



## Management Accounting System, Internal Control of Credit Sales and Accounts Receivable Collections in Bakery Industry

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### Abstract

*This study aims to analyze the management accounting system, internal control of credit sales and accounts receivable collections in bakery industry. The novelty of this paper is to find out the results of bakery industry by considering a specific topic of financial issues. Every company has a role in the provision of credit problems but one of the most efficient ways for increasing sales is the provision of credit. However, basically credit sales have considerable customer risks who are not supposed to pay on accounts or customer who are not willing to pay for some reasons. To minimize these risks regarding the provision of credit, the company manager must be careful in selecting prospective customer before approving credit sales. This bakery industry is a company engaged in production and sales of bread and pastries. Based on research conducted by the author, the author asked the question whether the procedure of credit sales of accounts receivable collection has implemented internal control or not. The research method used is a library at the research field. Based on the result of this study, it concluded that the company sales of the applicable credit are in considerable amount, but the accounts receivable collection still has a few weaknesses which allow overdue customers to proceed the purchase orders. It is preferably to customers who have an overdue to be given limitation in ordering goods.*

**Keywords:** Credit Sales; Account Receivable Collection; Financial Management; Industry Application

**JEL Classifications:** G20; M40; G30

## Introduction

For every company in services, merchandising and manufacturing, sales activity is a very strategic aspect. This is incurred by the company's sales transaction to gain income (cash inflow) which will be used to support operational activities and the survival of the company. Sales consist of cash sales and credit sales. For cash sales, customers usually pay directly when purchasing goods or customers pay down payment if the goods are not available. In the case of credit sales, the company will face a problem in which goods sold to customers cannot be directly paid for. Customers will pay within a few months later. The company designs a management accounting system in helping the organization concerned through its managers, namely in planning, organizing, leading, and making decisions (Yuwind Lempas, 2014).

Managers' activities need information supports. Management accounting system is a formal system designed to provide information for managers. Management accounting system planning which is part of the organization's control system needs attention, so it can be implemented accordingly in order to have a positive contribution in supporting the success of the management control system.

Competition in the market is getting tougher, so it is not possible for companies to rely solely on cash sales to increase sales or company revenues, in which there will be credit sales. Credit sales may even be greater than cash sales. Therefore, it is necessary to supervise the management of the credit sales. With internal control, it is expected that the company's assets in the form of accounts receivable incurred by credit sales can be maintained and the accounting records regarding accounts receivables can be reliable.

Reviewing the importance of internal control in credit sales and observing the company's operational activities after, especially credit sales and accounts receivable collection, the author is interested in discussing "Management Accounting System, Internal Control of Credit Sales and Accounts Receivable Collection in Bakery Industry".

Management Accounting System has 2 (two) important elements namely: structure and process. The structure is related to who and what parts are involved in the system, while the process is related to how the system runs. Conventionally, the design of Management Accounting System is limited to internal financial information that is historically oriented. The increasing role of the Management Accounting System to assist manager in leading and solving problems has resulted in changes from the Management Accounting System to include external, non-financial data and information-oriented matters in the future.

Management Accounting System is a system that produces output using certain inputs and processes to achieve management goals. A process can be explained by activities such as collecting, measuring, storing, analyzing, reporting, managing and information. While output can be in the form of special reports, product costs, customer costs, budgets, performance reports, and even personal communication. Management Accounting System is not bound by formal criteria which explains the nature of input or process and output. These criteria are flexible and based on the objectives achieved.

This paper continues with the literature review in the second section. Third section gives information about the theoretical and methodological background. The next section presents the analysis results and the final section discusses the results and concludes the outcomes systematically.

## Literature Review

Internal control is a way to direct, supervise, and measure the resources of an organization. It plays an important role in preventing and detecting fraud and protecting organizational resources both in tangible form (such as machinery and land) and intangible form (such as reputation or intellectual property rights such as trademark). Intensive control can protect assets by preventing theft, fraud, misuse, or misplacement of assets at improper location. One of the most serious violations of internal control is fraud by employees. Internal control has specific and broad understandings.

In a specific understanding, internal control is a summary analysis, both in horizontal analysis and vertical analysis. While in a broad understanding, internal control does not only include work monitors, but also includes all the tools used by management to conduct supervision. A well-implemented internal control will maintain operations or activities existed in a company which do not violate applicable laws and regulations. According to Mulyadi (2013), "Internal Control Structures are policies and procedures to provide adequate

guarantees that company goals can be achieved." According to Warren Reeve (2013), the purpose of internal control is: "Providing a reasonable guarantee in which each bank carries out controls that can minimize the occurred deviations."

