



Contemporary Accounting Case Studies

Vol. 2, No. 2, September 2023

Article 3

PSAK 71 IMPLEMENTATION PROCESS ANALYSIS ON ACCOUNTS RECEIVABLE TO CORPORATE STRATEGY (CASE STUDY: PT XYZ)

Benyanto Suherman

Master of Accounting Program, Faculty of Economics and Business, Universitas Indonesia
benyanto.suherman@gmail.com

Aria Kanaka, M.Ak.

Master of Accounting Program, Faculty of Economics and Business, Universitas Indonesia
ariakanaka@yahoo.com

PSAK 71 IMPLEMENTATION PROCESS ANALYSIS ON ACCOUNTS RECEIVABLE TO CORPORATE STRATEGY (CASE STUDY: PT XYZ)

*Benyanto Suherman**, *Aria Kanaka*

Master of Accounting Program, Faculty of Economics and Business, Universitas
Indonesia

ABSTRACT

The adoption of the new Statement of Financial Accounting Standards (“PSAK”) is significant momentum in the convergence process of International Financial Reporting Standards (IFRS). In practice, the impact of the latest PSAK will undoubtedly vary in various industries, including the manufacturing sector. This study aims to analyze the process of applying accounting standards in companies engaged in the manufacturing industry by looking at various points of view such the factors and constraints that affect the application of standards as well as the impact of standard application on operations and company strategy specifically regarding trade receivable, by using the case study method with data collection, through a semi-structured interview model. The findings indicate that the process of implementing PSAK 71 in PT XYZ focuses on the adjustment of the calculation of allowance for impairment losses for trade receivables, which is divided into two phases, pre-implementation and initial implementation in 2020. The implementation of PSAK 71 is aided by factors such as receivable collectability conditions, internal control, and the role of auditors, while the challenges that arise are related to the technical aspects of measuring ECL using a forward looking rate. PT XYZ implemented trade insurance as part of the company's strategy adjustment related to the collectability of export receivables in order to increase sales in international markets.

Keywords: PSAK 71, Corporate Strategy, Impairment Loss Allowance, Account Receivable Trade Receivable, PSAK No.71, Corporate Strategy, Impact of PSAK 71, CKPN

* Corresponding Author's Email: benyanto.suherman@gmail.com

1. INTRODUCTION

In 2017, the Indonesian Financial Accounting Standards Board (DSAK IAI) released three new statements of Financial Accounting Standards (PSAK), namely PSAK 71 (Financial Instruments), PSAK 72 (Revenue from Contract with Customers), and PSAK 73 (Leases), which are effective from January 1, 2020. The implementation of these PSAK, known as the three big standards, is a necessary momentum in the International Financial Reporting Standards (IFRS) convergence process. The adoption of IFRS aims to close the gap between Financial Accounting Standards (SAK) in Indonesia and IFRS in order to attain globally applicable accounting standards. In this case, IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers, and IFRS 16 Leases are fully adopted into PSAK 71, 72, and 73.

PSAK 71 replaces part of PSAK 55, which contains the recognition and measurement of financial instruments. This guide covers the classification and measurement of financial assets, one of which introduces a new model for recognizing impairment losses using Expected Credit Losses (ECL). Using the ECL model, impairment will be recognized earlier, fundamentally changing the method of calculating and providing reserves related to losses arising from credit risk. By applying PSAK 71, the entity must provide possible future credit losses based on ECL model from initial recognition of financial assets. This, of course, has an impact on increasing the amount of provisions related to credit risk and bad debts.

Implementation phase of accounting standards is a crucial phase following the effective period of IFRS convergence. In practice, the impact of the latest PSAK will undoubtedly vary in various types of industries. Such as PSAK 71, which has a significant impact on the banking industry and corporate entities that have significant financial assets. The formation of an allowance for impairment losses will affect the capital and profits of entities in the banking industry where PSAK 71 will not only have an impact on the company's profit and loss, but also result in a significant decrease in capital.

Considering the substantial costs of implementing the new standards and the indication that accounting standards can influence the company's strategy, the implementation of new standards is not a simple task for the company. Stent (2011) discovered that the implications of applying IFRS accounting standards in New Zealand have significant and far-reaching effects on businesses, delaying the effective date of IFRS adoption by The Accounting Standards Review Board (ASRB).

Previous research on PSAK 71 has focused mainly on the impact of standard application in the banking industry. Rizal & Shauki (2019) examine the motives and constraints of banks in implementing early adoption of PSAK 71. The implementation of PSAK 71 by financial institutions necessitates a substantial amount of supporting resources. This is due to the close relationship between the banking industry and financial instruments. Consequently, it would be interesting to examine how non-financial companies also implement PSAK 71 in their business operations. With the implementation of PSAK 71, the company must, of course, continue to operate at its peak efficiency. Therefore, it is necessary to observe how the company implements its strategy after PSAK 71 has been implemented.

In a report prepared by PWC (2020) on the level of readiness for the implementation of PSAK 71, 72, and 73, it was found that nearly 30 percent of companies have not yet adopted the three PSAKs in their interim financial statements for 2020, despite the effective date of the standard being January 1, 2020. Prior to this point, there have not been many studies focusing on non-financial industries that also obligated to implement the PSAK 71. Thus, this research aims to explore whether industries other than banking are prepared to adopt PSAK 71. Based on this, this paper addresses two interrelated research questions:

- What variables can contribute to the successful application of PSAK 71 on accounts receivable, and what challenges does PT XYZ face?
- What adjustments must be made to the company's strategy in response to the implementation of PSAK 71?

The primary data used in this study is obtained through semi-structured interview and supported with secondary data from historical financial statements and other documents related to corporate strategy of PT XYZ. This research is expected to contribute to PT XYZ through analysis and strategic recommendations to align the impact of PSAK 71 with PT XYZ's corporate strategy, which might affect the company's profitability and performance, as well as how the recommendations can be implemented by the company in the process of implementing the new accounting standards

2. LITERATURE REVIEW

2.1. STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 71 AND THE IMPACT OF ITS APPLICATION

The issuance of PSAK 71 aims to replace some of the guidance in PSAK 55, it becomes a guideline that regulates all changes in requirements regarding financial instruments. Changes in these requirements include classification, measurement, impairment, and hedge accounting.

