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Analysis of Problem Credit Sales Accounting Treatment in. Adira Finance Baubau

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Abstract: This study aims to analyze the accounting treatment for non-performing loans of credit sales at PT. Adira Finance Baubau. The analysis method that being used is descriptive qualitative method. While the collecting method are field research, library research and interview. This research is conducted at PT. Adira Finance Baubau during April 2017. The results showed that the accounting treatment for non-performing problem loans of credit sales at PT. Adira Finance Baubau will be recorded as operating loss of the company. Assets in the form of cars from troubled sales will be withdrawn and repaired, then offered back to the consumers. The income of those troubled cars sales and other new cars sales are expected to recover the company's losses due to the sale of non performing loans so that the performance of PT. Adira Finance Baubau will still look stable even though the company is haunted by business risks of non-performing loans of their own car credit sales.

Keywords: accounting treatment, credit sales, non-performing loans

1. Introduction

Indonesia is one of the countries that have experienced a monetary crisis with a very significant impact. One of the factors causing the delay in the recovery of this condition is credit management which is still lagging behind other countries. This economic crisis can be resolved if the nation's generation is more intensive and creative in providing thought innovations in various economic pressures both domestic and international (Fahmi and Lavianti, 2010: 6).

In general, the overall quality of the earning assets of the finance company over the past two years has been fairly smooth. In January 2017, the number of non-performing loans or non-performing loans was 3.17 percent, down from the previous month of 3.26 percent in December 2016. Even the decline in the ratio of non-performing loans fell amid growth in financing channeled by industry players. In the same period, based on statistics from the Financial Services Authority (FSA) financing agency, financing was recorded at Rp389.52 trillion, up from the previous month, at Rp387.50 trillion. However, there are some financial institutions that actually face poor performance related to handling problem loans. According to the Chief Executive of the FSA Non-Bank Financial Industry Supervisor, many financial institutions posted a ratio of non-performing loans of more than 5 percent or a limit allowed by the regulator. There are even 25 financial institutions that have posted *non performing loan* (NPL) exceeding 20 percent.

Based on these data it can be said that lending to financial institutions in general can not be separated from a certain level of risk where there is the possibility of uncollectible loans. Although various anticipations have been made, problem loans remain in the environment of financial institutions. Knowing this phenomenon, the authors are interested in conducting

research on problem loans in one of the financial institutions operating in the author's domicile, namely PT. Adira Finance Baubau. As one of the financial institutions engaged in consumer finance, one of the main activities of this company is to conduct financing activities for the procurement of goods based on consumer needs with an installment payment system or periodically by consumers. Thus transactions that occur between companies and consumers are inseparable with the risk of difficulties in fulfilling consumer credit installments, which by this company will be recognized as problem loans. Therefore, researchers are interested in conducting research related to the accounting treatment of problem loans in the financing institution.

2. Literature Review

2.1. *Financial institutions*

Types of financing businesses (multi-finance) consist of leasing, venture capital, securities trading, factoring, credit card business and consumer financing through Minister of Finance Decree No.84/PMK.012 of 2006 Chapter II Article 2 concerning the business activities of finance companies .

According to the Decree of the Minister of Finance No.84/PMK.012/2006, a multifinance institution is a business entity that carries out financing in the form of providing funds or capital goods by not withdrawing funds directly from the public. Financing institutions can be carried out by banks, non-bank financial institutions and finance companies.

Financing companies are business entities outside of Banks and Non-Bank Financial Institutions that are specifically established to carry out activities which are included in the business of the Financial Institution. Finance companies carry out activities that include Leasing, Venture Capital, Securities Trading, Factoring, Credit Card Businesses, Consumer Financing, and others (Kasmir, 2012: 37).

2.2. *Credit*

According to Suparmo (2009: 152) The word credit comes from the Roman word *Crede* which means to believe. Whereas in Dutch the term is *Vertrouwen*, in English that is *Believe* or *trust* or *confidence* which means the same, namely *trust*. In other words, credit implies the existence of a word from a person or entity given to someone or another entity that is that the person concerned in the future will fulfill all obligations that have been promised in advance.

The definition of credit according to Law No.10 of 1998 concerning amendment to Law No.7 of 1992 defines credit is the provision of money or bills that can be likened to it based on loan agreements or agreements between banks and other parties that require borrowers to repay their debts after a period of time certain by giving flowers.

