



## **Analysis of Credit Sales Policy to Minimize Uncollectible Receivable Risk at Bali Niksoma Boutique Beach Resort in Legian**

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**Abstract:** The purpose of this study is to find out and analyze credit sales policies and to find out how much the allowance for receivable losses should be established at Bali Niksoma Boutique Beach Resort. This research uses qualitative data in the form of Standard Operating Procedures (SOP) and quantitative data in the form of aging schedules and sales data. The analytical tool used in the research is 5C analysis to analyze the crediting standards, credit sales policies using the checklist analysis method to analyze compliance with the credit sales policies, and the reserve method for calculating receivable losses. The results showed that the implementation of credit sales policies had not been carried out optimally, management of Bali Niksoma Boutique Beach Resort has implemented its credit policy, but there are still several policies that have not been implemented properly according to set standards. This can be seen through the result of the checklist analysis that have been carried out. Meanwhile, for the credit standard, the management has not implemented the 5C principle maximally. The amount of bad debts is classified as high, so it is necessary to establish a reserve allowance for bad debts to minimize the risk of uncollectible accounts.

**Keywords:** *credit sales policy, uncollectible receivable, 5C, allowance for bad debts*

### **1. Introduction**

The development of tourism in Bali will cause the number of hotels to increase which leads to intense competition. The right strategy in order to win the competition is to expand the market and increase sales volume by delaying payments or it can be said as credit sales. The implementation of the credit sales policy has a positive effect on room occupancy rates which directly affects income. Credit policy is defined as management's decision to provide credit to guests or third parties in an effort to increase hotel revenue. However, the application of credit sales raises claims / receivables owned by hotels [1].

Bali Niksoma Boutique Beach Resort is one of the hotels that sets a credit sales policy. This credit sales policy is implemented to increase guest interest and increase hotel profits. The implementation of this policy has a positive impact on the credit sales growth experienced by the company. In the last three years, sales growth has increased significantly.

The income contributed by credit sales has a larger percentage when compared to cash sales revenue, so management needs to establish the right policy in terms of credit sales [2]. Accounts Receivable at Bali Niksoma Boutique Beach Resort has a credit sales policy of n/30. The policy targets receivables to be collected for a maximum of 30 days in the aging schedule for accounts receivable. Receivables that are past 30 days are referred to as receivables in arrears which have the potential to become uncollectible account. The following shows accounts receivable that are not yet due and accounts receivable in arrears at Bali Niksoma Boutique Beach Resort in 2019 in Table 1.

**Table 1.** Account Receivable Aging Schedule  
at Bali Niksoma Boutique Beach Resort in 2019

Aging	Account Receivable (IDR)	Percentage
1 - 30 days	764.586.707	42,32%
31 – 60 days	468.046.286	
61 – 90 days	346.224.172	
91 – 120 days	153.605.282	57,68%
> 120 days	74.403.908	
<b>Total</b>	<b>1.806.866.355</b>	<b>100%</b>

Based on Table 1, it can be seen that the amount of accounts receivable in arrears has a greater percentage, namely 57.68% compared to accounts receivable that are not yet due, which is 42.32%. The arrears to Bali Niksoma Boutique Beach Resort come from travel agents consisting of overseas agents and local agents. The high amount of receivables in arrears indicates an increase in credit risk, both in the bad or uncollectible category. Uncollectible receivable can be caused by several factors, namely negligence on the part of the creditor to comply with the affirmed receivables agreement, debtor failure in the business sector and bad character of the debtor [3]. Based on information obtained from the Account Receivable Bali Niksoma Boutique Beach Resort that many debtors do not pay their bills according to the credit sales policy n/30 and if there is a late payment, Account Receivables only contacted travel agent via email.

This is not effectively done and not in accordance with the policies that have been set. The discrepancy between the policies that have been set and the realization made by the hotel triggers an increase in the risk of Uncollectible receivable. The next problem is that the Account Receivable at Bali Niksoma Boutique Beach Resort does not create allowance for accounts receivable losses to anticipate the risk of bad debts. This contrasts with principal matching where income and expenses must be matched in the same period. Based on the above background, it is deemed necessary to conduct further research on the credit sales policy at Bali Niksoma Boutique Beach Resort.

## 2. Literature Review

### 2.1 Credit Sales Policy

Credit sales policy is a guideline used by companies in determining whether a customer will be given credit and if given how much credit will be given [4]. The credit policy determined by management will greatly affect hotel revenues. If management wants to increase sales volume, the policy can be relaxed. However, on the other hand, if the credit policy is loose, the volume of credit sales increases, the opportunity for uncollected will also be higher, which is a cost for hotels. On the other hand, if credit policies is tightened will reduce credit sales, thereby reducing collection costs. For this reason, hotel management must determine such a credit policy in order to increase sales.



