Analysis of the Internal Control System for Receivables at CV. Putra Riau Mandiri

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ABSTRACT

In carrying out its activities to achieve the stated goals, companies must exercise control. The controls implemented must provide benefits, in this case being able to increase the effectiveness and efficiency of operations. This research focuses on analysis of the receivables control system. The purpose of this research is to describe and analyze how internal control at CV. Putra Riau Mandiri Pekanbaru. This research uses qualitative tests with a descriptive-analysis approach to internal control of trade receivables which refers to the COSO framework on the elements of internal control. The results of the research show that in the transaction authorization section the separation of duties is still not in accordance with COSO theory because there are still trapped functions and responsibilities in the sales and billing sections. Then, adequate documents are in accordance with COSO theory that every transaction has been properly documented. However, in the internal information section between the billing, accounting and finance sections, there is still a need for internal documents, namely payment receipt documents in hardfile and softfile form. Then, in terms of data and file security, it is running in accordance with COSO theory because the existing data has been properly backed up. The cause of uncollected receivables due to the manager's ignorance regarding several invoices is because there are duplicate tasks in the billing department, then there are frequent delays in recording the repayment of receivables so that in recapitulation of repayment there are often errors in recording receivable payments.

Keywords: Internal Control System, COSO, Accounts Receivable

Field: Accounting, Information Systems, Auditing, Internal Control, Business Management

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INTRODUCTION

Sales is one of the main operational activities in the company. This is because sales are an instrument for gaining profits and income which aims for the continuity of a company. The company's goal is to achieve maximum profit. Therefore, managers or directors often demand that the marketing division increase sales with various strategies. There are various ways that companies can use to increase their sales, for example the company will give bonuses to marketing if they can sell the company's merchandise according to the targets set by the company, the company will optimize promotional strategies to the public so that the products sold can be known by the public and become trusted by the public. Apart from that, by providing discounts on goods sold (Hutaharat, 2020a, 2020b, 2021, 2022).

Often times, companies only focus on how the company can sell its merchandise by using various methods to speed up sales. As stated by Taroreh and Wairagam (2016) in the current era, how companies increase sales volume and market share in a business, one of the strategies used is credit sales. Because by providing credit sales, customers can get the products being sold without paying first. The impact resulting from credit sales is that it does not allow the company to directly receive cash receipts, but can give rise to receivables from customers for these transactions. These receivables are trade receivables or trade receivables (Decerry, 2020, 2021; Nofriavani et al., 2022).

Problems or fraud in receivables that often occur are not recording payments from customers and receiving money without reporting it to superiors, delaying recording receivables by cash lapping, fake records, mutation of receivables and so on. So, to anticipate these frauds, internal control is needed (Lara, 2019, 2020, 2021, 2022).
Meanwhile, to minimize and prevent receivables fraud as described above, internal control over trade receivables is necessary. Internal control over trade receivables is the center of attention, because internal control over receivables aims to secure assets efficiently and effectively in receivables, both from securing physical cash, authorization or separation of duties in credit approval, to accounting record data. Accurate. So, every credit application made by a prospective buyer must first be tested or evaluated for its credit worthiness. Then the sales department does not double as the credit department. Approval of receivables can only be done by the credit manager. Internal control over receivables actually begins before there is an approval document to send merchandise so that after preparing and issuing invoices and ends with billing of sales proceeds. The following are internal control procedures for receivables and merchandise procedures:

![Diagram of Internal Control Procedures for Receivables](image)

**Figure 1. Internal Control Procedures for Receivables**

Source: Heckert, J B, 2015

Internal control (Renaldó et al., 2020; Renaldó, Sudarno, Hutaburak, Suyono, et al., 2021; Renaldó, Sudarno, Sahardjo, et al., 2021) for receivables can also include approval documents for granting credit. So internal control over receivables starts from receipt of sales orders, then to agreement documents on orders, agreement documents for granting credit, delivery orders, creating invoices, verifying invoices, recording receivables, collecting receivables, which will ultimately affect the cash/bank balance. In this case, sales returns must also be paid attention to (Adriansyah et al., 2023; Eddy et al., 2023; Sahardjo, Renaldó, Sevendy, Wahid, et al., 2023).

The internal control procedure for receivables if there is a credit approval document is as follows:

![Diagram of Receivables Control Procedure](image)

**Figure 2. Receivables Control Procedure**

Source: Kosasih Ruchayat, 2010

CV. Putra Riau Mandiri is a trading company located on Jalan Arifin Ahmad Pekanbaru. This company sells merchandise such as mineral water, daily necessities, snacks, sweets and so on.