2.3. *Credit Analysis*

Before the creditor distributes credit, several assessments that contain information to the creditor in good faith and ability to pay the debtor to repay the loan and interest (Fahmi and Lavianti, 2010: 177). The 6C analysis method is as follows:

1. **Character.** This analysis can be done with a human resource and psychological approach. A belief that the nature or character of the people to be given credit is truly trustworthy, this is reflected in the background of the debtor both from work and personal
2. **Capacity.** This analysis relates to the business record or the debtor's ability to manage a business that is linked to his education, business ability is also measured by his ability to understand government regulations.

3. Capital. This concerns the ability of capital owned by someone when doing business. Seeing the effective use of capital can be seen from the financial statements (balance sheet and income statement) by taking measurements such as in terms of liquidity, solvency, profitability, and other measures. In general this can be seen from the balance sheet, income statement, capital structure, return on equity, return on investment.
4. Collateral. Is a guarantee given by prospective debtors both physical and non physical. Guarantees should exceed the amount of credit given. Guarantees must also be examined for their validity, so that if something goes wrong, the guarantee deposited can be used as quickly as possible.
5. Condition. Assessment of current and future economic and political conditions according to their respective sectors, as well as the business prospects of the sector being run.
6. Constraint. Is a limitation and obstacle that does not allow a business to be carried out in certain places, for example the establishment of a gas station business in the vicinity of many welding shops or brick kilns.

Whereas the assessment using 7P analysis according to Kasmir (2012: 106) is as follows:

1. Personality, assessing customers in terms of their personality or daily behavior and past. The nature, personality of the prospective debtor is used as a basis for consideration of granting credit.
2. Party, classifying customers into certain classifications or certain groups based on capital, loyalty and character.
3. Purpose, to determine the purpose of the customer in taking credit, including the type of credit desired by the customer.
4. Prospect, to assess the customer's business in the future is profitable or not, or in other words has a prospect or vice versa.
5. Payment, is a measure of how customers return credit that has been taken or from any source of funds to return credit.
6. Profitability, to analyze how the customer's ability to find profits.
7. Protection, the goal is how to keep business and guarantees protected. Protection can be in the form of goods or people or insurance guarantees.

2.4. Nonperforming Loans

Giving credit without analysis will be very dangerous for the company. Customers in this case sometimes provide fictitious data, so it might be that credit is actually not feasible, but it is still given. Then if the analysis is wrong, then the credit channeled which is actually not feasible becomes feasible so that it will result in being difficult to be billed.

Nonperforming loans, namely loans that have not yet met the desired target of the bank and then have the possibility of future risks for the company in a broad sense, also have difficulties in settling obligations in the form of principal repayments and/or interest payments, fines delays and bank fees that are borne by the debtor concerned.

According to the Indonesian Institute of Accountants (IIA) Statement of Financial Accounting Standards No. 55 (Revised 2015) concerning Recognition and Measurement of Financial Instruments, nonperforming loans in general are loans whose principal installment payments and/or interest have passed 90 days or more after maturity, or loans whose payments are timely are highly doubtful. Nonperforming loans consist of loans classified as substandard, doubtful, loss.

The factors that cause the occurrence of problem loans are (Astri, 2011: 24):

1. Advertisity is a change in the business cycle (bussines cycle) this is out of control such as illness, length of residence, nature, and death.
2. Miss management is the inability of debtors to manage their business activities and maintain financial condition by conducting sound business activities.
3. Fraud (misuse) is the dishonesty of the debtor in providing information and reports regarding his business activities, financial position, accounts payable, etc.

3. Methodology

3.1. Population and Sample

Population is a generalization area consisting of objects / subjects that have certain qualities and characteristics determined by researchers to be studied and then conclusions are drawn (Sugiyono, 2006: 40). The population in this study is all business activities at PT. Adira Finance Baubau. The sample in this study is non-performing loans on car sales at PT. Adira Finance Baubau in 2016.

