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Account Receivable Flow Test to Prove Real Sales Case: A Study Case of a Tax Court Decision in Indonesia

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ABSTRACT

The data in the financial statements and the corporate tax return must be supported by accurate and valid evidence. When the Directorate General of Taxation (DGT) as a tax authority in Indonesia conducts a tax audit by an account receivable flow test (ARFT), the taxpayer net sales can be corrected to be larger due to a lack of evidence. This paper applied a case study of a tax court decision in Indonesia by a desk-based literature study. The DGT audited a taxpayer and produced a stipulation of additional taxable income. The taxpayer did not agree with the provision and the taxpayer filed an appeal to the tax court. This paper finds the taxpayer's unorganized and inaccurate bookkeeping leads the judges to reject the taxpayer's appealing.

Keywords: Account Receivable, Cash, Directorate General Tax (DGT), Sale, Taxpayer

INTRODUCTION

In conducting a company tax audit, tax auditors must ensure that reported company sales or revenues are correct. One of the usable test methods is the account receivable flow test, the formula of which used by tax auditors in Indonesia was regulated in the Directorate General of Taxation Circular Number SE-65/PJ/2013 concerning Guidelines for the Use of Audit Methods and Techniques (Directorate General of Taxation, 2013). Examining this formula can lead to disputes between tax authorities and taxpayers due to differences in the understanding and purpose of the rupiah value used in the formula. One of these differences of opinion is evident in the Tax Court Decision number PUT-009690.15/2018/PP/M.VIA of 2020 (Tax Court Panel, 2020). The Tax Court Decision explained that the DGT audited the income tax return of a taxpayer, PT. International Paint Indonesia for the fiscal year of 2015. From the results of the tax audit, several corrections led to a dispute between the DGT and the taxpayer, one of which is the addition of sales income.

The account receivable flows test showed two accounts in dispute: Other Income, and Non-Sales AR. The DGT did not include the Other Income as net sales within the account receivable flow test since the cash flow statement of the financial statements explained that it was the cash receipt of selling fixed assets. Based on the taxpayer data, it should be used in the test. The dispute was in the Other Income values as the

DGT and the taxpayer had different data sources. The DGT also did not include cash receipts from Non-Sales AR to calculate the net sales in the test and this treatment was based on the evidence provided by the taxpayer. The dispute occurred because the DGT and taxpayer had different AR Non Sales values that had to be adjusted. Upon the examination of the account receivable flow, the DGT stipulated a correction, and the taxpayers' net sales increased by IDR 4,385,705,313. Based on the data and facts at the court, the panel of judges decided that the DGT decision was correct and rejected the taxpayer's appeal. This paper discusses the taxpayer and the DGT arguments for the verdict of this tax audit as well as the explanation of the panel of judges.

The article finds that the taxpayer's record for the Other Income account was not adequately supported to provide evidence convincing the panel of judges to grant the taxpayer's petition. In the AR Non Sales account, there are alternative records to avoid multiple interpretations. AR Non-Sales is reimbursement of expenses issued by the taxpayer and affiliated companies. It is recorded by the taxpayer as a deduction for costs incurred. Since the recording was not well-organized, there was a different interpretation between the taxpayer and DGT. To avoid this, it is better to record the reimbursement costs as other income. This implies that well-organized recording under accounting principles reduces the different perceptions and provides fair and transparent information of the financial statements.

When shareholders have no direct role in running company operations, another party will be appointed as managers. This condition creates an agency relationship (Jensen & Meckling, 1976). To ensure that a company can grow and provide welfare to its shareholders, it is necessary to provide incentives to management. This incentive can increase the company's earnings per share (Graham, Hanlon, Shevlin & Shroff, 2014). For opportunistic management, the incentives only benefit management, rather than shareholders. This condition occurs if the management holds a lot of cash used more for personal interests than the shareholder interests (Jensen, 1986). Another paper explains that opportunistic management behavior does not necessarily result in company losses (Giriati 2016). Thus, managers' clear strategies may bring a positive influence on company value (Desai & Dharmapala, 2009; Khurana & Moser, 2013; Wang, 2011) as it reduces opportunistic managers.

Tax avoidance can also be implemented when no separation exists between management and owners, which may occur in micro, small, and medium enterprises (MSMEs). Sepriana (2021), using a sample of poultry companies in Blitar, highlighted the owners' awareness of tax avoidance. In this MSMEs company, strategic tax planning by reducing tax payments directly provides them with benefits.