## 2.2 *Accounts Receivable*

Accounts receivables are claim arising from the sale of goods or services produced by the company [5]. Meanwhile, receivables are company rights or claims to debtors or third parties for products and services that have been enjoyed [6]. Hotel receivables usually consist of guest ledgers, city ledgers which are invoices to guests who have checked out and / or to third parties who have enjoyed hotel services and products, and other accounts receivable such as bills for room rental hotels like shopping arcades [1]. Receivables can pose risks including the risk of not paying all receivables, the risk of not paying part of the receivables, the risk of late repayment, and the risk of investing in capital.

## 2.3 *Accounts Receivable Management*

Accounts receivable management is the management of accounts receivable in order to achieve optimal credit policy, namely achieving a balance between the costs resulting from the credit policy and the benefits obtained from the policy [7]. Accounts receivable management policies include credit standards, credit terms, collection of accounts receivable, evaluation of subscribers, and collect and analyze information [8]. Credit analysis is an analysis used to assess the feasibility of a credit given, the aim is to ensure credit worthiness [9]. Credit analysis can be done with various analysis tools, one of which is 5C. 5 C consist of Character, Capacity, Capital, Collateral, and Condition. The size of the company's receivables can be affected by the volume of credit sales, terms of credit sales payment, credit restriction provisions, accounts receivable collection policies, and customer payment habits [10]. Receivables collection which is usually done by the company when the customer or buyer has not paid until the specified time is by letter, telephone, personal visits and juridical action [4].

## 2.4 *Uncollectible Receivable*

Uncollectible receivable are income losses that require, through appropriate journal entries in the account, a decrease in receivable assets as well as a decrease relating to shareholder earning and equity [11]. Uncollectible receivable can be caused by several factors, such as failure of creditors to comply with receivables approval, too easy to provide receivables, insufficient number of executives and staff in the accounts receivable department, weak guidance and supervision of executives and accounts receivable staff, the decline in the company's economic condition, failure of the debtor in their other line of business or company and the bad character of the debtor [3]. The recording method for uncollectible accounts can be done in two ways, namely the direct write-off method and the allowance method. The direct write-off method, no journal entries are made until a special account has been definitively determined to be uncollectible, while the allowance method uses an allowance to record losses arising from uncollectible receivable [11]. The use of the allowance method in recording uncollectible accounts receivable can be calculated by using the age of accounts receivable analysis. Accounts receivable age analysis is performed by applying different percentages to certain age groups of accounts receivable.

## 2.5 *Risk Management for Uncollectible Receivable*

Risk management is a field of science that discusses how an organization applies measures in mapping various existing problems by applying various management approaches [12]. Risk can be managed by minimizing risk, transferring risk and controlling risk, while salvation for uncollectible accounts can be done with various kinds of salvage based on the problems at hand. However, in general the salvation of uncollectible accounts can be in the form of rescheduling, reconditioning, and restructuring.

## 3. **Methodology**

This research uses primary data and secondary data. Primary data sources were obtained from interviews with Accounts Receivable at Bali Niksoma Boutique Beach Resort, while secondary data were in the form of aging schedule accounts receivable, cash and credit sales data, Standard Operating Procedures (SOP), and application forms. The data collection procedure was carried out by conducting interviews and documentation. The analysis technique used is descriptive quantitative and qualitative analysis techniques. The analytical tool used is the 5C analysis to analyze credit standards, credit sales



policies using the analysis method checklist to analyze credit sales policy compliance, and the reserve method to calculate receivable losses.

## 4. Results and Discussion

### 4.1 Implementation of the Credit Sales Policy at Bali Niksoma Boutique Beach Resort

The management of Bali Niksoma Boutique Beach Resort has complied with the established credit sales policy, but several policies have not been implemented properly. This can be seen in the *checklist* analysis that has been carried out. Policies that have not been implemented properly by the hotel include credit meetings, delivery periods *invoice*, and billing standards including warnings by telephone calls that have not been implemented in accordance with predetermined policies. The policy that the Bali Niksoma Boutique Beach Resort management deems difficult to implement, namely in terms of making and sending *invoices* according to the time set in the policy, this is because the *Account Receivable* at Bali Niksoma only amounts to 1 person so that this hinders the making and sending of *invoices*.

