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Analysis of Liquidity, Solvency, Profitability and Activity Ratios as an Assessment of PT Financial Report Performance. Sinar Agro Raya

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Abstract:
Financial reports are records of financial information that can be used to describe the performance of a business, especially in the financial sector. On the other hand, for management, financial reports are used as evaluation documents in the decision-making process or future policies. Financial report analysis is a tool used to understand the problems and opportunities contained in financial reports. This scientific work aims to calculate and analyze the financial performance of PT. Sinar Agro Raya for the period 2018 – 2020. The analysis method used is a quantitative descriptive method and technical data analysis using Liquidity, Solvency, Profitability and Activity ratios by comparing financial reports from previous years. Financial performance at PT. Sinar Ago Raya, according to research results summarized based on the average Current Ratio, Quick Ratio and Cash Ratio in the last 3 years, is below the industry standard ratio, which means it has very poor financial performance.

Keywords: financial reports, financial ratios

BACKGROUND

Financial reports are records of financial information that can be used to describe the performance of a business, especially in the financial sector. Meanwhile, for management, financial reports are used as evaluation documents in making decisions or making policies for the future . Financial performance can be measured using financial ratios which compare the company's financial position and operational performance. (Tiranda, et al, 2023).

Analysis of liquidity, solvency, profitability and activity ratios is an important part of evaluating a company's performance based on financial reports. Following is a brief explanation of these ratios and their function for performance evaluation:

1) Liquidity Ratio: This ratio measures a company's ability to use current assets to meet short-term financial obligations. Current Ratio (current ratio) and Quick Ratio (quick ratio) are examples of liquidity ratios. A high liquidity ratio indicates that the company can easily meet short-term obligations. As shown by surveys (Riyanto & Maisharoh, 2021), liquidity benefits financial performance. Another study (Fajaryani and Suryani 2018) found that business performance is not influenced by liquidity.

2) Solvency Ratio: This ratio assesses a company's ability to meet long-term obligations and other financial claims. Examples of solvency ratios are the debt to equity ratio (or debt to equity ratio) and the interest cover ratio (or interest cover ratio). A healthy solvency ratio shows how well a company can manage and pay off its long-term debt. According to Richard A. Brealey Stewart C. Myers (2014), the amount of liabilities that must be borne by an economic sector is proportional to its solvency ratio. Previous studies show that solvency has a negative impact on financial performance (Amanda and Riyantob 2019), but a survey (Asniwati 2020) found that the solvency ratio does not affect financial performance.

3) Profitability Ratios: These ratios measure how efficiently and capable a company is at generating profits from various levels of assets and activities. Ratios such as Return on Assets (ROA) and Return on Equity (ROE) are examples of profitability ratios. A high profitability ratio shows that the company is efficient in generating profits from investments and operations. Good companies have positive profitability or show profits that allow them to continue operations and increase their value, which makes it easier for them to obtain funding from external parties, whether in the form of loans or other sources of financing. Previous studies show that profitability ratios have a positive impact on a company's financial performance (Candra et al., 2020), but Tuti said that profitability does not have a significant impact on financial performance.

4) Activity Ratio: This ratio shows how effectively a company uses its assets to generate revenue and sales. Examples of activity ratios are the Total Asset Turnover Ratio (total asset turnover ratio) and the Inventory Turnover Ratio. A high activity ratio shows that the company uses and manages its assets well. . When asset value is low These assets have a very large surplus at a given level of sales. Unused funds should be invested in more productive assets. Previous studies show that the activity ratio positively influences financial performance (Indawati and Anggraini 2021), but other research (Malikah et al. 2022) finds that the activity ratio does not significantly influence financial performance.

This ratio analysis provides an overview of current financial performance and helps in making strategic decisions about what to do for future progress and improvement. For example, if the liquidity ratio is low, management may have to consider cash management policies or financing strategies. Likewise, if profitability ratios decline, there will be considerations for pricing, cost, or resource allocation strategies. Therefore, analysis of liquidity, solvency, profitability and activity ratios is an important tool in financial management that helps businesses achieve short-term and long-term financial goals.