3.2. Data Types and Sources

The type of data used is qualitative data that is data presented in the form of verbal words not in the form of numbers (Muhajir, 2008: 31). In this study included qualitative data, which is a general description of PT. Adira Finance Baubau, including: A brief history of its establishment, the company's vision and mission, organizational structure, and others. Quantitative data is a type of data that can be measured or counted directly, in the form of information or explanation expressed in numbers or in the form of numbers (Sugiyono, 2010: 54). In this study included qualitative data, namely the amount of problem loans that occurred during 2016, the value of non-performing loans (NPLs), and others.

According to Emory, C. William and Cooper, Donald, R. (2004) in Hardin, I K Dewi, S Said, Z Rahman, W O D Alzarliani & Lamo, (2019: 5) Judging from the type of data, then in this study there are two types of data to be collected, namely primary data and secondary data. Primary data were collected through direct interviews with respondents through a list of questions (questionnaire). While secondary data have two sources, namely internal and external data sources. Meanwhile, according to Hardin, (2019: 17) primary data that is data obtained directly from reliable sources at the research location, namely by making direct observations to the objects studied through interviews (interview) to the respondents/informants using questionnaires that have been prepared previously . This is intended to obtain clear data or information in connection with the object of this study. While secondary data is data obtained from various sources, such as literature and/or library books, archives/data on the object research and other references that are relevant to the object under study or studied. As explained by Hardin, I K Dewi, S Said, Z Rahman, W O D Alzarliani & Lamo, (2019: 5) that internal data sources are data originating from each organization as research objects. Whereas the source of external data is data obtained from outside the organization, for example the Indonesian Statistics Bureau (ISB) and related agencies.

In this study, the primary data needed are car loan sales reports, financial reports, cash flow statements, and the results of interviews with management of PT. Adira Finance Baubau. While the secondary data used is the bank's health standard by the Financial Services Authority to determine the level of non-performing loans or non-performing loans owned by a company.

3.3. Method of Collecting Data

The data needed in this study will be collected by several methods, namely observation, documentation, and interview methods.

3.4. Data Analysis Method

The analytical method used in this research is descriptive qualitative analysis. According to Sugiyono (2010: 25) qualitative descriptive analysis is by giving a review or interpretation of the data obtained so that it becomes clearer and more meaningful than just numbers. The stages carried out in a qualitative descriptive analysis are: Data reduction, data presentation, and drawing conclusions (verification), as a process of seeking meaning, noting regularities, patterns, explanations, possible configurations, plot of causation and research proportions.

4. Results and Discussion

4.1. Research result

PT. Adira Finance Baubau has several procedures and stages that must be passed by prospective customers to obtain credit for the purchase of a car. Prospective customers who want to buy a car on credit can prepare administrative requirements for credit applications. Credit applications consist of individuals and companies. Credit administration requirements are as follows:

1. Administrative requirements for individual credit applications:
 - a. Applicant and guarantor identity card
 - b. Electricity/water/telephone/PBB account
 - c. Family card/Marriage Book
 - d. Payslips (for employees)
 - e. Financial Report / Bon-Bon business (for entrepreneurs)
2. Administrative requirements for corporate credit applications:
 - a. Commissioner Identity Card
 - b. Director's Identity Card
 - c. Istirk / water / telephone / PBB accounts
 - d. SIUP (Business License)
 - e. NPWP (Taxpayer Identification Number)
 - f. TDP (Company Registration Certificate)
 - g. Bank Statement for the past 3 months
 - h. Deed of incorporation
 - i. Company transfer certificate

PT. Adira Finance Baubau conducted a survey on the spot to prospective customers to ensure the truth of the terms of credit administration. Prospective customers who meet the requirements will get credit approval and sign a credit agreement. Consumers make installment payments to PT. Adira Finance Baubau every month.

Based on interviews with several informants, it is known that PT. Adira Finance Baubau classifies car loan sales into two categories, namely collectible credit sales and delinquent credit sales. For Adira, arrears sales are receipts of car loan installments from consumers who are received after the specified date. All arrears sales are recognized as sales of problem loans and will immediately receive action from management, either in the form of notification or withdrawal of vehicles properly or forcibly.

There are several procedures carried out by PT. Adira Finance Baubau Branch in collecting receivables from its customers. The collection of receivables is carried out by the collector and professional collector.

