

CHAPTER I

INTRODUCTION

1.1 Background of The Study

In the operational system, there are many problem and obstacles faced by company. These can be come from the internal and external factors. Most of the problem can be solved by the company. But, as we all know since the end of 2019, an unexpected disease outbreak appeared and it spread very quickly and soon stated on 11th March 2020 by World Health Organization (WHO) as the Global Pandemic and left whole world confused how to deal with it. This is one of the external factors that companies do not expected to come and COVID-19 disrupts companies activities. Many sales proceeds cannot be billed. On the other hand, the company is hampered in selling goods because the number of buyers is reduced and causing the products stuck in the warehouse. This incident is faced not only by small-scale companies but also by large-scale companies. But no matter what problems and obstacles that comes to a company, in the end there will be one problem to be overcome by the company, which is tax payment.

Many companies experience financial difficulties such as difficulties in collecting receivables and a lot of stuck inventory. This condition will affect the funds available in the company. Companies during the COVID-19 period will choose to implement tax avoidance to minimize tax payments. The company tries to minimize the payment of various costs including tax costs. And to survive through the COVID-19, company need to make savings.

There is a mandatory contribution that must be paid by individual or corporate taxpayers to the state that is coercive, without getting direct rewards and used for the prosperity of the people which known as tax. The taxes that are collected by the state are one of the source of funds used to finance government's expenditures as well as to implement policies both in the social and economic fields aimed at the prosperity of the people. Although it has been considered as a mandatory contribution to the state, in reality tax revenue is still below the target that has been set. Indonesia is a country that is known to obey the law, both customary law, doctrinal law, statutory law and tax law. The law of tax is kind of a set of rules to regulate taxation procedures starting from self-registration as a taxpayer, to payment and tax reporting. For ordinary people, paying taxes is actually considered a burden. Whereas taxes collected by the State will be returned in the form of infrastructure development solely for the welfare of the community.

Tax payments for most people who are considered a burden, actually raise interest for taxpayers in reducing the tax burden through legal methods or legalized by the state (tax avoidance). This is a regulation made by the government in order to help ease the imposition of taxes imposed on taxpayers which of course are still in accordance with the provisions that have been set. Tax revenue every year always does not reach the target, this is certainly not in line with the expectations of the government which wants high revenue every year. One of the factors that hinders tax revenue is the low level of taxpayer compliance.

Tax avoidance considered as a legal action as it does not violate any law and is able to obtain tax savings, namely, by utilizing it through the relaxation of the rules that have been set so as to save on tax expenses. In practice, this action is a serious and unique problem because on the one hand it is not wanted by the government and on the other hand, tax avoidance does not violate the law. Because, basically the methods and techniques used in this action are only by exploiting the loopholes contained in the applicable tax regulations. Directorate General of Taxes is not authorized to prosecute tax avoidance practitioners in the legal realm, so it can be concluded that the applicable Tax Laws and Regulations are still less stringent, thus supporting and providing opportunities for companies to practice tax avoidance. This is what can trigger many cases of tax avoidance practices that occur in companies that go public. The company will be indicate to do tax avoidance if there is an engage in an aggressive tax planning strategy to minimize, eliminate or delay its tax obligations. This phenomenon implies that there is actually a feeling of displeasure for the company to pay taxes, because the company feels that it does not get a direct reward that can provide benefits. (Mulyani, et.al., 2020).

The strategy that is often used by companies to streamline the tax burden is to do tax avoidance, where this strategy is tax avoidance by not violating the boundaries of existing rules. This strategy is not included in the type of avoidance or evasion, because avoidance from paying taxes is a reflection of a reluctance to participate in implementing national cooperation, but rather towards regulating so that the tax paid is not more than the amount that should be.

By carrying receivable, there will be both direct and indirect costs. An important process for a corporation and requires a well-designed and well-implemented policy in collecting account receivables. To detect potential problems such as would be indicated by slow payments, payments of accounts receivable should be closely monitored. The important function of the credit department is to follow up on slow paying customers. There is a need of carefully developed and consistently implemented procedures. No matter what size of the company, account receivable management is very important. The level of profit on a company will be impacted by the way they manage their. Credit policy and the procedure of collection does give a strong effect to the management of accounts receivable. There are specifies requirement to value the worth of customers in a credit policy and provided guidelines to collect unpaid invoice in collection procedure that will decrease the delay of customers with outstanding receivable. (Yanti, 2020).