CV. Putra Riau Mandiri is a middle-class company within the MSME scope and certainly requires internal control. In the sales department, the director and sales department have determined the sales term is n/14. However, in controlling this sales system, documents are used starting from sales orders, delivery orders, invoices...
and bills. This document is created by one person in one sales cycle. However, in each transaction cycle within
the company, internal control is still needed. Because there are still problems such as sales Standard Operating
Procedures (SOP). Because in the sales cycle there is no authorization for every transaction, such as receiving
orders to creating invoices and invoices. Receiving payments for receivables and collecting receivables is carried
out by the finance department, so this can cause lagging schemes and delays in recording. In the 2020 financial
report, turnover or total sales of CV. Putra Riau Mandiri amounting to Rp. 307,919,338, but sales made by CV.
Putra Riau Mandiri is all credit sales. In 2020 there was a problem with CV’s receivables. Putra Riau Mandiri,
namely there are uncollected receivables that are not known to the manager of the finance department or the
collection department amounting to Rp. 173,857,843.

LITERATURE REVIEW

Understanding Accounts Receivable

Trade receivables (accounts receivable) arise as a result of credit sales in order to sell more products and
services. The term receivable includes all claims in the form of money against other entities, including individuals,
companies or other organizations. In normal company activities, receivables are usually paid off in less than one
year so they are classified as current assets (Anggriman et al., 2023; Estu, Rahayu, et al., 2023; Sudardjo, 2023).

According to Statement of Financial Accounting Standards No.1 (IAI:2012) an asset is classified as a
current asset, if the asset is (Hia, 2023; Ndrana, 2023; Sagita, 2023):
1. Estimated to be realized or held for sale or use within the company’s normal operating cycle.
2. Held for business or for short-term purposes and is expected to be realized within a period of 12 (twelve)
   months from the balance sheet date, or
3. In the form of cash or cash equivalents whose use is not restricted.

According to Maridanso (2010:51), “Receivables are bills arising from the sale of merchandise and
services on credit”. According to Elfrain (2012: 129) “Receivables are demands from customers and other parties
to obtain certain money, goods and services (assets) in the future, as a result of the current delivery of goods or
services.” According to Warters et al (2014:448), “receivables include all money claimed against other entities,
including individuals, companies and other organizations. These receivables usually constitute a significant
portion of total current assets.” Based on the three definitions above, it can be concluded that receivables are
claims for money, goods and services to customers or other parties (Afriani, 2023; Bungmimi, 2023; Maisur, 2023).

Principles of Accounting for Accounts Receivable

According to Statement of Financial Accounting Standards No.16 (IAI:2012) are:
1. Trade receivables are presented in the balance sheet at net, namely trade receivables minus the allowance for
   losses on accounts receivable (Alfat, 2024; Sari, 2024).
2. The method for allowing losses on trade receivables must be explained sufficiently (Estu, Sefia, et al., 2023;
   W et al., 2023).
3. Trade receivables are presented separately from other receivables (Junaedi et al., 2023; Purnama, 2023;
4. Trade receivables with credit balances presented as current liabilities in the advance payment account for sales
   of trade receivables used as collateral must be explained (Reinaldo, Sudarno, Hutaunruck, Junaedi, et al., 2021;
   Sukmaarti et al., 2021; Waluyeti et al., 2023).

Types of Accounts Receivable

Receivables are company claims against third parties arising from a transaction. Receivables are due,
maturity value, and if there is an agreement to have interest. There are three types of trade receivables or trade
receivables that we need to know, including trade receivables, notes receivables, and other receivables. The three
types of receivables are (Anny, 2013):
1. Accounts Receivable (Account Receivable)

Trade receivables are company bills to customers as a result of sales of merchandise or services on credit.
We often encounter this type of receivables in financial transactions. Trade receivables generally have maturities
of less than one year so they are reported as current assets. Usually credit sales transactions are accompanied
by discounts on receivables if they are not on time, fines if there is a delay in paying receivables by customers.

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to increase the motivation of our customers in paying receivables (Akruali et al., 2023; Lumbantoban et al., 2021; Suwono et al., 2020).