PSAK 71 was designed to partially replace PSAK 55 for several reasons. The first reason is that the provision outlined in PSAK 55 is considered too complex, and the second reason is because the timing in determining impairment of financial assets or impairment in a business entity is considered too late, resulting in the impairment amount not reflecting the actual economic condition which resulting in the provision for impairment losses for an entity determined based on PSAK 55 is considered inflexible under crisis conditions and does not reflect risk management strategy (Sugiarto & Suroso, 2020)

The significant difference between PSAK 71 and PSAK 55 lies in classifying financial assets. In contrast, in PSAK 55, financial assets were previously divided into four classification categories: available for sale, held to maturity, fair value through profit or loss, and loans and receivables. Meanwhile, reclassification related to financial assets is permitted under PSAK 71 (IAI, 2018) under the following considerations such as changes in its business model in managing financial assets which are infrequent, changes in the business model of an entity are the result of external or internal changes that have a significant impact on the operation of the entity and changes from the business model occur when an entity starts or discontinues significant activities in its operations.

While in the classification of financial liabilities, the provisions in PSAK 55 regarding measurement categories are mostly still maintained, one of which is regarding the initial recognition of financial liabilities measured using the amortized cost (IAI, 2018).

The second aspect that becomes another significant point of difference is impairment. In PSAK 71, the recognition of impairment introduces the expected credit loss impairment model (ECL). This method emphasizes the recognition of expected credit losses that are more forward-looking and requires each entity to assess and recognize the credit risk of significant financial instruments using information which emphasizes on forward-looking orientation (IAI, 2018).

PSAK 71 requires an entity to recognize and measure an allowance for losses on financial instruments since initial recognition. The loss can be recognized at the amount of the expected credit loss of 12 months or until the

maturity of the financial asset. Adopting the impairment model of IFRS 9, wherein impairment is recognized from the initial recognition of financial assets, PSAK 71 must reflect an objective assessment of numerous possibilities and probabilities, including discounts due to time value of money and relevant information related to financial reporting that describes historical data as well as current conditions to describe future economic conditions (Lim et al., 2013; PriceWaterhouseCoopers, 2017; Walton, 2004)

The application of PSAK 71 is expected to improve the quality of financial reporting by producing information that accurately reflects the actual economic conditions associated with the impairment of financial instruments, thereby producing financial information that is more relevant and understandable to users. A number of studies have been conducted to examine the impact of PSAK 71 on the company's financial statements. For instance, the implementation of PSAK 71 is considered to have a substantial impact on the company's credit modelling process, affecting on how companies classify their financial instruments, income, capital and even might influence their corporate strategy (Aini, 2019).

With this new standard, the impact caused by its implementation becomes a thought-provoking thing to explore. According to Rizal & Shauki (2019), the impact of PSAK 71 on allowance for impairment losses affects not only the company's profit and loss but also a significant decrease in capital. This result is consistent with the findings of Beerbaum (2015), who discovered that banks should set aside capital for allowances for impairment losses. Another study on the impact of PSAK 71 on the banking industry was conducted by EY (2018) who discovered that from an analysis of banks that have adopted IFRS 9, there is an increase in the allocation to impairment accounts ranging from millions to billion Euros. According to a Deloitte (2015) survey, the banking industry will need approximately three years to prepare to implement PSAK 71 due to its significant impact on the banking industry. This demonstrates the complexities of implementing PSAK 71 in the banking industry.

It can be seen that the banking industry sector dominated previous studies regarding PSAK 71 as the sector that experienced a significant impact from the application of these standards, despite the fact that survey results from PWC (2020) show that as of 2020, as many as 68 percent of entities have implemented PSAK 71, where industry variations must vary from manufacturing and trading to construction, which has the potential to be explored more profoundly regarding the impact of these standards.

2.2. TRADE RECEIVABLES

According to Kieso et al., (2018) receivables are a company's claim against other parties, including customers for money, goods or services. Receivables are claims arising from the sales activities of a company in the form of goods or services. In general, receivables are divided into two categories: trade receivables and other receivables.

The recognition of receivables generally adheres to the principle of revenue recognition, which states that receivables are recorded using the accrual method or accrual basis, where receivables are recognized when the sale transaction occurs and not when the cash is received for payment of the receivables. Receivables are subsequently evaluated and reported at their net realizable value, which is the amount expected to be received in cash (Kieso et al., 2018). Standar Akuntansi Keuangan (SAK) require entities to measure trade receivables based on the transaction price (Ikatan Akuntan Indonesia, 2018). The transaction price is the anticipated value the customer will receive in exchange for goods and services (Kieso et al., 2018).

In theory, every company is expected to be able to collect trade receivables equal to the transaction value recorded at the time of sale. However, in practice, customers as debtors may be unable to pay, so trade receivables pose a risk to the seller. The company will then record the credit risk loss as Bad Debt Expense. In anticipation of this risk, the entity must reserve a portion of the total value of its receivables as a provision for doubtful accounts.

2.3. Company Strategy Related to Trade Receivables Management

Trade receivables are one of the most significant components of the company's current assets and total assets. In order to maintain the continuity of the company's operations, and in response to intense business competition, companies typically provide customers with payment delays, which then recorded as trade receivables.

The company's strategy for managing accounts receivable is crucial for ensuring the company's financial security, given that the ratio of current assets to current liabilities is the key to a company's financial stability (Ganc, 2020). In order to maintain liquidity and profitability, businesses require effective management of current assets (Gitman & Zhutter, 2015)

Companies can implement a strategy for managing receivables by ensuring control of receivables to reduce the risk of bad debts. Receivable control entails the formulation of policies from top management regarding receivables, which then operationalized by all division related to the recording and collection of

receivables and are expected to run optimally in order to maximize receivables collectability (Rizka & Gunanta, 2021)

According to Bragg (2009) the control of credit risk from receivables must be concentrated on the three most crucial areas: trade credit provision, collection, and internal control in management. When granting trade credits, sales policies and terms must be formulated with proper calculations to prevent losses from the risk of uncollectible sales, while maintaining financially sound customer relationships to prevent losses from excessive sanctions. Additionally, management must make reasonable efforts to obtain compliant payments within a reasonable time frame. A credit and collection internal control system must be implemented to ensure that the stages of credit granting, collection, and collection of receivables have been operating effectively.

3. RESEARCH METHOD

The method used in this research is a qualitative research method with a descriptive approach through case study. The object of this research is the implications of the process and the impact of the implementation of PSAK 71 regarding trade receivables on the company's operations and strategy. In this study, PT XYZ, a manufacturing company, was chosen to be the object of research. This company was chosen because the researcher wanted to explore how the implementation of PSAK 71 in companies in the manufacturing sector. Previous research has focused on the banking, retail, and aviation industries

The types of data used are qualitative and quantitative data types. Qualitative data are verbal and not in the form of numbers, while quantitative data uses data and information described in the form of numbers. Researchers classify data sources into primary and secondary data sources in collecting data sources.