### 4.2 Credit Sales Policy at Bali Niksoma Boutique Beach Resort

Management in implementing credit sales policies must have a credit standard that is used as a guide in determining the granting of credit facilities to travel agents. Credit standard is one of the criteria used by the company to select the debtors who will be given credit and how much should be given [8]. Based on the description of the research results on the 5C analysis, it shows that the management of Bali Niksoma Boutique Beach Resort in providing credit to debtors has not implemented 5C optimally. Bali Niksoma Boutique Beach Resort only fulfills 3 out of 5 5C criteria, namely character, capacity and condition, while the 2 unfulfilled criteria are capital and collateral because they cannot be analyzed. Thus, at Bali Niksoma Boutique Beach Resort, it can be said that credit risk is increasing because only three of the five 5C principles are fulfilled.

The credit sales policy that has been set by the management of Bali Niksoma Boutique Beach Resort is good, but there needs to be adherence to the implementation because there are several policies that have been implemented but the implementation has not been maximized according to the set standards. Policies that have not been implemented properly by the hotel are credit meetings. The management has complied with the policy to hold credit meetings but the credit meetings held were not in accordance with the stipulated policy, so that the review and follow-up related to debtor receivables was only conducted by one person, namely Account Receivable. Time to create invoices and delivery invoice that does not meet established standards, resulting in accounts receivable collection time becomes longer. The delay in sending invoices was caused by the Account Receivable only 1 person in, which was a factor in the delay in making and sending invoices. Loose delivery times lead to long receipt times, so investment in accounts receivable will also take a long time. Furthermore, namely the leniency of the warning, the account receivable has issued a warning to the travel agent but the warning is carried out only by letter, while for telephone call warnings according to the stipulated policy have not been implemented, this results in the debtor tends to ignore the warning. The billing policy if the debtor has not paid the bill about 75 days after the invoice is sent has not been implemented in accordance with the policy set by the management of Bali Niksoma Boutique Beach Resort.

### 4.3 The Amount of Allowance for Accounts Receivable Losses that must be formed by Bali Niksoma Boutique Beach Resort

Bali Niksoma Boutique Beach Resort does not form a reserve for accounts receivable losses. This contrasts with matching principle where income and expenses must be matched in the same period. The profit on the income statement looks bigger because of the high income due to the credit policy, but it is not balanced with the expense of accounts receivable for the formation of an allowance for losses on accounts. Meanwhile, viewed from the balance sheet, the amount of receivables presented in the balance sheet does not match the amount of receivables that can be realized. Account receivables that are included in the balance sheet are the amount owed by the hotel, while the amount that may be uncollectible is charged as allowance for doubtful accounts and is charged as costs bad debt [1]. Based

on the description of the research results, it shows that the number of non-performing receivables that exceeds 90 days has a high amount and has the potential to become uncollectible receivable, so management must calculate the allowance for loss of accounts that must be established in an effort to minimize the risk of bad debts. The decision to control risk is by implementing a policy to anticipate risks before they occur [12]. In 2017, the allowance for losses on accounts that must be formed is IDR 51.246.273,00. The deletion method used is the indirect method or the backup method. The required entries on 31 December 2017 are:

Bad Debt	IDR 51.246.273,00
Allowance for Bad Debt	Rp.51.246.273,00

As a result of the absence of the formation of allowance for losses on accounts, the profit presented in the report profit and loss was higher at Rp51.246.273,00. In 2018, the allowance for accounts receivable losses that must be formed is IDR 77.086.353,00, so that the required journal entries on 31 December 2018 are:

Bad Debt	IDR 77,086,353.00
Allowance for Bad Debt	IDR 77,086,353.00

As a result of the absence of any allowance for losses accounts receivable, the profit presented in the report profit and loss was higher at Rp.77.086.353,00. In 2019, the allowance for losses on accounts that must be formed is IDR 141.239.476,00, so that the required journal entries on 31 December 2019 are:

Bad Debt	IDR 141.239.476,00
Allowance for Bad Debt	IDR 141.239.476,00

As a result of the absence of any allowance for losses accounts receivable, the profit presented in the report profit and loss was higher at Rp.141.239.476,00.

## 5. Conclusion

Based on the previous discussion, it can be concluded that the implementation of the credit sales policy at Bali Niksoma Boutique Beach Resort has not been implemented optimally, this can be seen through the checklist analysis that has been carried out, which is comparing Standard Operating Procedures (SOP) with the implementation of the management. Where the management of Bali Niksoma Boutique Beach Resort has implemented its credit sales policy, but there are still several policies that have not been implemented properly according to the predetermined standards. Meanwhile, the standard for providing credit to travel agents with the 5C analysis has not been implemented optimally. The high risk of uncollectible receivables causes the hotel to implement a policy to anticipate the occurrence of risk before the risk occurs by forming an allowance for losses on accounts. In 2017, the reserves that must be formed are IDR 51,246,273.00, in 2018 IDR 77,086,353.00, and in 2019 IDR 141,239,476.00.

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