Many strategies are applicable to increase company income, such as recording method choices. Management's performance is recorded by Generally Accepted Accounting Principles (GAAP) within the financial statements. The accounting records evaluate the management governance and strategies of increase shareholder welfare through the company value (Abreu, 2016). An easy strategy, profitable for

management, and unfavorable for shareholders is about accounting engineering. Particular methods of recording explain how much profit companies will obtain. Some of the management discretions are to record the changes in the increase of equity (Balsam, Haw, & Lilien, 1995) and to record the change effects of loan interest rates (Beatty & Weber, 2000). If a change to this recording method results in greater GAAP profit, it has a very significant effect on tax reporting. Tax regulations provide fewer options in choosing the recording method for calculating taxable income (Directorate General of Taxation, 2011). Therefore, a company may report a large GAAP profit but a loss on its annual tax return.

For individual business persons with no separation between the owner and the management, the choice of recording method does not have to measure performance. Observing Chinese business persons in Malang Regency, Windasari, Handayati, and Wardoyo (2020) found their accounting is for information, decision-making, and accountability purposes rather than to measure performance. Their direct involvement in the business operations allows this to occur and enables them to know the business' daily performance.

The DGT as a stakeholder of companies has an interest in the income tax paid by the companies as taxpayers. The taxpayers with a GAAP profit yet suffer a loss in the annual corporate income tax return become the target of a tax audit strategy to ascertain the fiscal losses are correct. Based on the tax theory, the tax audit is a tool of the tax authority to prevent tax evasion (Kuchumova, 2017). Tax audits on the annual corporate income tax return can reduce the desire of taxpayers to reduce taxes (Penata & Widyawati 2018). However, Dularif, Nurkholis, and Saraswati (2019) argued that tax audits cannot reduce taxpayer desire to implement tax evasion. This implies that the relationship between tax audit and taxpayer compliance is inconsistent, and is U-shaped (Mendoza, Wielhouwer, & Kirchler, 2017).

In addition to taxpayers' compliance and state revenues, tax audit influences the external information of other companies. It encourages audited companies and other companies of similar industries to be more efficient (Bayer & Cowell, 2016). Audited taxpayers will be more conservative in reporting their taxes and planning future taxes (Brushwood, Johnston, & Lusch, 2018). This conservative efficiency and reporting will certainly benefit shareholders as the management will be more careful with the tax planning. It reduces the difference between the commercial profit and the fiscal. It also prevents opportunistic management that expects more incentives based on commercial reports.

Good governance affects audit quality (Sailendra, Murwaningsari, Mayangsari, & Murtanto, 2020). Good governance will continue to strive to improve the quality of financial reports, such as by increasing the audit quality. The relationship between governance, auditing, and financial reporting is mutually sustainable.

To examine the accuracy of the sales report, tax auditors can use some methods. One of the methods is the account receivable flow test (Directorate General of Taxation,

2013). This method needs carefulness since there may be cash receipts not from sales and the taxpayer and the tax auditor may have a different perception of the cash receipts. To reduce the difference, it is beneficial to write clear and accurate account names and the records should be supported by valid evidence.

The figures in the audited financial statements can be trusted because public accountants put standard methods for their jobs, such as quality control of financial statement auditing (Indonesian Institute of Certified Public Accountants, 2013a) and auditor independence (Indonesian Institute of Certified Public Accountants, 2013b). If there is a difference in figures between the audited financial statements and other evidence, the figures in the audited financial statements are considered more reliable.

RESEARCH METHOD

This paper used a case study method of a tax court decision number PUT-009690.15/2018/PP/M.VIA of 2020 taken from the website of the Ministry of Finance's Tax Court Secretariat (Sekretariat Pengadilan Pajak, Kementerian Keuangan) on www.setpp.kemenkeu.go.id/risalah/IndexPutusan. It explains that the DGT examined the 2015 corporate income tax return reported by PT. International Paint Indonesia. The analysis was carried out by a desk-based study of related literatures. The tax court decision explains that the DGT made many corrections on the 2015 corporate income tax return and the tax audit was completed in 2017. The corrections made by the DGT consisted of corrections to income and expenses. This paper focuses on the correction of additional income. The discussion begins with explaining the facts at the court before discussing the disputed account of Other Income and AR Non-Sales.