Researchers obtain primary data through direct data collection related to the research subject. The primary data used in this study were obtained through interviews. The interview was conducted with the accounting department to obtain data related to changes in company policies in accounting treatment related to PSAK 71 and interviews with management related to company strategies that may be affected by the implementation of PSAK 71.

In this study, researchers obtained secondary data in the form of historical financial statements, documents related to corporate strategy, documents related to management policies related to changes in accounting standards, and Minutes of Meetings related to the implementation of new accounting standards. Other data sources for PSAK 71 include company news, which can be accessed via

the company's online website, as well as research journals, books, and other sources related to the subject of research.

The researcher uses a semi-structured interview model where the researcher has prepared a list of open-ended questions. The researcher will guide the interview process but still allow the respondents to be flexible in managing the flow of information provided in the interview session

Table 1. Respondent Demographic

No	Respondent	Gender	Position
1	Respondent 1	Male	<i>Corporate Service Director</i>
2	Respondent 2	Male	<i>Head of Finance and Accounting Division</i>
3	Respondent 3	Male	<i>Head of Accounting Division</i>

In this case study, the interview was carried out in the month of March in 2022, and the researcher was able to interview three respondents chosen from the management and accounting departments. The respondents chosen for this study have high competence and a thorough understanding of the subject of research, allowing them to provide comprehensive information in answering research questions posed by researchers. In semi-structured interviews, interviews are conducted in a semi-structured interaction where there are open-ended questions that have a confined theme and flow of conversation but remain flexible and provide space for respondents to determine the flow of information shared (Herdiansyah, 2012). In this study, two general theme boundaries are determined in the interview session. First is the process of implementing the PSAK 71 at PT XYZ, and second is the impact of PSAK 71's implementation on the company's operations and strategy related to trade receivables.

Based on the formulation of the big theme above, the researcher will then address the big theme into several detailed open questions in order to answer the entire research. This paper implement data triangulation method to ensure and establish validity in this study. Data triangulation involves the use of different sources of data and information. This paper triangulated different data sources following existing guidelines in order to reach the highest possible level of rigor. We first examined the semi-structured interviews conducted with representative respondents as primary data source and second we examined the supporting documents related obtained from the secondary source. .

4. RESEARCH RESULTS AND DISCUSSION

The purpose of this study is to determine the implications of the process of PSAK 71 implementation to accounts receivable and the effect of applying PSAK 71 to PT XYZ's corporate strategy. The research subject is PT XYZ, a company in the manufacturing industry. The researchers used interview data sourced from three respondents who held different positions and authorities related to the decision to implement PSAK 71 and its impact on company strategy in semi-structured interviews and literature reviews.

The three respondents are parties who are directly involved in both decision-making and financial reporting activities at PT XYZ, including accounting policies. The recordings were then transcribed and then codified according to the major themes of the interviews as explained in chapter 3, the process of PSAK 71 implementation at PT XYZ and the impact of the implementation of PSAK 71 on the company's operations and strategy.

Organization Profile

PT XYZ is one of a pioneer in the Indonesian flexible packaging industry with total production capacity of 123,000 tons of packaging per year, making it one of the leading companies in Southeast Asia's flexible packaging industry.

Currently, the domestic market is PT XYZ's primary market, accounting for 60% of total sales of PT XYZ. The market's high demand is influenced by high demand and purchasing power from public for consumption materials. Meanwhile, sales to the export market account for only 40% of total sales. The development of export market in PT XYZ can be said to have been underutilized, owing to the high level of competition among the flexible packaging industries worldwide, which has resulted in extremely competitive product selling prices.

In 2020, PT XYZ recorded a net sales value of IDR 2.23 trillion, with gross profit and operating profit of IDR 241.99 billion and IDR 100.01 billion, respectively. Profit for the year amounted to Rp 66.01 billion was allocated to profit attributable to owners of the parent entity and non-controlling interests.

From an operational standpoint, PT XYZ has implemented a strategy to ensure that operations run smoothly and efficiently, such as maintaining the raw material supply chain and expanding the marketing area. Meanwhile, in terms of marketing, expanding product portfolio and innovation is a strategy that is constantly being improved in order to increase competitiveness in both domestic

and export markets. Given the increasingly competitive market for plastic packaging made from BOPP, product innovation for biaxially oriented polypropylene (BOPP) film products continues to improve. Innovation in the production of premium products is regarded as a strategic step in entering the international market.

In terms of authority and implementation in all financial reporting activities, PT XYZ has an organizational structure in which the accounting division is under the Corporate Service division, which is led by the Corporate Service Director of PT XYZ.

This position oversees the accounting and finance division, as well as human resources and purchasing. The Head of Finance and Accounting Division reports to the Corporate Service Director. His authority as head of the accounting and finance division is directly related to implementing the most recent Accounting Standards. The head of the accounting and finance division will review all financial reporting from the accounting division. Accounting and Finance divisions are separated and have division heads at PT XYZ. The Accounting Head should ensure that the process of recording and presenting all financial information at PT XYZ adheres to Indonesian accounting principles.

Application of PSAK 71 to Accounts Receivable According to Annual Financial Statements of PT XYZ

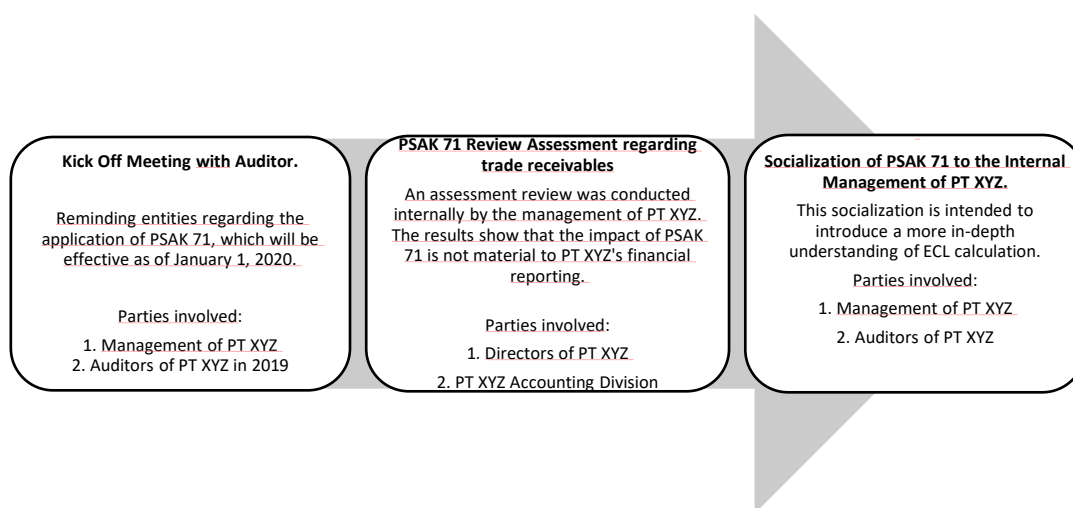


Figure 1 Pre-Implementation of PSAK 71 in PT XYZ

Based on interviews with all respondents, implementing PSAK 71 is divided into two stages: pre-implementation stage conducted in 2019 and initial implementation conducted after January 1, 2020 as can be seen on the Figure 1 (above) and Figure 2 (below) to describe the sequential process of PSAK 71 implementation at PT XYZ.