Sales are purchases of something (goods or services) from one party to others by getting compensation from the other party. Sales are also sources of company revenue. The greater the sales, the greater the income of the company will gain. Marom (2002) in the book entitled "Trading Company Accounting System" states that: "Sales means the sale of merchandise as the company's main business which is usually carried out regularly". According to Mulyadi (2001): Cash sales are sales carried out by companies by requiring buyers to pay the price of goods before the goods are delivered by the company to the buyer. After the payment is received by the company, goods are then delivered to the buyer and the company's cash sales transactions are recorded. While credit sale is sale carried out by the company by sending prices according to the orders received from the buyer and for a certain period the company has an invoice sale to the buyer.

According to Mulyadi (2008): Credit sales are carried out by companies by sending goods in accordance with orders received from buyers and for certain periods the company has invoices to these buyers. To avoid uncollectible accounts receivable, every first credit sale to a buyer is always preceded by an analysis of whether the buyer can be given credit sale or not. The credit sales procedures are as follows: Sales Order Procedure, Shipping Procedure, Accounts Receivable Recording Procedure, Billing Procedure, Sales Recording Procedure.

According to Warren Reeve (2013): Accounts receivables are all claims in the form of money against other party included individual, company, or other organization. In most business entities, this is usually operated by creating invoices and sending invoices to consumers who will pay within a period deadline called credit or credit milestones. Accounts receivables occur because of credit sales made by the company to provide convenience in payment. The amount of accounts receivable will affect into generating company's profit because accounts receivable is an element of company's profit. Syamsudin (2007) states that: "Accounts receivable is collection arising from transaction on account to customer".

## **Methodology**

This research was conducted in several bakery industries in Medan city, in accordance with the production produced by manufacturers. Data collection techniques were done by: Interview technique, the writer conducted questions, answers and discussions directly with the company, especially with sections related to the object of research. Observation technique is a method of collecting data by directly or indirectly observing credit sales and billings in some bakery industries. In this study, data sources obtained by the author were as follows: Primary Data and Secondary Data. Variables analyzed in this study are: Management Accounting System, Credit Sales, Accounts Receivable.

Management accounting systems applied to several bakery industries are as follows:

Quality Goals on the Industry: the company has posted boards containing information about the company's vision and mission in every strategic corner of the workspace of all employees. In the implementation of quality objectives in the bakery Industry, it prioritizes good cooperation from the owner to the employees. It aims to create good trusts so in every operational activity carried out by the company, there will be no mistakes or delays in producing existing products, and also in order to maintain quality products until products reach out to the consumers.

Quality Feedback on the Industry: the company has implemented a type of open management in the process of providing feedback on employee performance, i.e. employees could immediately recognize errors and correct them immediately so the production process in producing products can be controlled properly where in this stage, cooperation between employees is needed so every process of production could always be controlled and improved, connecting between employees and company leader.

Quality Incentive on the Company: the company has implemented quality incentive from the financial performance measurement in the provision of incentive, i.e. sales increase based on the allocated target, the provision of incentive through non-financial performance measurement, such as the imposition of tardiness, attendance records and feedbacks from customer.

## **Data and Empirical Results**

A crucial criterion in forming an organization is the separation of function and authority from each part of the organization in accordance with their function and responsibility. Besides, it must be prevented for an employee to have a dual-role functions which should not be responsible by one person only, such as the cashier and bookkeeping section. If the latter happens, then it would provide an opportunity to commit fraud or manipulation. Therefore, the formation of an organizational structure should be well-structured and place employees according to their expertise.

The preliminary survey procedures were carried out as follows:

1. Conducting talks with several owners who can provide the information needed and purposes and objectives of analyses were explained at the meeting.
2. Gathering data and information about: company's history, organizational structure and job description, policies and procedures related to credit sales and billing
3. Conducting interview with sales division, warehouses and cashiers to find out the policies and procedures applied, and the author also interviewed personnel to get an overview of the company.
4. Learning the procedures for sales and accounts receivable collection.
5. Providing questionnaires related to the process of sales and accounts receivable collection.
6. Evaluating the results of interviews, questionnaires and observations made.
7. Making summary of important findings.

From the results of the preliminary survey, it obtained data and information as follows:

Collecting the general description and background of the company based on the results of interviews with the personnel. The interview results were as follows: it is a manufacturing company engaged in the production and sales of bread and pastries.

Information was also obtained through interviews with personnel managers about: the history of the company both oral and written; the organizational structure applied by the company is the structure where authorizations pass directly from superiors and then continue to the subordinates.

Data and information findings regarding the procedure of cash and credit sales, billing procedures carried out by marketing and the process of write-off accounts receivable.