Receivables collection system at PT. Adira Finance Baubau in accordance with the SOP established by Adira Dinamika Multi Finance central management is as follows:

1. Consumers who are over 0 to 7 days are notified and telephone alert by the desk collector. The first warning letter can also be sent by post to the consumer's residence address.
2. Consumers who over 30 days do a second billing visit to the customer's address by the field collector, then the consumer will be given a third warning letter which is the last warning to the consumer.
3. Consumers who are over 60 days will be given a third visit to the bill by Remedial as well as providing a vehicle withdrawal letter to PT Adira Finance.
4. Consumers who are over 90 days will be subject to a fourth billing visit by a professional collector (a third party from PT Adira Finance Baubau) with the aim of confiscating or withdrawing the vehicle that is credited by the consumer both forcibly and by force.

Related to the accounting treatment of problem loans sales at PT. Adira Finance Baubau, the researcher asked for an explanation directly from the Head of the Representative Office of PT. Adira Finance Baubau. "Indeed, the sale of problem loans cannot be avoided, especially in financial institutions like Adira. We have considered this non-performing loan as a business gravel, called business risk".

The respondents further explained: "For the accounting treatment, we admit that the sale of problem loans was a loss. So later this will reduce the company's operating profit, before calculating net profit at the end of the year. As for the problematic car assets, we will withdraw and acknowledge it as a used car. That is why in our sales report there are two categories of cars that we offer to consumers, there are new cars and used cars".

Regarding used cars as a result of the sale of problem loans, respondents gave further explanation as follows. "The used car does not mean worn-out wreckage. The used car was just a used name, but usually the decline in economic value is not too large, because it has not been used long ago by consumers who failed to pay earlier. So that if normal use, usually the damage that is in the used car was not so heavy, so the company will cooperate with other Adira outlets to repair the used car so that it becomes normal again. After being repaired, we sell the used car back to other consumers, of course at a more affordable price compared to the car that just came out of the dealer".

The respondent further explained that: "We recognize the recording of non-performing loans as a loss. The loss is indeed a company, but it can still be patched up with the results of the sale of used cars due to the sale of problem loans earlier. Indeed, the value cannot cover all company losses, but at least the bias reduces the value of losses. That was what I explained earlier, this is part of business risk. Smart-clever we are looking for a solution. Because after all we are a financial institution, our performance is assessed from the total sales and profits earned by the company".

From the results of these interviews dpaat known that accounting treatment for the sale of problem loans at PT. Adira Finance Baubau will be recognized or recorded as a loss to the company's operations. Car assets from the problematic sales will be withdrawn and repaired, then offered back to consumers. Proceeds from sales of used cars and other new cars are expected to cover the company's losses due to the sale of problem loans so that the performance of PT. Adira Finance Baubau will still look stable even though the company is haunted by the business risk of selling the problem loans.

4.2. Discussion

4.2.1. Car Loan Sales Analysis PT. Adira Finance Baubau

The following is a report on car loan sales at PT. Adira Finance Baubau 2016. This sales report contains objects of cars, car brands, and the results of credit sales during 2016, both the sale of collectible loans and the sale of delinquent loans.

Table 1. Sales of Car Loans PT. Adira Finance Baubau in 2016

The object	The brand	Credit sales per year	Collectible	Delinquent
New car	Daihatsu	Rp. 3.552.538.388	Rp. 3.026.232.882	Rp. 526.305.506
	Hino	Rp. 2.830.900.903	Rp. 2.830.900.903	
	Honda	Rp. 978.635.709	Rp. 807.801.632	Rp. 170.834.077
	Mitsubishi	Rp. 1.642.922.404	Rp. 1.549.696.085	Rp. 93.226.319
	Suzuki	Rp. 1.098.631.209	Rp. 974.040.243	Rp. 124.590.966
	Tata	Rp. 104.285.224	Rp. 104.285.224	
	Toyota	Rp. 752.343.835	Rp. 752.343.835	
New car	Total A	Rp. 10.960.257.672	Rp. 10.045.300.804	Rp. 914.956.868
Used car	Daihatsu	Rp. 3.552.538.388	Rp. 70.817.739	Rp. 40.233.983
	Hino	Rp. 111.051.722	Rp. 221.215.373	Rp. 177.967.307
	Honda	Rp. 81.173.400		Rp. 81.173.400
	Isuzu	Rp. 261.702.908	Rp. 261.702.908	
	Mitsubishi	Rp. 125.879.979	Rp. 36.664.375	Rp. 89.215.604
	Suzuki	Rp. 618.658.878	Rp. 543.277.629	Rp. 75.381.249
	Toyota	Rp. 1.194.904.633	Rp. 1.025.949.575	Rp. 168.955.058
Used car	Total B	Rp. 2.792.554.200	Rp. 2.159.627.599	Rp. 632.926.601
Total A + B		Rp. 13.752.811.872	Rp. 12.204.928.403	Rp. 1.547.883.469