Kick-Off Meeting with Auditor

The pre-implementation stage begins with a Kick-Off Meeting with the Auditor. The External Auditor, the Board of Commissioners, and the Board of Directors attended the annual agenda to discuss the Audit of the Financial Statements of PT XYZ for the 2019 fiscal year, looking at Figure 1 above. In this activity, apart from discussing the schedule for the external audit process carried out by the auditors, the Auditor of PT XYZ also reminded PT XYZ about the latest PSAKs that all entities will apply by 2020. The latest PSAK implemented by PT XYZ as of January 1, 2020, consists of PSAK 71, PSAK 72, and PSAK 73.

At this stage, the entity also discusses the impact of all recent PSAK implementations and considering the impact of the implementation of PSAK 71 is the change in the calculation model for the expected impairment loss calculation, several things that are highlighted are related to changes in the calculation model that need to be carried out by PT XYZ. This then becomes the basis for management to carry out the next stage of activities, which the PSAK 71 review assessment.

Assessment Review of PSAK 71 Impact on Account Receivable

Following the kick-off meeting with the external auditor, management began to prepare matters relating to the implementation of PSAK 71 at PT XYZ. One of the considerations in assessing the impact of the application of PSAK 71 on PT XYZ. The accounting department and the head of the accounting and finance division prepare the results of the reviews to be presented to the board of directors during the review process.

The first retrospective application of PSAK 71 on items in the consolidated financial statements of PT XYZ generally affects:

- Loans and receivables, which include trade receivables and other receivables are then classified as amortized cost
- Available-for-sale financial assets are then classified as Fair Value through Other Comprehensive Income (FVOCI). Expected credit losses ("ECL") are recorded on all financial assets at amortized cost or FVOCI, as well as financial guarantees.

Then, using the ECL model, PT XYZ considers changes to the model for calculating the allowance for impairment losses. Expected credit losses are recorded on all of PT XYZ's financial assets with a focus on measuring

impairment for trade receivables. Trade receivables are classified by PT XYZ into three categories:

1. Accounts receivable from related parties
2. Accounts receivable – third parties
3. Other Receivables

Respondents two and three explained that due to good business relations between PT XYZ and regular customers, PT XYZ rarely has difficulty collecting receivables on the agreed term of payment as they have been making purchases for over ten years. This also ensures the collectability of PT XYZ's receivables are not hampered amid the pandemic. The risk of default from related parties of PT XYZ is low or far so that the Bad Debt Expense at PT XYZ is considered very small, being less than a percentage of the total Bad Debt.

Following an assessment review by the accounting division, it was determined that the application of PSAK 71 had no material impact on PT XYZ. The assessment review results were then communicated to the Corporate Service Director.

Apart from the immaterial impacts, some things should be considered in the review, such as socialization related to the calculation of the allowance for impairment losses using the new ECL model as a result of a change in the method from the previous one using the loss model, which occurs when there is objective evidence that management believes is unfamiliar with the new calculation model.

Socialization of PSAK 71 to the Internal Management of PT XYZ

After reviewing the impact of PSAK 71 on PT XYZ's financial reporting, management carried out the third stage of PSAK 71's pre-implementation period, namely the socialization of PSAK 71. If looked at Figure 1 above, the only parties involved in the assessment review are internal parties which are the directors of PT XYZ, the head of the accounting and finance division of PT XYZ, and the head of the accounting division of PT XYZ, then the socialization of PSAK 71 is accompanied by the auditors of PT XYZ at this stage. This is done with management's consideration that the auditor is considered to have more knowledge of best practices related to ECL calculation for the application of PSAK 71.

"Because he (the auditor) understands better, so he accompanies us in doing calculations, because in this case we as clients quite understand but sometimes worries about miscalculations" (Respondent one, 2022)

One of the provided assistances was to calculate the Allowance for Impairment Losses using the ECL model. The second respondent explained that

in the assessment process regarding the calculation of allowance for impairment losses, the calculation was more focused on looking at the accounting side so the collection division was not involved in the assessment process.

ECL calculations for entities begin with:

1. Obtained the historical aging of receivables per month and compare it with the trial balance data per month to check the collectability of receivables. Historical aging data will be used as a benchmark for making aging analysis.
2. Determine macroeconomic factors related to receivable characteristics to conduct forward-looking forecasts based on macroeconomic indicators. Macroeconomic indicators used as benchmarks to determine macroeconomic forecasts are Unemployment Rate, IDR to USD, Changes in GDP in percent, inflation rate, and Bank Indonesia interest rates.

After collecting data and determining macroeconomic factors, the auditor assists the entity in socializing the steps that need to be prepared in calculating the allowance for impairment losses using the ECL model. These steps are:

1. Calculating the provision matrix for loss rates for receivables using historical aging data. The loss rate for each segment is measured based on the aging schedule starting from 30 days, 60, 90 to 120 days. The provision matrix is then used to calculate aging analysis and loss rates.
2. Following determining the relevant macroeconomic factors according to the characteristics of receivables, then the entity then perform regression data from these indicators to determine the correlation with the observed data, namely the receivables component of PT XYZ.
3. Regression results showing the relevant correlations of macroeconomic factors will then be used as the basis for calculating macroeconomic forecasts in the ECL Calculation
4. Calculating ECL Calculation based on Loss Rates and Macroeconomic Forecast to determine expected credit loss.

The auditor provides illustrative examples related to the calculation of aging analysis, macroeconomic indicators, and ECL Calculation Rate in this assistance. According to the third respondent, this assistance was beneficial because the accounting team were still unsure and unfamiliar on how to calculate the ECL for the accounting team before the socialization.

