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Analysis of factors affecting bad debts

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Abstract

The purpose of this study is to find out what factors cause bad debts. The results of this study show that from the accounts receivable report. The amount of bad debts is very high and continues to increase. The factors that cause bad debts are internal factors in the form of weak credit administration systems, weak credit supervision systems, weak credit information systems and irregularities or fraud committed during the credit implementation process. Where the rules, standards, and procedures that have been established are not carried out properly. In addition to internal factors, external factors are also the cause of the high number of bad debts, where these external factors are caused by a decline in economic conditions, business failures occupied, and partners who run away, causing the number of bad debts to be quite high.

Keywords: Collectible Receivable; Internal; External; Pay Motivation; Account Receivable

1. Introduction

Receivables are one element of current assets in the company's balance sheet. Receivables arise due to the sale of goods and services or due to the provision of credit to debtors whose payments are made in installments (Credit) not in cash. Understanding receivables is a claim against other parties in the form of money, arising from the sale of goods and services. Where the payment is made by the party concerned after the date the transaction of sale of goods and services is carried out by the company.

Mardiasmo (2000), states that receivables are the right to receive payments from the party obliged to pay. Receivables cannot always be collected smoothly, sometimes there are debtors who do not pay their debts because their business is bankrupt. However, there are also debtors who deliberately change addresses without giving news. If there are receivables that cannot be received, payment means that there is a loss, it must be recorded in the bad receivables loss account. A common problem faced by companies or cooperatives in accounts receivable is that there is often a collection of overdue receivables and cannot be fully collected, and will cause bad debts. According to Haryono (2001), bad debts are receivables that can cause losses because debtors do not want to pay or are unable to carry out their obligations.

The occurrence of bad debts is caused by two factors, namely internal and external factors. Internal factors, namely factors originating from cooperatives that provide loans to debtors consisting of weak credit administration and supervision systems, credit information system institutions. irregularities in the implementation of the crediting procedure. External factors are caused by factors originating from the debtor who borrow from cooperatives consisting of a decrease in economic activity, the debtor's business activity, and the debtor experiencing a disaster. Uncollectible receivables are one type of receivables in business or business, which cannot be collected even though efforts have been made as much as possible to make collections.

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Uncollectible receivables are debts owed by other parties to you or the company for the transaction of a business, but these receivables cannot be returned by creditors even after collection actions have been attempted. The proceeds from the sale of products should bring the company to profit. However, the existence of receivables makes the condition inversely proportional, the company actually gets uncollectible receivables as a result of buyers not paying loans. These bad debts eventually become a burden that reduces net profits. According to Soemarso (2004), what is meant by receivables is a "for payment concessions given by the company during the product sales process". This allowance is in the form of payment time that must be paid off later.

2. Literature review

2.1. Bad Debts

According to Misswomer (1995), what is meant by bad debts is receivables that arise due to the provision of services to subscriptions because something can no longer be collected. Bad debts are revenue losses that require a precise income paragraph in the estimated decrease in receivables as well as the corresponding decline in profits and shareholders' equity (Keiso et al., 2002). According to Hery (2013) said bad debts arise because of customers who cannot pay due to decreased sales turnover as a result of the sluggish economy and bankruptcy experienced by debtors. According to Haryono (2004), bad debts are receivables that can cause losses because debtors are unwilling or unable to carry out their obligations.

2.2. Factors affecting the existence of bad debts

Uncollectible receivables are caused by declining net income, sharply declining sales, declining inventory turnover, sharply increasing sales, declining receivables turnover, declining current capital, customers starting to break promises, customers making fictitious reports, customers not being open, and customers refusing interviews.

2.3. Internal Factors

Internal factors in the form of weak credit administration system, weak credit supervision system, weak credit information system and irregularities or fraud committed during the credit implementation process. Where the rules, standards, and procedures that have been established are not carried out properly by employees of partnership and community development programs.

2.4. External factors

External factors are caused by the decline in the economic condition of the fostered partners, the failure of the business occupied by the fostered partners, and the existence of fostered partners who have fled, causing the amount of bad debts on the part of the partnership and community development program.

Types of bad debts The types of collectible receivables are credit in special attention, non-current credit, doubtful credit, and bad credit.

3. Research methods

This research is a research using qualitative descriptive analysis, which is an analytical technique that describes or reveals a situation that is the focus of research and is not based on statistical calculations in the form of numbers by comparing facts and theories. From the data obtained then presented based on analysis, in general the data analysis used is descriptive, namely in statements and descriptions which are then arranged systematically.

4. Results

4.1. Internal Factors

- Negligence on the part of the creditor complies with the agreement to provide receivables that have been affirmed.
- It is too easy to provide receivables caused by the absence of a clear benchmark of wealth standards.
- Concentration of receivables on a group of service users or business sectors that are at high risk.
- Inadequate number of executives and staff of the accounts receivable section.
- Weak guidance and supervision of the chief executives and staff of the accounts receivable.