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THEORETICAL FRAMEWORK

Understanding Financial Performance

According to Kurniasari (2014:12), financial performance is the financial performance achieved by the company and is reflected in the company's financial reports. The company's financial performance can be assessed using analytical tools **.**

Performance is a description of the results achieved when carrying out an activity or program in order to achieve the goals, mission and vision of an organization. Performance measurement is a formal effort to measure the performance and efficiency of a business in generating profits and cash. Hery (2015:25). Meanwhile, according to Ardhy Pratiwi S, (2009) financial performance can be used as a measuring tool to measure a company's health (*financial health*). Financial performance can also be used as a subjective measurement medium that can describe the effectiveness of the company's use of assets in increasing income from the main business it runs.

According to Sujarweni (2017:3) the objectives of financial performance assessment are as follows:
1. Measuring the company's overall achievements over a certain period of time;
2. Evaluate the performance of each department that contributes to the company as a whole;
3. Serves as a basis for determining the company's strategy for the future; And
4. Provide guidance in decision making and general company activities.
5. As a basis for determining capital investment policies in order to increase company efficiency and productivity.

Understanding Financial Ratio Analysis

Financial ratios are the level of comparison between financial reports and other important and relevant financial report items. This ratio has the ability to convey information and can be used as a basis for assessing the company.

According to Harvarindo (2010), a ratio is a number that is compared with another number as a relationship. Golin (2001) believes that a ratio is a number depicted in a pattern that is compared with other patterns and expressed as a percentage. Meanwhile, finance is something related to accounting, such as financial management and financial reports.

According to (John J. Wild KR Subramanyam & Robert F. Halsey, 2005) ratio analysis is one of the most popular and widely used financial analysis tools. Ratio analysis can reveal important relationships and become a basis for comparison in finding conditions and trends that are difficult to detect by studying the individual components that make up the ratio. Financial ratio analysis is an analysis used to determine the relationship between certain items in the balance sheet report, individual profit and loss report, or a combination of both balance sheet and individual profit and loss reports. Financial ratios are designed to assist users in evaluating financial reports using balance sheet and income statement data. (Brigham and Houston, 2010). Therefore, financial ratio analysis is the process of observing indexes related to accounting in financial reports such as balance sheets, profit and loss

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reports and cash flow reports with the aim of assessing the financial performance of a company. This analysis is used to provide information about the financial position and performance of a company, which can be used as a guide in making business decisions.

According to Irham Fahmi (2012:109) the benefits that can be taken by using financial ratios are:
1. To be used as a tool for analyzing company performance and achievements.
2. For management as a reference for making plans.
3. As a tool to evaluate the condition of a company from a financial perspective.
4. For creditors, it can be used to estimate the potential risks faced
associated with a guarantee of continuity of interest payments and return of principal.
5. As an assessment for organizational stakeholders .

Types of Financial Ratios

to Kasmir (2014:119), there are several types of methods for measuring liquidity ratios , as follows :
1. Current Ratio
Current Ratio is a ratio to measure the Company's ability to pay its short - term obligations or debts that will soon be due when the balance is collected in full . By calculating this ratio , it can be an important way to find out if the company can pay all its debts at the time that has been determined .

Current Ratio can be calculated using the ka n formula :

Current Ratio = $$\frac{Aset\ Lancar}{Liabilitas\ Lancar}$$

2. Quick Ratio (Quick Ratio)
Quick Ratio is a ratio that shows the company's ability to pay its current obligations or debt with assets smoothly without take into account inventory value .

The Quick Ratio can be calculated using the formula:

Quick Ratio = $$\frac{Aset\ Lancar - Persediaan}{Liabilitas\ Lancar}$$

3. Cash Ratio
The Cash Ratio is used to measure how much amount of cash available to pay debts. The availability of cash can be shown from its availability fund cash or cash equivalent. It can be said that this ratio shows the company's ability to pay its short-term debts.

The Cash Ratio can be calculated using the formula:

Cash Ratio = $$\frac{Kas + Bank}{Liabilitas\ Lancar}$$

No	Jenis Rasio	Standar Industri	Kriteria
1	*Current Ratio*	200%	Sangat baik
		150%	Baik
		100 %	Cukup baik
		50%	Kurang baik
		<50%	Sangat kurang baik
2	*Quick Ratio*	150%	Sangat baik
		100%	Baik
		50%	Cukup baik
		25%	Kurang baik
		<25%	Sangat kurang baik
3	*Cash Ratio Ratio*	50%	Sangat baik
		30%	Baik
		25%	Cukup baik
		10%	Kurang baik
		<10%	Sangat kurang baik

Sumber: Kasmir (2018)

Figure 1. Industry Standard Liquidity Ratios

According to Kasmir (2014:115) There are generally four main types used in assessing the level of Profitability, including:

1) Return On Investment

Return on Investment is a ratio that shows the results of the amount of money used in a business or the results of management efficiency. Investment returns (ROI) are calculated based on the ratio of returns from various resources used by the company. Additionally, Return On Investment is very important for businesses considering their next steps.