PSAK 71 Implementation Period

The second stage of implementing PSAK 71 is initial implementation which conducted in the year of 2020. PT XYZ placed a greater emphasis during the PSAK 71 implementation period on adjustments related to the allowance for impairment losses model, as well as the preparation and disclosure in the financial statements for the PSAK 71 effective year as can be seen on Figure 2 below.

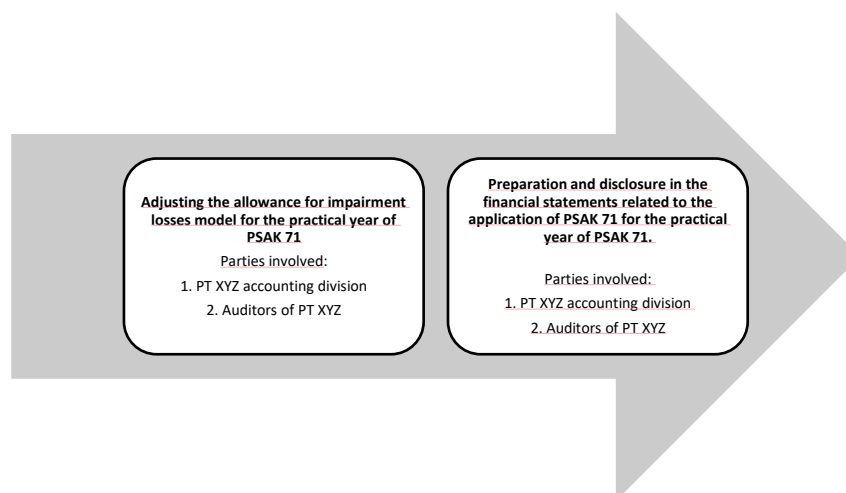


Figure 2 Initial Implementation of PSAK 71 at PT XYZ

Adjusting the allowance for impairment losses model for the effective year of PSAK 71

Following socialization during the pre-implementation period, the accounting division began adjusting the receivables allowance for impairment losses model. The accounting division then creates a working paper for ECL model calculations. The working paper is based on the steps illustrated by the auditor in socialization step.

The first step is to compute the provision matrix based on aging analysis for its loss rates. The loss rate is calculated based on the maturity period, which is divided into segments of 30, 60, 90, and 120 days. The calculation of aging analysis yields the unrecovered and loss rates, then the loss rate calculation yields loss rates with a specific value for each period of overdue receivables.

In the second step, the accounting division calculates the provision matrix for macroeconomic forecasting. PT XYZ selects the relevant macroeconomic indicators, which include the unemployment rate, foreign exchange rate, GDP growth rate, inflation rate, and BI interest rate. To calculate the average,

standard deviation, and forecast, the provision matrix is combined with the Loss Rates calculated in step one.

The third step is regression for the macroeconomic forecast indicator variable from the second step using two models to see the significance of the most relevant variable to be an indicator in the macroeconomic forecast to measure the forward-looking rate. According to the regression results, both Bank Indonesia (BI) interest rates are statistically significant.

The entity calculates the forward-looking rate after obtaining the BI interest rate as a forecasted macroeconomic indicator. The result shows that the forward-looking rate using the BI interest rate indicator is -0.131%. The entity can then calculate the expected credit loss value based on the outstanding balance of each category of overdue receivables using this rate.

Preparation and disclosure in the financial statements related to the implementation of PSAK 71 for the effective year of PSAK 71.

The stage after the entity adjusts the allowance for impairment losses model for the effective year of PSAK 71 on 1 January 2020, is preparing the financial statements related to the application of PSAK 71 (refer to Figure 2).

The parties involved in this stage are the accounting division of PT XYZ as the compiler of the financial statements and the Auditor of PT XYZ. The auditor, at this stage, audited and ensured that the adjustment to the allowance for impairment losses model for the effective year applicable to PSAK 71 was comply and that the disclosures in the financial statements had been explained in adequate.

The steps taken by the auditor are:

1. Obtained the historical aging per month and compared it to the monthly trial
2. Ensured that the historical aging flow rate was appropriate
3. Reviewing the macroeconomic forecast indicators, whether they were following the characteristics of receivables, and performing regression to measure the correlation of these indicators
4. Reviewing the two models used in the forward-looking scalar whether they were appropriate
5. Calculating the average expected credit loss value and comparing it with the general ledger whether there was a difference from the allowance set by the entity based on the new ECL model

At this stage, the auditor ensured that the application of PSAK 71 related to the allowance for doubtful accounts for PT XYZ's trade receivables was appropriate.

Support and Constraints Factors for The Implementation of PSAK 71 to Accounts Receivable

Based on the results of interview, it can be seen two factors that support the application of PSAK 71 to PT XYZ's accounts receivable. The first factor is the condition of PT XYZ's receivables collectability, which is continuous and effective, as well as the management's effective control over receivables collectability. According to the results of interviews with three respondents, the occurrence of Bad Debt Expense at PT XYZ is pretty uncommon, This is possible due to the well-established of business environment relationship at PT XYZ, where nearly all customers have a track record of more than ten years of transaction, and in the last twenty years or so there have been only one or two times the company experience bad debt expense with immaterial value. This is consistent with Filbeck and Krueger (2005) assertion that customers in concentrated industries tend to have long-standing relationships with suppliers. PT XYZ's receivables are more likely to be collected due to strong and long-lasting relationships with its customers.

In addition to good relationships with customers, the steps taken by PT XYZ related to receivable collectability control lie with the credit control division who monitors day to day operations. With daily operational monitoring, the business can quickly respond to indications of late payment of receivables before deciding on the appropriate receivables collection action.

The study's findings indicate that with a solid cooperation relationship and high trust between PT XYZ and customers, the control related to receivables collection is claimed to rarely experience any sort of issues and that day-to-day credit control may assure the efficient and effective collection of receivables. The above strategies used by PT XYZ prior to the implementation of PSAK 71 to ensure the collectability of receivables is considered to be effective and align with Bragg's study (2009) which suggested that each policy and regulations related to the provision of trade credit must consider appropriate steps to customers with good relationships and a smooth track record of payments.

The second factor is auditors, who play an important role in the PSAK 71 implementation process. All respondents stated that the process of implementing PSAK 71 at PT XYZ could not be separated from the role of auditors from pre-implementation to implementation phase.

One respondent highlighted the role of the auditor in ensuring that the implementation of PSAK 71 at PT XYZ complies with the latest standard. Auditors are believed to have a better understanding of best practices in the technical aspects of ECL calculations related to the provision matrix and macroeconomic forecasting compared to the management which still has concern related to the ECL calculations due to the unfamiliarity with the methods.