Based on direct observations, it is known that the company has adequate warehouse facilities and a large warehouse area. From the observations, it also obtained information about the storage of goods inventory which is classified based on the size of the goods and it is known that the employees in each section of the relevant division have their respective responsibility to superiors.

From the author's observation, the data of the company's organizational structure in general is adequate but in terms of internal observation, it should form one more division which has role as internal supervision (controller) so that the implementation of the work of every function in the company can be assessed and evaluated in accordance with company's objective and goals that has been set by the leadership of the company and tasked to secure company's property. During this time, work assignments have never been assessed and evaluated by other independent party thus if there are weaknesses, it cannot be immediately known and rectified.

The inexistence of internal controller or the company's internal auditor can cause the outcomes of every department mislead information and data to the company's management. In this company, the operational department, accounting department and departments have been adequately separated. Every accounting record made by the accounting department will be checked again by the accounting head. Changes or improvements to the internal control applied by the company are only made after the emergence of problems which are detrimental to the company and require a review of the internal control applied.

## Discussions

The components of the management accounting system as follows:

Quality goals of the company in order to achieve each production target set and also maintain the products' quality, in which the company provides motivation to its employees through the vision and mission held by the company in order to maintain the quality of the products based on its quality standard.

Quality feedback of the company, where aim in every production activity is that if there is an error or delay in work, the company immediately rectifies so the production process does not delay and can be controlled properly. The company also prioritizes work safety for its employees so there are no mistakes in any ongoing operational activity.

Quality incentive measurement about the company's performance both financially and working hours to customer satisfaction is well-implemented. In the financial performance of the company, it checks and records the sale of its products every day; the implementation of working hours to employees when there is a delay in the company only to reduce overtime salary; the satisfaction of consumers to the company always gets a positive response to the products produced by the company.

Basically, the company has two sales transactions, cash sales and credit sales. Cash sale is usually carried out by sales counters who are generally walk-in customers directly to the sales counter. Cash sales occur every day. Cash sales occur when customers pay in cash (in full) to the company if goods are available. However, if goods are not available, the purchasing department will open a purchase order/Purchase Request Letter addressed to the supervisor. Items that are not available will usually be made a purchase order before the customer must pay 50% of the total goods if goods are not available as a sign of purchase. In its implementation, internal control of credit sales is done properly because credit sales procedures and documents are sufficed. Every credit sale is known by the Finance Department because every sale incurred will be a credit. If there are too many accounts receivable, the Finance Department will discuss with the manager whether the customer is still allowed to place orders. Any ordered items that have been approved by the Finance Department will also go through the warehouse section.

In granting credit, the company applies the time period for accounts receivable collection, so the customer's debt does not exceed time period. The time period for granting credit for credit sales is at least 1 (one) month starting from the time the invoice is printed. When the billing due date or the deadline of 1 (one) month, the accounting department will arrange invoices to be collected and receipts are made from the accounting department to the marketing.

Procedures for accounts receivable collection are as follows:

1. Invoice that previously given by the administration then will be prepared by the accounting department based on the due date of the accounts receivable.
2. Invoices prepared by the accounting department will be made a receipt to the marketing. The invoice given is in the form of 1 sheet (white) invoice as a prove of payment when customers pay.
3. For accounts receivable collection of the North Sumatra area, marketing will visit directly to the customer's place to do billing.
4. For billing in the North Sumatra area, if the credit time period has reached 1 (one) month then the accounting department will make a billing receipt to the marketing to bill the customer.
5. Customers who pay bill in cash transfer or use a cheque/transfer form will be given to the cashier. Cash payment will be posted on the same day while cheque/transfer form will be posted on the due date or when payments are transferred into bank accounts. Most regional customers outside of North Sumatra will wire transfer directly to the company's bank accounts.

In the implementation of internal control, the collection of accounts receivable was still slightly inadequate because there were still accounts receivable that have exceeded the time limit of accounts receivable but still can make orders of goods. A slightly inadequate implementation is seen in customers who have exceeded accounts receivable time periods, but customers are still allowed to order goods. This is perhaps when the customer ordered the goods, the sale department did not check the time period of accounts receivable owned by the customer. Credit sales and accounts receivable collection are not seen in terms of internal relation so that customers do not violate the due date of accounts receivable collection. Most

customers who have internal relationship are tended to prefer making payment directly or before the billing deadline.

If the due date for accounts receivable collection has reached the deadline but customers have not made payment yet, the company should provide a warning or late sanction such as charging interest on the accounts receivable or it can be done if the time period of accounts receivable exceeds the 90 days limit since the invoice was made. Customers who have longer time period of accounts receivable can be refunded, so the write off can be done. Returns of goods that are made do not have to be the same as on the invoice, because it is possible that the invoice on the sheet that has not been paid but is already sold and goods that have not been sold but have been paid.