Return On Investment can be calculated using the formula:

$$ROI = \frac{Laba\ setelah\ Pajak}{\text{Total assets}} \ X\ 100\%$$

2) Return On Equity

According to Kasmir (2014:115) Return on Equity is the return that the company prints for shareholders. Return On Equity shows how much large contribution of equity in creating profits clean. This ratio shows the percentage level generated by ROE which is very important for investors shareholders because a high ROE means something too An increase in ROE will cause an increase in shares.

Return On Equity can be calculated using the formula:

$$ROE = \frac{Laba\ setelah\ Pajak}{\text{Total Equity}}\ X\ 100\%$$

3) Net Profit Margin

Net Profit Margin is a measure used to monitor Profitability. Net Profit Margin measures how much Many operational profits are obtained from each sale. The greater this ratio, the better because of the company's ability to earn profits through quite high sales as well the company's ability to reduce its costs pretty good.

Return Net Profit Margin can be calculated by the formula:

$$NPM = \frac{Laba\ \text{Net}\ setelah\ Pajak}{\text{Sale}}\ X\ 100\%$$

NO	Jenis Rasio	Standar	Keterangan	Standar	keterangan
1.	*Return On Equity*	<40%	Kurang baik	≥40%	Baik
2.	*Return On Investment*	<30%	Kurang baik	≥30%	Baik
3.	*Net Profit Margin*	<20%	Kurang baik	≥20%	Baik

Sumber: Kasmir (2019)

Figure *2* . Industry Standard Profitability Ratios

According to Weston (Kasmir, 2016: 150), the solvency ratio is a ratio used to measure the extent to which a company's assets are financed with debt and to measure the company's ability to pay all its obligations, both short and long term if the company is liquidated (dissolved). The ratios used include:

1) Debt to Asset Ratio (*Total Debt to Asset Ratio*)

This ratio measures how much of the company's assets are financed by debt or how much the company's debt can affect asset management.

Total Debt to Asset Ratio can be calculated using the formula:

$$\text{Debt to Assets Ratio} = \frac{\text{Total Liabilities}}{\text{Total assets}} X\,100$$

2) Debt to Equity Ratio (*Total Debt to Equity Ratio*)

This ratio will show the relationship between the amount of long-term debt and the amount of own capital provided by the company owner, to determine the amount of funds provided by creditors to the company owner.

Total Debt to *Equity Ratio* can be calculated using the formula:

$$\text{Debt to } \mathit{Equity\ Ratio} = \frac{\text{Total Liabilities}}{\text{Owner's equity}} X\,100$$

Companies can use activity ratios to measure how effectively and efficiently the company manages its assets. Brigham and Houston (2009) say that the activity ratio can be used to measure company performance and compare the level of sales with investment in assets over a certain period of time. Management can measure how effectively and efficiently the company manages its assets. Brigham and Houston (2009) there are several activity ratios that are commonly used, namely:

1) Inventory Turnover Ratio (*inventory turnover ratio*)

Is a ratio calculated by dividing sales by inventory .

Inventory Turnover Ratio can be calculated using the formula:

$$\text{Inventory turnover ratio} = \frac{\text{Sale}}{\text{Supply}} X\,100$$

2) Fixed Asset Turnover Ratio (*fixed assets turnover ratio*)

Is a ratio used to measure how effectively a company uses its factories and equipment. This ratio is the ratio of sales to net fixed assets.

Fixed assets Turnover Ratio can be calculated using the formula:

$$\text{Fixed asset turnover ratio} = \frac{\text{Sale}}{\text{Net Fixed Assets}} X\,100$$

3) Total Asset Turnover Ratio (*total assets turnover ratio*)

Is a ratio used to measure the turnover of all company assets. This ratio is calculated by dividing sales by total assets.

Total assets Turnover Ratio can be calculated using the formula:

$$\text{Total assets turnover ratio} = \frac{\text{Sale}}{\text{Total assets}} X\,100$$

METHOD

The type of research used in this research is quantitative research.
Quantitative research is a process of discovering knowledge using data form numbers as a tool for analyzing information about what what you want to know.
According to Arikunto (2019: 27) quantitative research is a research method that, as the name suggests, requires a lot of use of numbers, starting from data collection, interpretation of data as well appearance of the results.