With regard to macroeconomic forecasting, on the one hand, this is an obstacle experienced by PT XYZ in the implementation of PSAK 71. The difficulty lies in the technical aspects of calculating the allowance for receivables using a forward-looking rate. Each entity is required by PSAK 71 to calculate the 12-month and lifetime ECL using a forward-looking adjustment based on macroeconomic forecasting indicators (Ikatan Akuntan Indonesia, 2018).

Based on the readiness of PT XYZ's resources to measure these indicators, this represents a separate obstacle and challenge for the company. Indicators such as the Gross Domestic Product (GDP), unemployment rate, foreign exchange, inflation, and the BI rate are common in the banking industry, but not in the manufacturing industry. Similarly, if the banking industry can have a chief economist who can project and select the appropriate macro scenario for ECL calculations (Otoritas Jasa Keuangan, 2018) the manufacturing industry, specifically PT XYZ, is different. Furthermore, PT XYZ's financial instrument products fall into the "plain vanilla" category, where it would be inefficient to hire a chief economist for the sole purpose of calculating expected credit losses. The entity's unfamiliarity with these indicators is compounded by the absence of a standard set of macroeconomic data sources that it can utilize.

One other issue related to macroeconomic factors is that forward looking information in PT XYZ's ECL calculation shows an insignificant impact. This could be due to the impact of macroeconomic factors on PT XYZ's business conditions. As is known, ECL calculations utilize forward-looking information by taking into account estimates of future economic conditions using multiple variables.

In calculating expected credit losses, the entity takes into account the risk or probability of credit loss occurrence by reflecting the probability of occurrence.

The use of variables is adjusted to the relevance of the product owned by the entity. According to Otoritas Jasa Keuangan (2018) each entity is advised to have multiple dependent variables in order to reduce ECL fluctuations caused by the movement of a single macroeconomic variable.

Out of the five variables selected as macroeconomic factors for the entity XYZ, namely unemployment rate, monetary exchange, GDP percentage changes, inflation rate, and BI Rate, only the BI rate demonstrates the appropriate level of significance as the basis for measuring ECL. This is possible due to the difficulty of relating the entity's economic condition to macroeconomic factors or, based on testing, the fact that neither the products nor the economic condition of PT XYZ have any correlation with economic factors indicates that forward-looking information becomes less significant.

Impact of PSAK 71 on Trades Receivable

The impact of PSAK 71 on PT XYZ on trade receivables technically effect on the adjustment of the allowance for impairment losses model. Based on the financial statements issued by PT XYZ in 2020, which are stated on page 33, it can be seen from the technical side of financial reporting:

"PSAK 71 was applied retrospectively on January 1, 2020, but without restatement of the previous year's comparative information. The adoption of PSAK 71 does not have a material impact on the amounts reported for the current or previous financial period" (PT XYZ Financial Report, 2020)

This is also demonstrated by a comparative analysis of the financial statements for 2020 and 2019. The disclosures in the financial statements for 2020 and 2019 for trade receivables from related parties explain that:

"Management believes that all trade receivables from related parties are collectible so that an allowance for impairment is not required" (PT XYZ Financial Report, 2020)

The trade receivable component is the one that is affected by the application of PSAK 71, whereas based on Figure 3 below account receivables are the largest component of PT XYZ's current assets.

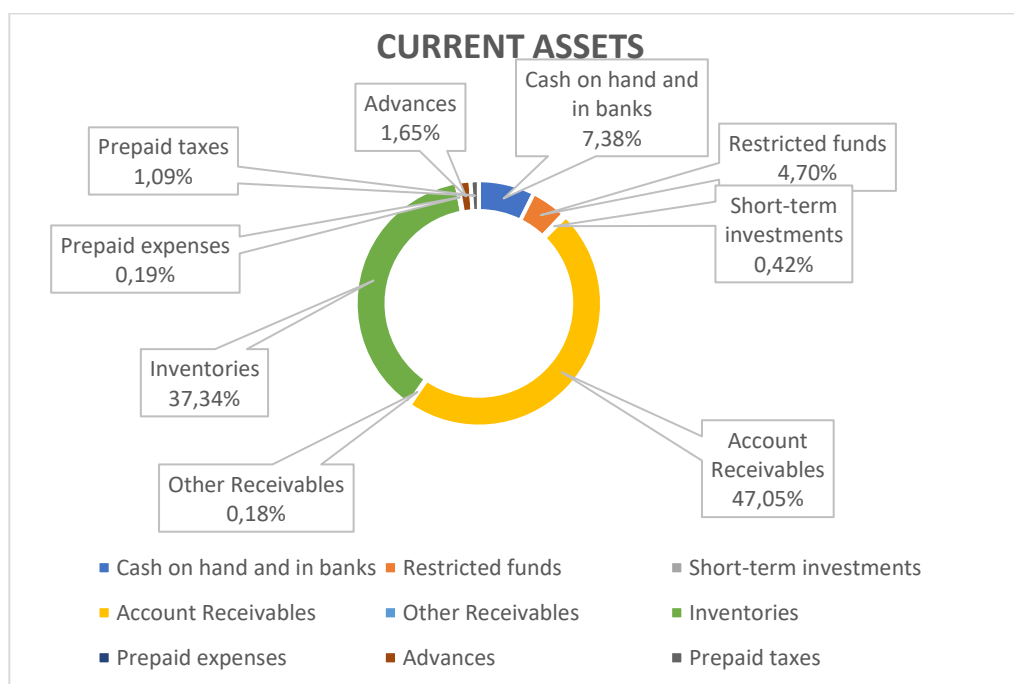


Figure 3. PT XYZ's Current Asset Components in 2020

Table 2. Component of PT XYZ's Accounts Receivable in 2020

Category	Amount (in thousands of rupiah)
Trade Receivable – Related Parties	179.442
Trade receivable – third parties	428.001.811

As shown in Table 2 above, The trade receivables component - the third party is the most significant component of trade receivables, with local customer receivables amounting to Rp 297,729,824,000 and export receivables amounting to Rp 131,933,517,000. PT XYZ uses a matrix approach to determine the ECL valuation when measuring the allowance for impairment losses. In 2020 or the year of implementation of PSAK 71, PT. XYZ reserved an expected loss in 2020 only for-trade receivables – third parties amounting to Rp 1,661,530,000. PT XYZ concluded that for trade receivables originating from related parties, the ECL was nil because the risk of default was low or distant.