The taxpayer’s net sales is examined by the DGT with the account receivable flow testing formula in SE-65/PJ/2013, namely:

Cash/bank settlement/receipt	+/+
Non-Cash/bank settlement/receipt	+/+
Ending balance of accounts receivables	+/+
Beginning balance of accounts receivables	-/-
Adjustments	+/-
Net Sales	xxx

RESULTS AND DISCUSSION

After examining on the taxpayer's documents in the form of general ledger, sales books, bank/cash books, and bank statements, the DGT made positive fiscal corrections so that the taxpayer's net sales have increased by Rp. 4,385,705,313. The DGT calculation was:

+/ Cash/bank settlement/receipt	Rp. 522,101,809,555
+/ Non-Cash/bank settlement/receipt	Rp. 159,666,894
+/ Ending balance of accounts receivables	Rp. 129,605,000,000
-/ Beginning balance of accounts receivables	Rp. 88,274,000,000

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-/ Value Added Tax – Sales	Rp. 42,042,667,064
-/ Adjustments	Rp. 5,213,615,475
Net Sales based on the formula	Rp. 516,336,193,910
Net Sales based on corporate tax return	Rp. 511,950,488,597
+/ Difference	Rp. 4,385,705,313

The DGT adjustments consisted of:

Accounts receivable write-off	Rp. –
Sales returns	Rp. 204,580,043
Withholding Income Tax Article 22/23	Rp. 3,443,562
Other Income	(Rp. 2,066,213,748)
Adjustments (Non-Sales, Non-Exchange rates)	(Rp. 2,802,207,384)
Non-Sales Accounts Receivable (AR)	(Rp. 553,217,949)
Total adjustments	(Rp. 5,213,615,475)

The taxpayer did not agree with the DGT's calculation, and it eventually became a dispute in the Tax Court for Other Income of IDR 2,066,213,748, and Non-Sales AR IDR 553,217,949

Disputes

Based on the taxpayer, the value of Other Income (Rp. 2,066,213,748) that is used by the DGT in the accounts receivables flow test is the value of losses due to sales of fixed assets. The DGT should have used a value of Rp. 2,948,405,949 representing the selling price and cash receipt for transfers of fixed assets.

The taxpayer explained that the Non-Sales AR (accounts receivables not from sales) were reimbursed for costs incurred by the taxpayer and its affiliation company as shared costs. When recording the addition of AR non-sales (debit) value, the credit side is each associated cost, so there is a reduction in costs. In this case, the Non-Sales AR account is not related to sales.

The taxpayer argued that there is a cash receipt into the Non-Sales AR of IDR 6,452,321,949, however, what the DGT calculated for the adjustment was only IDR 553,217,949. The DGT should have used a value of IDR 6,452,321,949, not IDR 553,217,949 for adjustments in the accounts receivable flow test (Tax Court Panel, 2020, p. 37). The non-sales AR value of IDR 553,217,949 was calculated by the DGT as other income which was not previously recognized by the taxpayer as other income. At the Court, the taxpayer submitted documents in the form of journals and records of Non-Sales AR by a total of IDR 6,185,315,949 (see Table 1). At the Court, the taxpayer did not submit supporting documents such as vouchers, invoices, proof of payment, and bank statements. There was no further information from the taxpayer about the difference in cash receipt of Non-Sales AR of IDR 267,006,000 (6,452,321,949 - 6,185,315,949).

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Table 1. Details of Non-Sales AR

No	Account Name	AR Non-Sales (IDR)	Mapping in Tax Return
1	PrePaym/ Advn to Suppl	(1.129.018.941)	Asset
2	Prepaid Func. Expenses	(367.898.961)	Asset
3	Freight out	(835.726.188)	Other Opex
4	Material Consumption	(47.217.600)	COGS
5	Delivery Costs-Addition	(252.373.497)	COGS
6	Inv Scrap – Raw Material	3.433.238	COGS
7	Salaries – Surcharges	(325.412.100)	COGS
8	Meals & Subsistence	15.512.400	COGS
9	Sponsoring	7.000.000	Opex
10	Postage & Courier Costs	(6.075.917)	COGS
11	Cust Claims/ Reimbursement	143.840.000	Other Opex
12	Penalties and Fines	(20.500.000)	Other Opex
13	Other Inc Tax	9.074.000	Other Opex
14	Other Operational Income	(2.362.345.843)	COGS
15	Charges Inside BU Income	(1.017.606.540)	Other Opex
	Total	(6.185.315.949)	

Source: Tax Court Decision No PUT-009690.15/2018/PP/M.VIA

At the court, one of the panels of judges believed that the taxpayer’s arguments were correct, contending that there was a receipt of money of IDR 4,333,127,147 (IDR 1,017,606,540 + IDR 3,315,520,607), which was a reimbursement for salary payments. When implementing the account receivable flow testing, the DGT put this into the account of sales.