Source: PT Adira Finance Baubau in 2016

From table 1. above is known that the total car loan sales of PT. Adira Finance Baubau in 2016 reached IDR13,752,811,872. Of the total sales, Rp12,204,928,403 was sales of uncollected loans, while the remaining Rp1,547,883,469 were in arrears.

According to the management of PT. Adira Finnace Baubau, sales are categorized as sales in arrears when the receipt of installment payments from consumers has passed the specified time. While collectible sales mean sales that receive payments from consumers on time.

From table 1. it is known that the car offered by PT. Adira Finance Baubau is a new car and used car. Car brands that are sold also vary. Several brands of cars sold during 2016 included Daihatsu, Hino, Honda, Isuzu, Mitsubishi, Suzuki, and Toyota. During 2016, the most desirable brand of consumer cars was Daihatsu. This can be seen from the total sales obtained from this car brand reaching Rp3,552,538,388.

4.2.2. Analysis of Financial Ratios Related to Credit Sales of PT. Adira Finance Baubau

From table 4.1. above, the researcher measures several financial ratios related to credit sales of PT. Adira Finnace Baubau. This measurement is done to see because PT. Adira Finance Baubau as a financial institution with one of its main assets is the car offered to consumers, the company must be able to control the successful sale of the car asset. To measure the control of the company's credit sales, PT. Adira Finance needs to use several financial ratios as a measure of the success of car loan sales as follows:

a. Receivable Turn Over (RTO)

RTO or accounts receivable turnover ratio aims to measure the liquidity and activity of corporate receivables. The measurement of the accounts receivable turnover ratio uses the arrears receivable data of Rp1,547,883,469 in 2016 and Rp1,447,996,793 in 2015. Both accounts will be used to calculate the company's average receivables. Accounts receivable turnover ratio of PT. Adira Finance Baubau during 2016 is as follows:

$$\text{RTO} = (\text{Total Credit Sales}) / (\text{Average Receivables})$$

$$\text{Average receivables} = (\text{Receivables in 2016} + \text{Receivables in 2015}) / 2$$

$$\text{Average receivables} = (\text{Rp1,547,883,469} + \text{Rp1,447,996,793}) / 2$$

$$(\text{Average Receivables}) = \text{Rp2,995,880,262} / 2$$

$$(\text{Average Receivables}) = \text{Rp1,478,672,091}$$

$$\text{RTO} = (\text{Total Credit Sales}) / (\text{Average Receivables})$$

$$\text{RTO} = \text{Rp.13,752,811,872} / \text{Rp1,497,940,131}$$

$$\text{RTO} = 9.18$$

From the above calculation it is known that the accounts receivable turnover ratio (RTO) of PT. Adira Finance Baubau in 2016 was 9.18 times. This means that in 2016, to be able to collect 1 rupiah of revenue from receivables (delinquent sales), the company needs 9.18 times the overall sales turnover. According to Sutrisno (2003: 64) the longer the payment terms the longer the funds are bound in receivables, which means the lower the receivable turnover rate.

b. Average Collection Period (ACP)

ACP aims to measure the average billing time for sales. Measurement of the average time to collect accounts receivable ratio uses data receivable turnover ratio (RTO) in 2016 which amounted to 9.18 and the number of days in a year that is as much as 360 days. The average billing time for credit sales of PT. Adira Finance Baubau during 2016 is as follows:

$$\text{ACP} = 360 / \text{RTO}$$

$$\text{ACP} = 360 / 9.18$$

$$\text{ACP} = 39,210$$

From the above calculation it is known that the billing time of the sale or Average Collection Period (ACP) of PT. Adira Finance Baubau 2016 is 39,210 or 39 days. This means that in 2016, it takes an average of 39 days for receivables to turn into cash. The faster the repayment time, the better.