The risk of default for trade receivables from related parties was explained in the 2020 financial report. This was strengthened by explanations from the second and third respondents with the condition that PT XYZ had regular customers who have collaborated in business for more than 10 years, so they had no difficulty in collecting receivables and explained that Bad Debt Expense at PT. XYZ was considered very small, accounting for less than 1% of total Bad Debt. As a result, management believed that, in relation to related party trade receivables, no allowance for impairment losses was required by PSAK 71.

The impact application of PSAK 71 at PT XYZ impacts the technical recording of expected credit losses on third-party trade receivables. If the impairment of financial assets was previously based on PSAK 55, the loss-incurred approach, PSAK 71 employs the expected credit loss or ECL approach.

If in the period prior to PSAK 71, PT XYZ recognized an allowance for impairment of receivables based on a loss model that occurs when there was objective evidence that a financial asset was impaired. The objective evidence is gathered based on the best available facts and circumstances for the company's receivables maturity, with the allowance based on the group's relationship with its customers, customer credit status, and market factor reports. Following PSAK 71, PT XYZ is required to record losses based on the expected credit loss model or ECL. PT XYZ applies a simple approach using a matrix to assess ECL on all trade receivables where financial assets are measured at amortized cost or FVOCI and financial guarantees.

Table 3. Allowance for Expected Loss of PT XYZ

	2020	2019
Balance at the beginning of the year	1.207.022	1.918.423
Provision (reversal of allowance) for the year	454.508	(711.401)
Year End Balance	1.661.530	1.207.022

Looking at the two data points from the financial statements of PT XYZ in 2019 and 2020 as above, it shows that the expected loss reserve value at the end of 2020 and 2019 did not increase significantly. The increase in ECL at the end of 2020 was Rp 454.508.000,00, representing a 37 percent increase from the end-of-2019 balance. This increase was deemed insignificant by management because the ending balance in 2018 was greater than in 2020 as can be seen on the table 3. Further, based on comparisons with other industries including similar industries, the increase in the allowance for impairment of receivables due to the application of PSAK 71 in the plastic manufacturing industry is not dissimilar with the range of increase is in 47 percent. This is in stark contrast to the banking industry, where the increase in CKPN following the PSAK 71 implementation could rise by 70.39 percent. Moreover, a study conducted by EY (2018) discovered that banking industry who have adopted IFRS 9 are commonly experience the increase in allowance for impairment accounts ranging from millions to billions Euros. Further, the third respondent comment on the management mechanism for overcoming the shift in the model from incurred losses to expected credit losses. According to the third respondent, management already has reserves per book that are calculated based on the incurred loss. PT XYZ management then compares the results of the ECL matrix with the balance per book using the ECL concept. If there is a difference, an adjustment will be made based on the ECL matrix results. When asked about the significance of the adjustment, the third respondent answered that the result was immaterial.

Strategy adjustments made by the company in response to the implementation of PSAK 71

As a result of the application of PSAK 71, which focuses on impairment loss adjustment allowance, the adjustments made by the company focuses on strategies related to receivables collectability. In the 2020 financial report, it is explained that the risk of default from related parties is low for trade receivables. For the past twenty years, the incidence of bad debt for receivables at PT XYZ has been pretty uncommon and the value is immaterial. The bad debt condition occurred because the consumer company was liquidated so that the receivables were written off. With a strong cooperative relationship and high level of trust between PT XYZ and customers, the control related to the collection of receivables rarely encounters issues, and the day-to-day control by credit control ensures the collection of receivables runs smoothly.

The strategy adjustment made by PT XYZ after the implementation of PSAK 71 was more focused on ensuring the collectability of receivables for the export market. PT XYZ has been in an international level business environment

despite the primary market of PT XYZ is still domestic market, where the international market accounts for forty percent of the total sales and the sixty percent of customers are from the local market. PT XYZ has a strategy to strengthen the company's focus on competing competitively both in local and international market. This is accomplished by implementing an effective and efficient operational strategy as well as a strategy for developing a premium product portfolio that can be marketed both domestically and internationally.

One of the strategies taken by PT XYZ to ensure the collectability of export receivables is through trade insurance. Researcher found that since 2021 PT XYZ has covered trade insurance for some of its export receivables which are considered to have credit risk. This trade insurance is used to mitigate the risk of bad debt for previous export receivables. Export receivables covered with trade insurance are those that are not part of the Multi-National Group Customer or are new customers. According to PT XYZ's 2020 Financial Statements, the percentage of export customers for third-party trade receivables is 30%. (Rp 131,933,517,000 with total trade receivables - third parties amounting to Rp 429,663,341,000). The existence of trade insurance is expected to increase the collectability of export receivables, which can also support the implementation of the company's strategy to expand marketing markets at the international level, ensuring better implementation of PSAK 71 for financial assets of PT XYZ.

5. CONCLUSION

Based on the analysis of all of the research questions posed above, this study attempted to examine the process and impact of PSAK 71 implementation on the company's operations and strategies related to accounts receivable PT XYZ. To conclude, PSAK 71 implementation at PT XYZ focuses primarily on changes to the ECL model on the trade receivables component. Meanwhile, in terms of strategy, PT XYZ made adjustments to its financial strategy in response to the implementation of PSAK 71 related to the management of receivables collectability. The company's strategy for ensuring the collectability of receivables emphasizes the collectability of receivables from the export market. One of the steps taken is to do trade insurance. This will be consistent with the company's 2020 strategic plan to expand its export market network through the sale of premium products that can increase its competitiveness on the global market.

This is consistent with the findings of a study conducted by Aini (2019), which discovered that the influence of PSAK had an effect not only on the

relevance of the company's credit modeling method, but also on the corporate strategy. Trade receivables at PT XYZ are a significant component of PT XYZ. As can be seen in 2020, the trade receivables component at PT XYZ accounts for 47 percent of the total current assets.

The implementation process at PT XYZ itself has started long before the effective date for PSAK 71 implementation on January 1, 2020. This paper divides the process of implementing PSAK 71 into two phases: pre-implementation and initial implementation. During these two time periods, auditors played an important role in implementing PSAK 71 at PT XYZ. During the pre-implementation period, the auditor raised awareness to the management to begin preparing for PSAK 71 implementation and assisted in ECL model socialization phase. This was done because the PT XYZ entity was unfamiliar with properly calculating the allowance for impairment losses on receivables using ECL. In the implementation period, the role of the auditor is in the stages of preparation and disclosure in financial statements related to the application of PSAK 71, where the auditor ensures through the audit process that the implementation process of PSAK 71 is appropriate and that the financial statements have been presented in accordance with applicable financial accounting standards.