The management of accounts receivable has an impact on the company's profitability. In accounts receivable management, there should be a consideration of a cost associated with holding receivable balances as the credit terms offered have a direct bearing on the costs associated also a revenue to be generated from the accounts receivables. The increasing sales and higher investment amount in accounts receivable are able to increase revenue as well as profits. But it will cause the costs and cause additional bad debt losses to increase as well. So, the solution to minimize the losses of bad debt, a detailed review of a customer should be conducted prior to give or extend the credit to customers and collection

efforts should be undertaken to customer. The reduction in bad debt losses also can be caused by the growth in profitability. The reduction in bad debts is also can be attributed to the receivables management policy. Each year, the strategy of account receivable management in company should revised, collection methods must be improved, and finds new ways in improving credit recovery. The optimal receivables management policy ensures that cash collection can be done quickly that can be used to expand and invest in productive activities. (Yanti, 2020).

Inventories are a type of current asset that is expected to be liquidated as cash or accounts receivable in a year or less. As a result, it constitutes a significant portion of the assets of business firms. In reality, inventories are goods that are stocked and have a resale value in order to profit. It displays the companies' highest costs. Thus, it should be managed so that inventories are available at the right time and in the right quantity. Inventory is a stock of resources that are held for sale and/or future production. It can also be viewed as an idle resource with economic value. As a result, better inventory management would free up capital for more productive uses. Inventory control entails coordination. (Nasution and Mulyani, 2020).

This research is done to food and beverage companies listed on the Indonesia Stock Exchange. The company must have good financial health so that it can develop and expand the business in the upcoming period. The company should increase the profit in order to conduct the business with sufficient fund. The highly profitable company has the ability to reward its owners with the large

return on their investment. The operating cycle in food and beverage companies is as follows:

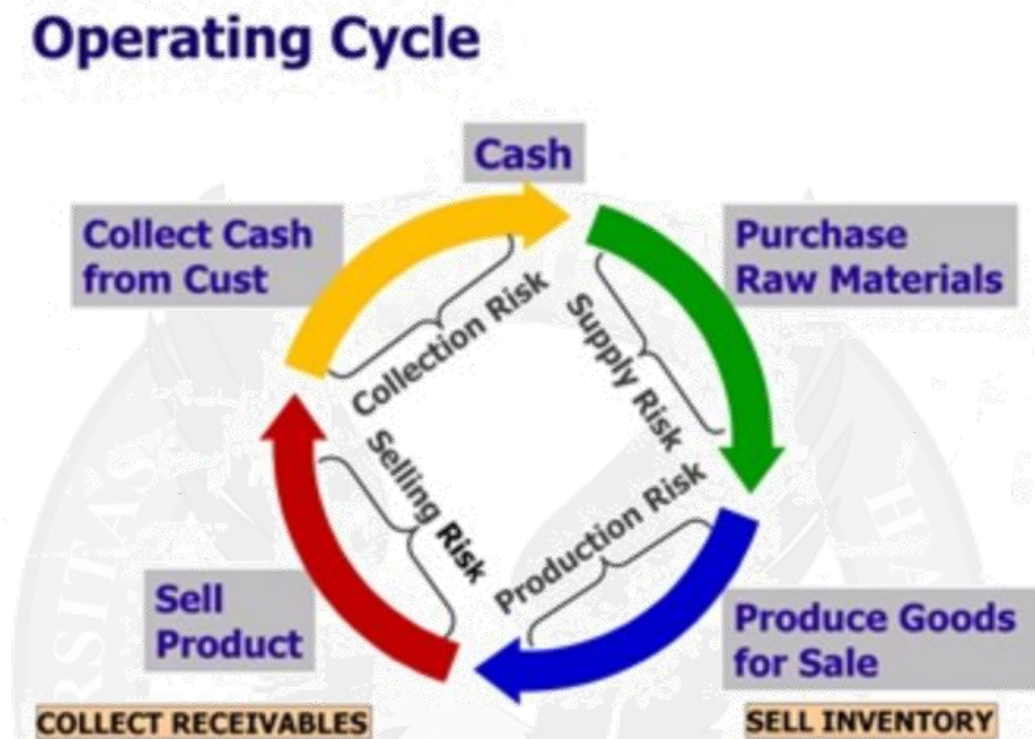


Figure 1.1 Operating Cycle of Food and Beverage Company.