Other factors that might occur to customers who have overdue accounts receivable but are still allowed to order goods are: Cheque/transfer form provided by the customer is not due. Cheque/transfer form provided by customers experience debit failure at the time of maturity of accounts receivable. Promise from customers who will pay off their accounts receivable soon.

Recording credit sales made by the accounting department was focused on existing invoices. How many sales incurred will be recorded on the A/R accounts. On the A/R accounts, it will be taken as sales and repayments incurred every day.

Procedures for recording accounts receivable are as follows:

1. Sales everyday made by sales division will be input by the A/R division into the A/R accounts.
2. In the A/R accounts, it will be seen how many sales incur every day.
3. When accounts receivable due, the accounting department will arrange invoice and create receipts to be given to the marketing.
4. After the marketing receives cash, it will immediately distribute invoices paid by the customer.
5. If the payment is a cheque/transfer form, then the invoice for payment by the cheque/transfer form will check into to the due date of the cheque/transfer form.
6. There are also customers who directly wire transfer the bill to company's bank account.
7. The cashier will arrange all receipt invoices incurred during the one-day transaction.
8. The cashier will give all the invoices to the A/R division, the A/R division will credit all invoice receipts accordingly to the A/R accounts.
9. Every week a report on the time period of accounts receivable will be provided to the accounting head and supervisors.

Repayment incurred only when the payment has been recorded in the financial treasury. If there was a cheque/transfer form that failed to debit or there was an error in the cheque/transfer form, then the payment would not be recorded into the financial cash. Every week, the A/R division files a report that will be given to the accounting head and the finance department, so the overdue accounts receivable was maintained.

The purpose of the report filed every week is to know which accounts have exceeded the overdue limit. The report will be recorded in accounts receivable that exceed the time period of 30 days, 60 days, 90 days and more than 90 days. In the report, there are also cheques/transfer forms which are not due yet. Usually, it will be known if accounts receivables are in 2 weeks' time. The function of cheque/transfer form attached to the report is if there is a customer who has an overdue over 60 days then there is a possibility that the cheque/transfer form has been sent to the bank's cash to pay off accounts receivable.

Constraints that may be encountered when collecting accounts receivable are customers who did not want to pay their accounts receivable for several reasons. These reasons can cause accounts receivable to be overdue. Overdue accounts receivables are caused by customers who gain loss in business, goods have not been sold yet, customers' inability to repay accounts receivable, bankruptcy, natural disasters and goods ordered are broken. It may be because of overdue accounts of A/R accounts are caused by internal factors, namely an error in the write off. If accounts receivables are overdue from the specified time period or payments of accounts receivables are too long in time period, then a return of goods that would still be available to the customer will be carried out. This is done in order that overdue accounts receivables can be credited so overdue accounts receivables no longer appear.

Other obstacle is in the provision of cheque/transfer form which is not yet due. Customers always pay with a cheque/transfer form that has a maturity between 2 (two) weeks or up to 1 (one) month, at the time of disbursement of cheque/transfer form, it may be possible to have debit failure due to lack of funds in the

customer's cash or an error in the cheque/transfer form. If this is the case, marketing is required to regularly visit customers to ask for accounts receivables overdue.

## Conclusion

Based on research conducted by the author in the Bakery Industry, it can be concluded that:

1. The 3 components of management accounting system are: Quality Goal, Quality Feedback, Quality Incentive.
2. Credit sales procedures applied by the company are well-implemented, namely the existence of complete documents and authorized by legitimate party and underlies the recording of these sales transactions into accounting records.
3. Accounts receivable procedures implemented by the company are quite good, namely the due of billing carried out by marketing as well as receipts between the accounting division and marketing division and the report used to determine the time period of the accounts receivable.
4. The implementation of internal control for credit sale is suffice because there are clear visible procedures that should go through the Finance Department before selling.
5. The implementation of internal control of accounts receivable collection has a few deficiencies in terms of overdue condition of accounts receivable are still allowed to order goods.
6. The company has never sent accounts receivable information to customers because at the time of billing carried out by marketing which accounts are recorded and shall be paid first.
7. The company has never estimated the risks associated with the presentation of financial statements such as by not making additional losses from accounts receivable. It is estimated that each customer who has a record of accounts receivable will certainly pay off their accounts receivable if they pay by installment.
8. The company do not implement monitoring activities on the effectiveness of internal control. This is very detrimental to the company, because in the absence of such monitoring, internal control will not work effectively because it is unable to prevent new problems that may occur.
9. The internal control activities toward credit sales and accounts receivable collection applied by the company, there is a weakness, namely there was no separation of functions between the sales function and credit authorization function, which is only held by management.

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