Further, the implementation of PSAK 71 reveals two factors that support the application of PSAK 71 on accounts receivable, namely the condition of good collectability of receivables at PT XYZ and the critical role of auditors in assisting the entity, particularly in adjusting the measurement of expected credit losses using the ECL method. The technical difficulty encountered by PT XYZ is related to the determination and measurement of macroeconomic forecasting indicators.

This study is limited by the fact that this research is conducted only on a single entity; the result of the analysis may alter if there are variations in numerous entities from the manufacturing industry or from different types of industries. Therefore, it is recommended that future research increase the number of respondents or the variety of entities to be studied from various types of industries in order to produce more comprehensive results on this research topic. Further, this research is constrained by the findings that indicate the immaterial impact of the application of PSAK 71 at PT XYZ which results in no influence of future economic conditions in the calculation of ECL in the implementation of PSAK 71. Another limitation is the data regarding the company's strategy is confidential matters so that access to information is limited. The solution in this research is to use confirmation based on the analysis made based on the annual financial statements of PT XYZ.

6. RECOMMENDATION

Based on the findings of this research, PT XYZ has taken suitable efforts to manage receivables collectability and has also implemented trade insurance measures to further ensure the collectability of export receivables, thereby guaranteeing the implementation of PSAK 71. In relation to the implementation of PSAK 71, where the technical and operational steps of PSAK implementation 71 related to the calculation of ECL using the forward looking rate are much assisted by auditors, PT XYZ is advised to be more technically proficient in the calculation of the forward looking rate, particularly in determining the indicators used to be adjusted to the company's characteristics, so that if there are changes related to the collection in the future, PT XYZ will be able to adapt.

Following an examination of the control system related to the management of trade receivables at PT XYZ, the author recommends developing a policy regarding the terms of payment as a step toward increasing control regarding the collectability of PT XYZ's trade receivables. The policy may include alternate follow-up for:

1. Payment delays of up to 30 days when credit control begins to improve day-to-day monitoring of the customer's operations.
2. After more than 60 days of late payment, credit control contacted the customer and arranged for payment rescheduling.
3. Delayed payment of more than ninety days, termination of delivery, and customer reordering

7. DISCLOSURE

The author hereby declares that he has no conflict of interest and is independent of all parties mentioned in this study.

REFERENCES

- Aini, N. (2019). *Persiapan dan Dampak Penerapan Pernyataan Standar Akuntansi Keuangan (PSAK) 71 Instrumen Keuangan pada PT Bank X* [Master Thesis]. Universitas Indonesia.
- Beerbaum D. (2015). Significant Increase in Credit Risk According to IFRS 9: Implications for Financial Institutions. *International Journal of Economics & Management Sciences*, 04(09).
<https://doi.org/10.4172/2162-6359.1000287>
- Bragg, S. M. (2009). *Controllershship*. Wiley.
<https://doi.org/10.1002/9781118268322>
- Deloitte. (2015). *IFRS 9 Implementation – Time To Get Ready*.
- Ernst & Young. (2018). *IFRS 9 Expected Credit Loss*.
<https://eyfinancialservicesthoughtgallery.ie/ifrs-9-ecl-making-sense-of-the-transition-impact/>
- Filbeck, G., & Krueger, T. M. (2005). An Analysis of Working Capital Management Results Across Industries. *American Journal of Business*, 20(2), 11–20. <https://doi.org/10.1108/19355181200500007>
- Ganc, M. (2020). Working Capital Management Strategy and Selected Measures of Financial Security for Dairy Cooperatives in Poland. *Acta Scientiarum Polonorum. Oeconomia*, 19(4), 33–40.
<https://doi.org/10.22630/ASPE.2020.19.4.38>
- Gitman, L. J., & Zhutter, C. J. (2015). *Principles of Managerial Finance* (14th ed.). Pearson Education Limited.
- Herdiansyah, H. (2012). *Metodologi penelitian kualitatif untuk ilmu-ilmu sosial*. Penerbit Salemba Humanika.
- Ikatan Akuntan Indonesia. (2018). Pernyataan Standar Akuntansi Keuangan Nomor 71 tentang Instrumen Keuangan. In *IAI*. IAI.
- Kieso, D. E., Weygandt, J. J., & Warfield, T. D. (2018). *Intermediate Accounting IFRS Edition* (Third Edit). John Wiley & Sons, Inc.
- Lim, C. Y., Lim, C. Y., & Lobo, G. J. (2013). IAS 39 reclassification choice and analyst earnings forecast properties. *Journal of Accounting and*

Public Policy, 32(5), 342–356.

<https://doi.org/10.1016/j.jaccpubpol.2013.06.006>

Miles, M. B., Huberman, M. A., & Saldana, J. (2014). *Qualitative Data Analysis : A Methods Sourcebook* (3rd ed.). SAGE Publications.

Otoritas Jasa Keuangan. (2018). *KESIMPULAN HASIL PEMBAHASAN ISU IMPLEMENTASI PSAK 71 – INSTRUMEN KEUANGAN TAHUN 2018*.

PriceWaterhouseCoopers. (2017). *IFRS 9 for Banks*.

https://www.pwc.com/ee/et/home/majaastaaruanded/Illustrative_discloser_IFRS_9_for_Banks.pdf

PriceWaterhouseCoopers. (2020). *State of Readiness - PSAK 71-73 Implementation*.

Rizal, A. P., & Shauki, E. R. (2019). Motif dan Kendala Bank Melakukan implementasi dini psak no. 71 terhadap ckpn kredit (motive and obstacle bank as early adopters of psak no. 71 for allowance for impairment losses (ckpn) of loan). In *Jurnal Akuntansi dan Keuangan Indonesia* (Vol. 16, Issue 1).

Rizka, K., & Gunanta, R. (2021). The effect of a credit sales accounting information system on the effectiveness of account control in PT Megah Kayu Industri Bandung. *International Journal of Research in Business and Social Science* (2147- 4478), 10(1), 246–252.
<https://doi.org/10.20525/ijrbs.v10i1.985>

Stent, W. (2011). *A Study of Early and Late Adopters of International Financial Reporting Standards in New Zealand*.

Sugiarto, S., & Suroso, S. (2020). Innovation of impairment loss allowance model of Indonesian financial accounting standards 71. *Journal of Asian Business and Economic Studies*, 27(3), 267–283.
<https://doi.org/10.1108/jabes-11-2019-0114>

Walton, P. (2004). IAS 39: Where Different Accounting Models Collide. *Accounting in Europe*, 1(1), 5–16.
<https://doi.org/10.1080/0963818042000262711>

Yin, R. K. (2009). *Case Study Research: Design and Methods*. SAGE Publications.