Data analysis techniques are used, namely quantitative descriptive analysis techniques, namely number-based data that includes financial reports at PT. Sinar Agro Raya 2018 -2020 which describes long-term situations or events in the company.

RESULT

The following are the results of a comparison of ratios on PT's financial performance and performance . Sinar Agro Raya is used to measure liquidity ratios, namely Current Ratio, Quick Ratio, Cash Ratio , Profitability Ratio, namely Return On Equity , Return On Investment. Return Net Profit Margin. The Solvency Ratio is the Debt to Asset Ratio , the Debt to Equity Ratio, and the Activity Ratio, namely the Inventory Turnover Ratio, Fixed Asset Turnover Ratio, Total Asset Turnover Ratio.

1. Liquidity Ratio

a. Current ratio (current ratio)

YEAR	RATIO
2018	2,782
2019	3,316
2020	1,498

2. Profitability Ratio

a. Net Profit Margin

YEAR	RATIO
2018	0.050
2019	(0.001)
2020	(0.058)

b. Quick ratio (quick ratio)

YEAR	RATIO
2018	2,558
2019	3,043
2020	1,236

c. Cash Ratio (Cash Ratio)

YEAR	RATIO
2018	0.298
2019	1,063
2020	0.359

b. Return on Assets (ROA)

YEAR	RATIO
2018	0.116
2019	(0.002)
2020	(0.107)

c. Return on Equity (ROE)

YEAR	RATIO
2018	0.932
2019	(0.016)
2020	(0.833)

3. Solvency Ratio

a. Ratio of total debt to assets (Debt to Asset Ratio)

YEAR	RATIO
2018	0.247
2019	0.230
2020	0.337

b. Total debt to equity ratio (Debt to Equity Ratio)

YEAR	RASO
2018	1,978
2019	1,799
2020	2,633

4. Activity Ratio

a . Inventory Turnover Ratio

YEAR	RATIO
2018	48,429
2019	28,733
2020	24,112

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b . Fixed Assets Turnover Ratio (Fixed Assets Turnover Ratio)

YEAR	RATIO
2018	6,095
2019	4,432
2020	6,046

c . Fixed Assets Turnover Ratio (Fixed Assets Turnover Ratio)

YEAR	RATIO
2018	2,326
2019	1,507
2020	1,834

YEAR	CURRENT ASSETS	TOTAL ASSETS	SUPPLY	INCOME	CURRENT LIABILITIES
2018	98,128,207,097	164,246,416,028	7,889,844,713	382,099,329,335	35,272,574,031
2019	102,423,308,649	160,243,009,157	8,406,216,686	241,539,348,189	30,891,587,378
2020	69,714,125,159	160,279,020,078	12,194,385,689	294,029,668,353	46,523,262,327

YEAR	CASH AND BANK	CAPITAL	NET PROFIT AFTER TAX
2018	10,500349,213	20,510,000,000	19,117,418,127
2019	32,847,892,438	20,510,000,000	(319,249,953)
2020	16,694,455,060	20,510,000,000	(17,088,771,573)

Figure *3* . Source: Processed Data

DISCUSSION

Based on the results of the analysis, the following conclusions can be drawn :

a) PT's financial performance. If you look at Sinar Agro Raya from its Current Ratio, it can be considered not good, because the Current Ratio is still far from the average industry standard. So the company can be said to be not good at paying current debts when they fall due.

b) Financial performance of PT. If you look at the Quick Ratio, Sinar Agro Raya can be considered not good because from 2019 - 2020 it experienced a decline and is still far from the industry standard average, so the company can be said to be not good at using current assets without inventory to pay short-term debt.

c) Financial performance of PT. If you look at Sinar Agro Raya from its Cash Ratio, it can be considered less good because it is still below the industry standard average.

d) Financial performance of PT. Sinar Agro Raya, if seen from Return On Equity, Return On Investment, Net Profit Margin, can be considered less good because it is far from the average industry standard.

CONCLUSION

Based on the conclusion above, then Suggestions that can be given are as follows:
It is best for companies to be able to improve and maintain financial performance from various aspects such as liquidity ratios, activity, solvency and profitability.

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