2. Notes Receivable

Notes receivable are receivables in the form of a written agreement between the debtor and the creditor to pay the amount of money stated in the agreement at a certain time in the future. Generally, notes payable with a maturity of more than 60 days, if notes receivables have a maturity of less than one year, they are reported in the balance sheet as current assets, whereas notes receivables with a maturity of more than one year are required as long-term receivables. To better understand this type of receivables, there are several terms related to money orders, including (Anton et al., 2023; Reinaldo, Subardjo, et al., 2023; Suwono, et al., 2023):

a. Money order, namely an order from the creditor to the debtor to pay a sum of money at the time and place specified in the letter.

b. Interest-bearing note, namely notes whose nominal value is the value at the time of withdrawal, while the cash value at maturity is the nominal value plus interest.

c. A non-interest-bearing note, that is, a note whose cash value at maturity is equal to its nominal value, while the cash value when bought and sold is reduced by the calculated discount interest.

3. Non-Trade Receivables

Non-trade receivables, namely receivables from other parties that arise not from the sale of goods or services on credit, consist of various types of claims that are not included in trade receivables or notes receivable. The following are examples of types of non-trade receivables, including (Chandra et al., 2023; Reinaldo et al., 2022; Stevany et al., 2022):

a. Prepaid expenses, namely expenses that have been paid by the company but have not been recognized as expenses in the relevant period, because they have benefits for more than one accounting period.

b. Accrued income, namely income for which the money has not been received in cash but has been recognized as income for the period in question.

c. Purchase discount, namely discount payment for goods purchased as a token of purchase.

d. Tax receivables are income taxes withheld by other parties or tax overpayments.

e. Other receivables, namely receivables from other parties due to special circumstances.

Factors that influence the amount of receivables

According to Riyanto (2010) there are several factors that influence the number of receivables, namely:

a. Volume of credit sales: The greater the number of credit sales from total sales will increase the amount of receivables and conversely the smaller the amount of credit sales from total sales will reduce the amount of receivables.

b. Credit sales payment terms: The longer the credit payment deadline means the larger the receivables and conversely the shorter the credit payment deadline means the smaller the receivables.

c. Provisions for credit restrictions: If the maximum credit sales volume limit is set at a relatively large amount, the amount of receivables will also be greater.

d. Policy in collecting receivables: Companies that carry out policies actively, the company must spend more money to finance receivable collection activities, but with receivables losses. When receivables become uncollectible, a company charges a write-off loss. This loss is recognized as an expense of the company so it is grouped as selling expenses. According to A. Munawir (2007:258): the greater the days receivable of a company, the greater the risk of the possibility of uncollectible receivables and if the company does not make reserves for possible losses arising from uncollectible receivables, it means that the company has calculated its profits to be too large. The risk of loss on receivables consists of several types, namely:

1. Risk of not paying all bills (receivables)
2. Risk of non-payment of some bills
3. Risk of delay in repayment of receivables
4. Risk of not investing capital in receivables
Receivables Turnover

Receivables owed by a company have a close relationship with the volume of credit sales, because receivables arise due to the sale of goods on credit and the proceeds from net credit sales divided by average receivables constitute the receivables turnover. The value of receivables turnover depends on the terms of payment of the receivables. The longer the payment terms set, the longer the capital is tied up in receivables. The position of receivables and the estimated time for collection can be assessed by calculating the receivables turnover rate, namely by dividing total net credit sales by average receivables (Rahutomo, Andi, et al., 2023; Rusilawati, 2023; Sudarno et al., 2023).

According to Warren Reeve (2005:407) receivables turnover measures how often business receivables turn into cash in a year.

According to Sohyan Synir Harahap (2015: 1905), receivables turnover is a risk that indicates several aspects of receivables collection. The bigger the better because billing is done quickly. Meanwhile, according to Kamsir (2012: 177), receivables turnover is a ratio used to measure how long it takes to collect receivables during 1 period. On the financial accounting journal website "account receivable turnover" which means to find out how many times in a certain period trade receivables experience turnover. In other words, the business turnover ratio measures how many times overdue business receivables are collected and then replaced by new receivables.

The following are several opinions expressed regarding accounts receivable turnover, namely:
1. Susan Irawati (2006:54): receivable turnover is a ratio used to measure the effectiveness of receivables management.
2. Kieso (2013:346): turnover ratio (account receivable turnover) measures the number of times, on average, receivables are successfully collected during one period. This ratio is calculated by dividing net sales by the average net receivables outstanding during the year.

Understanding Internal Control Systems

Internal control is one of the functions of management in its operations, namely the act of directing the implementation of work with the aim of achieving predetermined goals effectively and efficiently. Internal control is used both in small-scale companies that manage information manually and in large-scale companies that manage their information using a computerized system.