The dissent was not deliberately resolved; thus, the decisions were made by a majority vote. The taxpayer cannot provide evidence that can convince all members of the panel of judges, so the panel rejects the taxpayer's request for the DGT correction of IDR 4,385,705,313.

When implementing the accounts receivable flow test, the DGT initially added all the money received, either through cash/bank account or non-cash/bank account. To determine the cash receipts of the net sales, an adjustment was made by deducting non-sales received. When making this adjustment, two items were disputed, the adjustments of Other Income and Non-Sales AR. By using the data from the taxpayer submitted in the court, the accounts receivable flow test according to the taxpayer version is:

+/ Cash/bank settlement/receipt	Rp. 522,101,809,555
+/ Non-Cash/bank settlement/receipt	Rp. 159,666,894
+/ Ending balance of accounts receivables	Rp. 129,605,000,000

-/ Beginning balance of accounts receivables	Rp. 88,274,000,000
-/ Value Added Tax – Sales	Rp. 42,042,667,064
-/ Adjustments	**Rp. 11,994,911,677**
Net Sales based on the formula	Rp. 516,336,193,910
Net Sales based on corporate tax return	Rp. 511,950,488,597
-/ Difference	**Rp. 2,395,590,889**

The adjustments that the DGT should make according to the taxpayer in this calculation consist of:

Accounts receivable write-off	Rp. –
Sales returns	Rp. 204,580,043
Withholding Income Tax Article 22/23	Rp. 3,443,562
Other Income	**(Rp. 2,948,405,949)**
Non-Sales and exchange rates adjustments	(Rp. 2,802,207,384)
Accounts Receivable (AR) Non Sales	**(Rp. 6,452,321,949)**
Total adjustments	**(Rp. 11,994,911,677)**

The taxpayer's data provided show that the net sales in the corporate tax return are smaller, of IDR 2,395,590,889, underlining a difference in net sales between the tax return and the results of the test. If the taxpayer is correct, there should be no difference in the amount. These results highlight an underdeveloped and invalid bookkeeping and records.

Other Income

In the audited cash flow statement, the taxpayer disposed of fixed assets resulting in a cash receipt of IDR 2,066,213,748 (Tax Court Panel, 2020). Based on the taxpayer's argument, there was a cash receipt (selling price) of IDR 2,948,405,949 of the disposal asset (Tax Court Panel, 2020). The taxpayer explained that there was a profit on the sale of fixed assets of IDR 2,066,000,000 (Tax Court Panel, 2020, p. 86) (similar to IDR 2,066,213,748). The taxpayer adjusted this profit and reported it to be nil in the corporate tax return. The taxpayer explained that there was a commercial profit, not a fiscal profit. This data explained that the taxpayer admitted a commercial profit of Rp. 2,066,000,000 and cash receipts from sales of fixed assets of Rp. Rp. 2,948,405,949 at the court.

The taxpayer's argument in court was inconsistent with that written in the cash flow statement audited by a public accountant with an unqualified opinion (Tax Court Panel, 2020, p. 9). In addition, the taxpayer could not assure the panel of judges that the actual cash received from the sale of the fixed assets was IDR 2,948,405,949, instead of IDR Rp. 2,066,213,748. Therefore, the judges rejected the taxpayer's appeal.

This DGT correction is veridical since they used the audited cash flow statement data as a correction source. The taxpayer's claim that the cash receipt of IDR 2,948,405,949 raised a question that how a difference occurred between the audited cash flow statement and the taxpayer's argument at the court.

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The taxpayer's inconsistent data in the audited financial statements and the corporate tax return created agency problems (Jensen & Meckling, 1976). The taxpayer management audited by the DGT provided information about the company profits of the audited financial statements and losses of the corporate tax return (Frank, Lynch, & Rego, 2009).

The management could expect incentives by presenting more earnings reports on the company's financial statement and reduce tax payments (Graham et al., 2014), by such as tax planning. As it is highly aggressive, it becomes the target of tax authority audits (Taxation Director General, 2020). It is a form of good governance enabling taxpayer's tax return report transparency.