c. Arrears Ratio

Arrears ratio aims to find out how much the amount of receivables that are past due and uncollectible from a number of credit sales made. This arrears ratio measurement uses arrears receivables data of Rp1,547,996,793 and total credit sales of Rp13,754,811,872 in 2016. The arrears ratio of PT. Adira Finance Baubau during 2016 is as follows:

$$\text{ACP} = (\text{Amount of Outstanding Debts}) / (\text{Credit Sales}) \times 100\%$$

$$\text{ACP} = \text{Rp1,547,996,793} / \text{Rp13,752,811,872} \times 100\%$$

$$\text{ACP} = 11.26\%$$

From the above calculation it is known that the arrears ratio of PT. Adira Finance Baubau in 2016 was 11.26%. This means that of the total car loan sales made by PT. Adira Finance Baubau in 2016, amounted to 11.26% of receivables from the sale of delinquent car loans. The lower the arrears ratio, the better the company is in managing receivables from credit sales that occur for 1 year.

d. Billing Ratio

Billing ratio aims to find out how much receivables are collected from the total receivables owned by the company. This billing ratio measurement uses the collection of accounts receivable data of Rp12,204,928,403 and the company's total receivables of

Rp13,752,811,872 in 2016. The billing ratio of PT. Adira Finance Baubau during 2016 is as follows:

$$\text{Billing} = (\text{Amount of Collectible Receivables}) / (\text{Total Receivables}) \times 100\%$$

$$\text{Billing} = \text{IDR } 12,204,928,403 / (\text{IDR } 13,752,811,872) \times 100\%$$

$$\text{Billing Ratio} = 88.74\%$$

From the above calculation it is known that the billing ratio of PT. Adira Finance Baubau in 2016 was 88.74%. This means that of the total car loan sales made by PT. Adira Finance Baubau in 2016, as much as 88.74% of receivables that can be collected. The higher the billing ratio, the better the company is in managing accounts receivable from credit sales that occur for 1 year.

In summary, the results of the calculation of several financial ratios as a measure of the success of car loan sales at PT. Adira Finance Baubau in 2016 is presented in table 2. below.

Table 2. Financial Ratios for Credit Sales of PT. Adira Finance Baubau in 2016

Ratio	The calculation results
<i>Receivable Turn Over (RTO)</i>	9,18 time
<i>Average Collection Period (ACP)</i>	39 day
Arrears Ratio	11,26%
Billing Ratio	88,74%

Source: PT Adira Finance Baubau in 2016

Judging from the financial ratios, PT. Adira Finance Baubau is quite good. This can be seen from the arrears ratio of 11.26% which can be suppressed with a billing ratio of 88.76%. However, a good credit quality according to the Financial Services Authority is a non-performing loan (NPL) under 5%. The comparison of problem loans of 11.26% with an ideal NPL rate of 5% should be a concern of PT. Adira Finance Baubau to deal with the sale of problem loans in the company.

To overcome the sale of problem loans, the company can anticipate it by updating the requirements and assessing the eligibility of potential customers when submitting car loans. In addition, management can also anticipate by physically pulling out problematic consumer vehicles, then reselling them, then the proceeds of the sale are used to cover the remaining consumer debt at the company. This quick response from management is expected to reduce the rate of non-performing loans until it reaches the ideal level below 5% as recommended by the Financial Services Authority.

5. Conclusion

Based on the purpose of research and discussion, it can be concluded as follows: (1) Accounting treatment of the sale of problem loans at PT. Adira Finance Baubau according to the results of interviews with leaders of PT. Adira Finance Baubau said that car loans with problems will be recorded by the company as operational losses. Assets in the form of cars from problematic sales will be withdrawn and repaired, then offered back to consumers. Proceeds from sales of used cars and other new cars are expected to cover the company's losses due to the sale of problem loans so that the performance of PT. Adira Finance Baubau will still look stable even though the company is haunted by the business risk of selling the problem loans; (2) Judging from the financial ratios, PT. Adira Finance Baubau is quite good. This is evidenced through the company's arrears ratio of 11.26% which can be suppressed with a billing ratio of 88.76%. Even so, a good credit quality according to the Financial

Services Authority is non-performing loans (NPLs) below 5%. This should be a concern of PT. Adira Finance Baubau to disrupt the sale of problem loans in the company.

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