According to Romney & Steinbart (2011) internal control is an organizational plan and business methods used to safeguard assets, provide accurate and reliable information and encourage conformity with established policies.

Mulyadi (2011), the internal control system includes organizational structures, methods and measures that are coordinated to maintain organizational assets, check the accuracy and reliability of accounting data, encourage efficiency and encourage compliance with management policies.

Framework

The following is a framework for explaining the research flow as follows:

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METHODOLOGY

Data collection technique:

The data collection techniques used in this research are as follows:

1. Observation, namely making direct observations of income from CV receivables, Putra Riau Mandiri.
2. Interview, this technique is used to obtain information through direct questions and answers to the sections related to the title and problem in this research, namely financial managers.
3. Documentation, namely data obtained by researchers from company archives in the form of sales reports.

Data Analysis Techniques:

Data analysis according to Moleong (2011: 248) is an effort made by working with data, organizing data, sorting it into manageable units, synthesizing it, looking for and finding patterns, finding what is important and what to learn, and deciding what can be told to others.

Miles & Huberman (2014:17) states that data analysis techniques in qualitative research include:

1. Data reduction, is a form of analysis that classifies, directs, removes unnecessary data and organizes data that has been reduced to provide a sharper picture of the results of observations into themes.
2. Data presentation (Data Display), which is analysis in the form of a matrix, network, cart, or graphic. In qualitative research, data presentation is carried out in the form of brief descriptions, tables, charts and relationships between categories. By presenting this data, the data is organized and structured so that it is easier to understand.

Conclusion, is drawing conclusions and verification. The initial conclusions are stated to be temporary, and will change if strong evidence is not found to support the next stage of collection. Conclusions in qualitative research can answer the problem formulation.
RESULTS AND DISCUSSION

Internal Control Analysis at CV. Putra Riau Mandiri

Elements of internal control activities at CV. Putra Riau Mandiri are as follows:

**Adequate authorization of transactions and activities**

<table>
<thead>
<tr>
<th>COSO Theory</th>
<th>CV. Putra Riau Mandiri</th>
<th>Keterangan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Every transaction occurs on the basis of authorization from an official who has the authority to approve the transaction.</td>
<td>a. The creation of internal documents in the sales cycle does not yet have proper authorization. Because in the documents in the CV sales cycle, Putra Riau Mandiri, all documents for transactions are still carried out by one person. So this could be an opportunity for input errors to occur between each transaction between the document and the actual transaction</td>
<td>a. There should be a separation of duties in every transaction in the sales department. Such as in receiving orders from customers, then orders in the warehouse section and separating tasks in the invoice and invoice creation section</td>
</tr>
<tr>
<td>b. There are no internal documents signed by the warehouse department, so confirmation is only done verbally. So that document authorization that should be carried out by the warehouse department is authorized by the sales department itself</td>
<td>b. In the sales and receivables cycle there should be authorization for credit sales approval. This is used to minimize the occurrence of bad debts.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author's Processed Results, 2022

By having authorization for each sales transaction, the aim is to minimize errors in the sales cycle. Then also by having authorization in the billing section and adding billing letters, information will increase so that misunderstandings in the billing and accounting and finance sections can be minimized.

To overcome the causes of differences in receivables between the financial report and the receivables book recorded by the billing department, this is by providing a soft file report that informs the accounting department and the billing department. This report contains payment receipt data from customers. The report is given to the accounting and finance departments. So, the flow of reporting on receipt of payments for trade receivables is as follows:

**Figure 3. Receivables Payment Flow**

Source: Processed by Author CV. Putra Riau Mandiri, 2022

Then there is authorization from the warehouse in the sales cycle because when there is a sales order, the warehouse can confirm whether to approve the sales receipt or not because the warehouse knows the number of goods ready to be sold.

**Separation of Duties**

<table>
<thead>
<tr>
<th>COSO Theory</th>
<th>Practice</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>A function is not allowed to carry out all stages in a transaction</td>
<td>a. The sales admin also works with receiving orders from customers, then also authorizing the warehouse to see if there is still stock for sale, then also carrying out tasks in issuing invoices and invoices</td>
<td>a. In the sales department there should be a separation of duties and a division of authority and responsibility, such as when receiving orders it should be done by invoicing and recording sales receivables. One admin, then in the warehouse department should make delivery order documents and travel documents, and there is a section that makes invoices itself, and invoices and records sales receivables.</td>
</tr>
</tbody>
</table>
Separation of duties in the sales department is useful for minimizing input errors and other irregularities, because in CV. Putra Riau Mandiri often causes discrepancies in recording between invoices, invoices and receivables data. Then, there is a separation of duties between the finance and receivables collection departments, this aims to minimize the occurrence of lapping schemes or delays in recording receivables.

