quantitative data is data in the form of numbers [9]. This data is in the form of cash sales records, credit sales, and a list of receivables from The Legian Bali. The analysis technique used in this study is a qualitative descriptive analysis technique, namely the technique of describing, explaining, and drawing conclusions from the data obtained [9]. The tools used to analyze are by using the formula for calculating the accounts receivable turnover ratio, the days of receivable ratio, the arrears ratio, and the billing ratio.

1) Receivable Turn Over

$$\text{Receivable Turn Over} = \frac{\text{Credit Sales}}{\text{Receivable Average}}$$

Calculate receivable average:

$$\text{Receivable Average} = \frac{\text{Receivable Beginning Balance} + \text{Receivable Ending Balance}}{2}$$

2) Days of Receivable

$$\text{Days of Receivable} = \frac{365}{\text{Receivable Turn Over}}$$

3) Arrears Ratio

$$\text{Arrears Ratio} = \frac{\text{Receivable arrears at ending period}}{\text{Receivable total at the same period}} \text{ x } 100\%$$

4) Billing Ratio

$$\text{Billing Ratio} = \frac{\text{Billing Receivable Total}}{\text{Receivable Total}} \text{ x } 100\%$$

The results of the next calculation will be used to analyze the condition of uncollectible accounts and their impact on profitability at The Legian Bali. To calculate the amount of profitability generated by the hotel the formula used is:

$$\text{Net Profit Margin} = \frac{\text{Profit After Tax}}{\text{Net Sales}} \text{ x } 100\%$$

The calculation of the net profit margin ratio is used to measure the net profit after tax and then compared with the sales volume [10].

4. Result and Discussion

4.1 Credit Policy at The Legian Bali

4.1.1 Credit Standards

Credit facilities are only given to travel agents who meet the credit requirements set by The Legian. Travel agents applying for credit facilities must fill out a credit form and attach the necessary supporting documents. Furthermore, the Accounts Receivable section will conduct a review of the travel agent by looking at the performance of the tavel agent to the hotel and looking for information from other hotels regarding the smooth payment of accounts receivable by travel agents who apply for credit facilities. If after conducting a review and the credit facility is approved, the prospective debtor will be asked to sign a cooperation agreement letter as proof of agreement between the prospective debtor and the hotel.

4.1.2 Credit Payment Standards

The payment standard for credit sales at The Legian Bali is 30 days from the issuance of the invoice. These payment terms apply to collection of accounts receivable originating from credit cards, travel agent ledgers, and company ledgers. However, in reality there are still debtors who do not make payments according to predetermined standards. There are some receivables whose payments exceed the age of the accounts receivable 60 days, and some even reach the age of receivables more than 90 days. The cause of late payment of invoices which payments invoice are often jump over by the debtor and error documents letter of guarantee provided by the airlines and less strict sanctions for late payment of cause debtors to feel safe as long overdue.

4.1.3 Receivables Billing and Collection Standards

Billing and collection of accounts receivable is carried out by the accounts receivable department. If after 30 days after the invoice is received the debtor has not made a credit payment, these section *account receivable* will contact the debtor by phone and send a billing letter via email. Even though they have been contacted, in fact there are still some debtors who do not fulfill their obligations in making credit payments. The delay in the collection and collection of accounts receivable at The Legian Bali resulted in more and more assets being embedded in the form of receivables so that this affected cash turnover.

4.2 Assessment of Uncollectible Account Receivable at The Legian Bali

4.2.1 Account Receivable Turn Over

Accounts receivable turnover is the ratio used to measure the number of times the funds invested in these receivables rotate in one period [7].

Table 2. Account Receivable Turn Over
At The Legian Bali in 2017, 2018, and 2019

Year	*Credit Card*	*Travel Agent*	*Company*	Total
2017	28	9	16	13
2018	21	7	13	10
2019	23	6	9	8

Accounts receivable turn over ratios in 2017, 2018, 2019 for credit card receivables are 28 times, 21 times, and 23 times. Travel Agent shows the calculation of accounts receivable turnover ratio in 2017, 2018, and 2019 are 9 times, 7 times, and 6 times. Receivables from the company in 2017, 2018 and 2019 are 16 times, 13 times, and 9 times. Overall, receivables turnover in 2017, 2018, and 2019 occurred 16 times, 10 times, and 8 times.

4.2.2 The Days of Receivable

The days of receivable ratio functions to find out the average days it takes to collect receivables and convert them into cash [7].

Table 3. The Days of Receivable Ratio
At The Legian Bali in 2017, 2018, and 2019

Year	Credit Card	Travel Agent	Company	Total
2017	13	41	22	27
2018	18	49	29	35
2019	16	51	39	40

The average days to collect accounts receivable from credit cards from 2017 to 2019 are 13 days, 18 days, and 16 days. For accounts receivable from travel agents, the average days for collection of accounts receivable from 2017 to 2019 are 41 days, 49 days, and 51 days. The average days for collection of accounts receivable from the company in 2017, 2018, and 2019 are 22 days, 29 days, and 39 days. Overall, the average days for collection of accounts receivable from 2017 to 2019 are 27 days, 35 days, and 40 days.