Non-Sales AR

From the data, it is estimated that taxpayers implemented the Non-Sales AR recording method for expenses:

a. Cash disbursement at the recognition of expenses:
   ABC Expenses xxx
   Cash xxx
b. When the expense will be reimbursed by the affiliated company, the journal entry is:
   AR Non Sales xxx
   ABC Expenses xxx
c. When the taxpayer receives the cash from the affiliated company, it is noted:
   Cash xxx
   AR Non Sales xxx

The DGT adjusted the cash received in the account receivable flow test making cash receipt from the Non-Sales AR account of IDR 553,217,949 was not calculated as additional net sales. The taxpayer argued that the DGT should have adjusted the receipt of money recorded as AR Non Sales of IDR 6,452,321,94, instead of IDR 553,217,949. Table 1 presents the amount of money received from the AR Non-Sales account submitted by the taxpayer in the court of IDR 6,185,315,949. The taxpayer's claim and data details showed a different amount by IDR 267,006,000. (IDR 6,452,321,949 – IDR 6,185,315,949). This indicates the taxpayer's inconsistent record. Also, at the court, the taxpayer simply submitted details of the Non-Sales AR journal, without any supporting evidence and documents. The taxpayer also delivered a statement to support the argument. In this way, the taxpayer failed to convince the panel of judges.

Consequently, this Non-Sales AR journal entry is acceptable. However, the reliability, transparency, and accuracy of financial reports are a serious concern. The data in Table 1 suggests that the taxpayer's financial statements were less accurate and called for proper calculation of assets, Cost of Goods Sold (COGS), Net Operating Profit, and other incomes.

Item 1 and 2 in Table 1 explain that the asset values were reduced by IDR 1,496,917,902. The reduced asset values will affect the ratio analysis value and the depreciation expenses. In terms of ratio, return on asset (ROA) appears to be higher than it should be. This leads to a misinterpretation of the company's condition as the depreciation expense will be small. This indicates that the company provides a bigger operating profit than it should. Item 4,5,6,7,8,10, and 14 explain that the COGS value is reduced by IDR 3,012,370,595. This makes the gross profit margin ratio seems bigger than it should be and that the taxpayer managed to highly efficient production. This engineering also could affect the Input VAT (Value Added Tax).

Item 3,9,11,12,13, and 15 confirm that the values of the operating costs have decreased by IDR 2,033,746,728. This implies the company’s efficient operational cost management. This will increase the net income and affects ROA, return on equity (ROE), and earnings per share. The taxpayer incurs these costs to run its operations to earn income. This taxpayer’s recording method leads the readers of its financial statements to biased information.

At the court, the taxpayer explained that the costs reimbursed by the affiliated company are shared costs. The data in Table 1 shows that it is difficult to determine the joint-cost criteria. The results of the DGT examination explained that the reimbursement cost was only IDR 553,217,949 of IDR 6,185,315,949 (8.94%). The taxpayer could not provide convincing evidence about the AR Non Sales account. To reduce the risk of different interpretations, it is advisable to record this reimbursement cost as other income. The difference in recording cash receipts to replace these costs from cost deductions to other income made the taxpayer's financial statements clearer and more transparent. This financial statement can describe the amount of income and operational and non-operational expenses.

The taxpayer’s tax planning falls into accounting engineering (Balsam et al., 1995; Beatty & Weber, 2000). This Non-Sales AR recording aimed to explain to the shareholders that the management is highly effective and efficient in running the company so they can get incentives (Graham et al., 2014). Hence, the results of this tax audit signify that the taxpayers' bookkeeping was not well-organized and secretive.

CONCLUSIONS

The transactions recorded by companies must be clear and supported by complete and valid documents. When an examination is carried out, the figures in the financial statements are verifiable. When the DGT conducts a tax audit and the taxpayer is unable to provide sufficient evidence, the panel of judges will reject the taxpayer's appeal.

The differences between the figures of the audited financial statements and the data submitted by the company at the appeal hearing must be exactly the same. When discrepancies occur, the trusted data are those in the audited financial statements. Recording cash receipts from the affiliated company as reimbursement costs could be

recorded as other income. The cash receipts are less appropriate when recorded as deducting expense reimbursement. This reduced cost record can make financial statements less transparent and misstated. The ratio analysis used on these financial statements can be biased due to the misstatement.

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