- The company's weakness in detecting the emergence of bad debts includes detecting the direction of cash flow development of service users or old debtors.

4.2. External factors

- The decline in the economic condition of the company caused by the deterioration of the general economic condition and / or the business field in which they operate.
- There is a wrong flow in the management of the company's business ventures or due to lack of experience in the business field handled.
- Family problems, such as divorce, death, prolonged illness, waste of funds by one or several family members of the debtor.
- Failure of debtors in their other fields of business or companies.
- The emergence of events beyond the control of the debtor, such as wars and natural disasters.
- Bad character of the debtor (who originally planned not to pay off his receivables

5. Discussion

From the results of the research described above, it turns out that not all internal and external factors cause the occurrence of bad debts according to Rivai et al. But only partially in accordance with the factors of internal and external factors causing bad debts are, as follows:

5.1. Internal factors causing bad debts

- Negligence on the part of the creditor complies with the agreement to provide receivables that have been affirmed. According to Rivai et al (2013) in the credit element there is an agreement, which is in the form of an agreement between the creditor and other parties who promise to pay from the credit recipient to the creditor. The promise to pay can be in the form of an oral, written promise (credit contract) or in the form of an instrument. And there is also the element of time which is an essential element of credit. Credit exists because of the element of time, both seen from the creditor and the recipient of credit.
- It is too easy to provide receivables caused by the absence of a clear benchmark of wealth standards. According to Rivai et al (2013) the provision of credit must meet the requirements known as principle 6C, which are as follows:
  - Character is the character / nature of the debtor, both in personal life and business environment. The purpose of this character assessment is to determine to what extent the debtor's intention / willingness to fulfill his obligations.
  - Capital is the amount of own funds/capital owned by the prospective debtor. The greater the debtor's capital, the higher the sincerity of the prospective debtor in running his business and the creditor will be more confident to provide credit.
  - Capacity is the ability of prospective debtors in running their business in order to obtain the expected profit. This assessment serves to find out / measure the ability of prospective debtors to return or pay off their debts in a timely manner, from the business obtained.
  - Collateral is goods submitted by the debtor as collateral against the credit he receives. The assessment of this collateral includes the type of collateral, its location, proof of ownership, and its legal status.
  - Condition of economics, namely political, social, economic, cultural situations and conditions that affect the business of prospective debtors in the future. To get an idea of this, it is necessary to conduct research on things such as; (1) The state of the conjuncture, (2) Government regulations, (3) The situation, politics, and economy of the world, (4) Other circumstances affecting marketing.
  - Constraints are limitations and obstacles that do not allow a business to be carried out. Of the six principles above, the one that needs the most attention is Character. If this principle is not fulfilled, the other principles are meaningless.

5.2. External Factors Causing Bad Debts

- The decline in the economic condition of the company caused by the deterioration of the general economic condition and / or the business field in which they operate. According to Rivai et al (2013) to get an overview of economic conditions, research needs to be conducted on:
  - The state of conjuncture, is a prevailing reality in the economy that shows that economic activity does not develop regularly but experiences increases or regressions that always change from time to time.
  - Government regulations.
  - World situation, politics, and economy/

  - Other circumstances affecting marketing. One of the causes of bad debts is the decline in general economic conditions.
- Bad character of the debtor (who originally planned not to pay off his receivables). According to Rivai et al (2013), from the 6C principle in providing credit, the one that needs the most attention is Character. According to Rivai et al (2013), character is a key factor even though the prospective debtor is able to settle his debt. However, if you do not have good faith, there will certainly be various difficulties for creditors in the future. To obtain an idea of the character of prospective debtors can be obtained through efforts:
  - Research the curriculum vitae of prospective debtors.
  - Seeking information on whether prospective debtors like to gamble.
  - Seeking information whether prospective debtors have a hobby of spree.

The factors causing bad debts that occur are caused by:

- Internal factors, namely those that come from within the company (creditors).
  - Weak credit administration and supervision system. Credit administration system, including credit application stage, credit analysis stage, credit decision stage, guarantee contract binding stage, repayment stage. Credit supervision system, including organizational plans, methods and procedures for securing company assets, personnel, sound practices.
  - Weak credit information system.
  - Deviations in the implementation of the crediting procedure.
- External factors, namely factors originating from outside the company (debtor) which include:
  - Consumers experience disasters.
  - Consumer financial condition declines.
  - The consumer is running away.

6. Conclusion

From the results of the research that has been conducted, a conclusion can be drawn based on the results of respondents' answers regarding the factors causing bad debts, which are caused by internal factors, namely the concentration of receivables in a group of service users or high business sectors, the company's weakness in detecting the emergence of bad debts including detecting the direction of development of cash flows or old debtors and weaknesses in conducting monitoring coaching. The external factors are the failure of the debtor in their other business fields or companies, the emergence of events beyond the debtor's control, such as war or natural disasters, misappropriation by customers using credit funds that are not in accordance with the purpose of use (side streaming) and the presence of elements of accident, such as natural disasters, instability of the country's economy so that inflation is high.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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