Sufficient documents

Table 3. Adequate Documents

<table>
<thead>
<tr>
<th>COSO Theory</th>
<th>Practice</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of adequate documents and records to help ensure adequate recording of transactions and events.</td>
<td>a. CV. Putra Riau Mandiri in the sales cycle contains sales order documents, delivery orders, and sales invoices.</td>
<td>It should be a CV. Putra Riau Mandiri also creates receivable collection documents and payment receipt documents which are used as information documents between the billing, accounting and finance departments.</td>
</tr>
<tr>
<td>b. There are no internal documents and data related to the receipt of receivable payments, both for accounting, finance and billing.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author's Processed Results, 2022

Having adequate record documents helps to ensure accurate and complete recording of all data. The cause of uncollected receivables due to the manager's ignorance regarding several invoices is because there are duplicate tasks in the billing department, then there are frequent delays in recording the repayment of receivables so that in repayment recapitulation there are often errors in recording receivable payments. To overcome this, record the document into a soft file. This soft file document contains payment data, starting from the total outstanding invoice, payment date, payment method, payment nominal to the receivable balance at the end of the month.

This document in the form of soft file data is used to control receivables activities in CV. Putra Riau Mandiri. So that reports generated from this data can also be informed to the accounting department and CV director. Putra Riau Mandiri.

Adequate security

Table 4. Adequate Security

<table>
<thead>
<tr>
<th>COSO Theory</th>
<th>Practice</th>
<th>Information</th>
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</thead>
<tbody>
<tr>
<td>Restricting access to assets and company records to avoid theft of assets and data</td>
<td>a. All payments are made by transfer to avoid lapping schemes and cash theft.</td>
<td>To prevent delays in recording in the accounting department and collecting receivables</td>
</tr>
<tr>
<td>b. Then all company data, both hardfiles and softfiles, have been properly backed up.</td>
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Source: Author's Processed Results, 2022

Independent checking of performance

Table 5. Independent Check of Performance

<table>
<thead>
<tr>
<th>COSO Theory</th>
<th>Practice</th>
<th>Information</th>
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<tbody>
<tr>
<td>Records regarding existing assets must be checked periodically with physically existing assets. This check must be carried out by an independent organization.</td>
<td>1. Directly controlled by the CV director. Putra Riau Mandiri.</td>
<td>To avoid cheating.</td>
</tr>
</tbody>
</table>

Source: Author's Processed Results, 2022
<table>
<thead>
<tr>
<th>COSO Theory</th>
<th>Practice</th>
<th>Information</th>
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<tbody>
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<td></td>
<td>2. Analyzed by a practicing professional accountant.</td>
<td>Used to analyze weaknesses that occur internally in the CV. Putra Riau Mandiri.</td>
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</table>

**CONCLUSION**

**Conclusion**

Based on the results of the discussion in Chapter IV, it can be concluded as follows: Internal control at CV. Putra Riau Mandiri based on COSO in the transaction authorization section, separation of duties is still not in accordance with COSO theory because there are still trapped functions and responsibilities in the sales and billing departments. Then, adequate documents are in accordance with COSO theory that every transaction has been properly documented. However, in the internal information section between the billing, accounting, and finance sections, there is still no need for internal documents, namely payment receipt documents in the form of hand files and soft files. Then, in terms of data and file security, it is running in accordance with COSO theory because the existing data has been properly backed up. The cause of uncollected receivables due to the manager's ignorance regarding several invoices is because there are duplicate tasks in the billing department, then there are delays in recording repayment of receivables so that in recapitulation of repayment errors often occur in recording receivable payments.

**Recommendations**

To overcome the causes of differences in receivables between the financial report and the receivables book recorded by the billing department, this is by providing a soft file report that informs the accounting department and the billing department. This report contains data on payment receipts from customers. The report is given to the accounting and finance departments. To overcome the causes of uncollected receivables due to the manager's ignorance regarding several invoices, namely by recording the documents into a soft file. This soft file document contains payment data, payment methods, nominal payments, and the final balance of receivables.

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