Source: Prepared by Writer (2022)

It can be seen that the food and beverage company begins the business with purchasing the raw material. The purchasing of raw material has supply risk because the company can obtain low quality of material and high purchase price. This condition can increase the cost of production that can decrease the profit. After obtaining raw material, the company can conduct the production of product. The slow the production of product can increase the inventory turnover. The production of low quality of product and unsuitable product based on customer demand can decrease the inventory turnover because the there is high inventory

turnover. After production of product, the company can conduct the sales. There is selling risk such as the company's competitor and improper marketing strategy. The increasing of company sales can be done with increasing credit sales. After sales of product, the company should collect the account receivable. The high credit sales can increase the account receivable that can cause the increasing of uncollectible account receivable. The high account receivable also has significant impact to increase the administration cost and collection cost. The company needs the cash. The cash flow of a company can be impacted by the slow collection of account receivable. The low account receivable turnover can decrease the profit because there is increasing of cost in collection of account receivable and the company will obtain fund from loan because the company cannot convert the account receivable to cash. This condition can decrease the profit.

Food and beverage companies have problem in inventory turnover and account receivable turnover rather than average industry. The company optimizes asset to increase revenue. The company wants to develop firm size. The company can face tax payment because the tax payment is part of company's payment. The company should maintain account receivable turnover and inventory turnover with average industry in order to maintain financial condition.

The high account receivable turnover can increase the profit and it can increase the tax payment. The high inventory turnover can increase the profit and it can increase the tax payment. The food and beverage company with high firm size can allocate the resource in conducting tax avoidance.

The company can conduct tax avoidance with considering the tax regulation. At the year 2021, the government has determined the harmonization of tax regulation number 7 of 2021. The regulation can be utilized by the company to conduct tax avoidance with utilizing the weakness of tax regulation. The large company can utilize the resource with tax consultant or tax expert to reduce the tax. The effort of tax avoidance can provide effect for the company to obtain tax saving from tax avoidance.

The COVID-19 pandemic has a significant economic impact not only in Indonesia, but also globally. The economic downturn may have an impact on company product sales. The company's financial performance will undoubtedly suffer as total sales decline. Due to financial difficulties, some businesses have even been liquidated. COVID-19 has become a global pandemic, and its duration is unknown. As entire countries close down, social life is significantly reduced around the world, which has a negative impact on economic activity. The uncertainty about how long this situation will last adds to the difficulty of formulating a succinct response. As a result, it is critical for businesses to be proactive in assessing their risk and vulnerability from both perspectives.

Based on description on the background of study, the writer has interesting in conducting the research with title **“The Impact of Account Receivable Turnover and Inventory Turnover on Tax Avoidance with Firm Size as Mediating Variable in Food and Beverage Companies Listed on the Indonesia Stock Exchange.”**

1.2 Problem Limitation

The research has focus on analysis of account receivable turnover as well as inventory turnover as independent variable, a dependent variable which is tax avoidance and a mediating variable which is firm size. The object of this research is food and beverage companies listed on the Indonesia Stock Exchange. The focus on period is 2019-2021. The indicators for the dependent variables are account receivable turnover ratio and inventory turnover ratio. While for the indicator of tax avoidance is cash effective tax rate. Last, the indicator of firm size is logarithm natural of total asset.

1.3 Problem Formulation

Problem formulation in this research are as follows:

1. Does account receivable turnover have significant impact on tax avoidance in food and beverage companies listed on the Indonesia Stock Exchange?
2. Does inventory turnover have significant impact on tax avoidance in food and beverage companies listed on the Indonesia Stock Exchange?
3. Does account receivable turnover have significant impact on tax avoidance with firm size as mediating variable in food and beverage companies listed on the Indonesia Stock Exchange?
4. Does inventory turnover have significant impact on tax avoidance with firm size as mediating variable in food and beverage companies listed on the Indonesia Stock Exchange?

1.4 Research Objective

The objective of the research is as follows:

1. To determine the impact of account receivable turnover on tax avoidance in food and beverage companies listed on the Indonesia Stock Exchange.
2. To determine the impact of inventory turnover on tax avoidance in food and beverage companies listed on the Indonesia Stock Exchange.
3. To determine the impact of account receivable turnover on tax avoidance with firm size as mediating variable in food and beverage companies listed on the Indonesia Stock Exchange.
4. To determine the impact of inventory turnover on tax avoidance with firm size as mediating variable in food and beverage companies listed on the Indonesia Stock Exchange.

1.5 Benefit of the Research

The benefits of research is as follows:

1.5.1 Theoretical Benefit

1. This research is expected to give a contribution in adding reading material for students of Universitas Pelita Harapan Medan.
2. This research can give benefit in understanding the theory of accounting, financial and tax.

1.5.2 Practical Benefit

1. For the author, this research is expected to provide benefits in adding insight to the author in the field of accounting and finance, especially accounts receivable turnover and inventory turnover.

2. For companies, this research is expected to provide benefits in terms of input in increasing the company's tax avoidance through account receivables turnover and inventory turnover.
3. For further researchers, this research is expected to provide benefits as reference material for further research on the same topic.