4.2.3 The Arrears Ratio

The arrears ratio is the ratio used to find out how much receivables are due from a number of credit sales that have not been collected [7].

Table 4. The Arrears Ratio
At The Legian Bali in 2017, 2018, and 2019

Year	Credit Card	Travel Agent	Company	Total
2017	4%	12%	6%	8%
2018	5%	16%	11%	12%
2019	4%	14%	7%	11%

The ratio of arrears for receivables from credit cards in 2017, 2018 and 2019 are 4%, 5% and 4%. For receivables from travel agents in 2017, 2018, and 2019 the arrears ratio are 12%, 16%, and 14%. Receivables from the company in 2017, 2018, and 2019 resulted in an arrears ratio calculation of 6%, 11% and 7% arrears. Overall, from 2017 to 2019, all receivables owned by the hotel are 8%, 12%, and 11% arrears.

4.2.4 The Billing ratio

The billing ratio is the ratio used to determine the extent of the billing activity carried out by the company [7].

Table 5. The Billing Ratio
At The Legian Bali Pada in 2017, 2018, and 2019

Year	Credit Card	Travel Agent	Company	Total
2017	96%	87%	94%	92%
2018	95%	84%	89%	88%
2019	96%	86%	93%	89%

In 2017, 2018, and 2019, the calculation of the collection ratio for receivables from credit cards are 96%, 95%, and 96%. Receivables sourced from travel agents from 2017, 2018, and 2019 show collection ratios amounted 87%, 84% and 86%. In 2017, 2018, and 2019 receivables originating from the company can be collected as much as 94%, 88%, and 89%. Overall, from all receivables owned by hotels that came from several sources in 2017, 2018, and 2019 the receivables collection ratios are 92%, 88% and 89%.

4.2.5 Profitability Ratio

Table 6. Profitability Ratio
At The Legian Bali in 2017, 2018, and 2019

Year	Net Profit Margin
2017	13%
2018	17%
2019	15%

In 2017 the profitability ratio was 13%. In 2018 the number of uncollectible receivables increased from the previous year, but profitability also increased to 17%. This is due to the increase in sales volume. And in 2019 the profitability decreased again amounted 15% which was also caused by a decrease in sales volume but a decrease in the collection rate of accounts receivable from the previous year.

5. Conclusion

Based on a discussion of the results of the analysis that has been done, it can be concluded that the management of accounts receivable at The Legian Bali has not been going well. This is proven after analyzing the receivables at The Legian Bali by using financial ratios, the results show that the amount of accounts receivable that are due and not yet collected is still large. The large number of uncollectible accounts receivable results in less turnover of accounts receivable into cash and this causes the average collection days for accounts to be longer. This condition has a bad influence on the resulting profitability. Where profitability has decreased due to the increase in the number of uncollectible accounts that occur from year to year.

6. Acknowledgment

The author realizes that assistance and guidance from various parties is very helpful in completing this journal. The author would like to thank the supervisor who has provided input and suggestions in the preparation of this journal. All staff from accounting department at The Legian Bali for assisting the author in obtaining the data needed in this study.

7. References

[1] Setiawati, Iin. 2020*"Pengaruh Piutang Tak Tertagih Terhadap Profitabilitas Pada Perusahaan Pembiayaan Yang Terdaftar Di Bursa Efek Indonesia"*. Makasar:Jurnal Ilmiah Fakultas Ekonomi Universitas Negeri Makasar.

[2] Mulyadi. 2014. *Sistem Akuntansi*. Edisi Keempat. Jakarta: Salemba Empat.

[3] Hery. 2015. *Pengantar Akuntansi*. Comprehensive Edition. Jakarta: PT Grasindo.

[4] Riyanto, B. 2015. *Dasar-Dasar Pembelanjaan Perusahaan*. Edisi Keempat. Yogyakarta: BPFE.

[5] Gitosudarmo. 2012. *Manajemen Keuangan*. Yogyakarta: BPFE.

[6] Baridwan, Z. 2015. *Intermediate Accounting*. Edisi Kedelapan. Yogyakarta: BPFE.

[7] Kasmir. 2016. *Pengantar Manajemen Keuangan*. Jakarta: Prenadamedia Group.

[8] Tampi, G.G. P, I. Elim, and M. Y. B. Kalalo. 2019. "*Analisis Piutang Tak Tertagih Dan Dampak Terhadap Laporan Keuangan Pada PT Bank Rakyat Indonesia (PERSERO) TBK Cabang Manado*". Manado: Jurnal Ilmiah Fakultas Ekonomi dan Bisnis Universitas Sam Ratulangi. Vol. 14. No. 2.

[9] Sugiyono. 2018. *Metode Penelitian Bisnis*. Bandung: CV Alfabeta.

[10] Fahmi, Irham. 2015. *Analisis Kinerja Keuangan*. Bandung: Alfabeta.