AMSIR MANAGEMENT JOURNAL
Volume 4 Nomor I, Oktober 2023. E-ISSN: 2807-2529

Financial Performance Analysis Based on Liquidity and Profitability Ratios

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ARTICLE INFO

Keywords:
Financial Performance, Liquidity Ratio, Profitability Ratio.

How to cite:
U.L. Nisrina., St. N. Yusuf, N. Aliyah. (2023), Financial Performance Analysis Based on Liquidity and Profitability Ratios. Amsir Management Journal. 4(1), 22-28.

DOI:
10.56341/amj.v4i1.250

ABSTRACT

This study examines the company's performance based on profitability and liquidity ratios at CV Alfaiz Putra Mandiri. CV Alfaiz Putra Mandiri is a trading company that sells furniture materials, namely HPL (High Pressure Laminated). This study aims to analyze financial performance based on liquidity and profitability ratios at CV Alfaiz Putra Mandiri. The method used is quantitative method. The type of research used is field and library research by applying document analysis data collection techniques and interviews. Based on the analysis of the liquidity ratio of CV Alfaiz Putra Mandiri, the company's financial performance is quite good. This is due to the increase in current assets from year to year. However, current debt has also increased from year to year which offsets the increase in current assets. Based on the profitability ratio analysis, the company's financial performance is not good enough. This is because the increase in sales is not matched by the increase in profits generated and there are still many costs incurred for the company's operational needs so as not to generate optimal profits.

1. Introduction

The role of the business world is a supporter of the success of national economic growth, and the most fundamental aspect of this role is the contribution of the private business sector to various economic fields, especially concerning value-added enhancement, job opportunity expansion leading to increased national economic growth. The current condition of the private economy fundamentally exhibits a highly competitive economic dynamic, posing a distinct challenge to the business world, which is demanded to enhance

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its efficiency and business probabilities to ensure company continuity.[4]

Generally, every company has specific objectives to achieve, which involve seeking profit or gains, which is an essential requirement in ensuring the continuity and growth of the company. In order to attain these objectives, there needs to be a well-organized and integrated collaboration among the functions within the company, including financial, production, marketing, and others.[5]

Several companies are starting to realize the importance of performance analysis on their financial statements. Performance analysis, followed by the assessment of company performance, can be utilized by stakeholders to manage operations, aid decision-making, identify resource needs, determine development, and provide information for employee recognition. Evaluating a company's financial performance is crucial in the planning, funding, and financial control processes.[6]

Performance analysis of financial statements is carried out using financial statement analysis techniques. Financial statement analysis involves calculating ratios from the company's financial data, which are used to assess its financial condition in the past. In conducting performance measurement based on ratio analysis of financial statements, there are several methods that can be used, such as liquidity, solvency, activity, and profitability ratios.

Ratio analysis can reveal the good or poor financial performance of a company, thus management needs to understand the cause and effect of financial performance results in a detailed and structured manner, as well as how to improve its performance. The performance analysis methods that can be used include Liquidity and Profitability Ratios.

One of the companies that can apply these methods in conducting performance analysis is CV Alfaiz Putra Mandiri. This company is located at Jalan Gubeng Kertajaya VIIE/46 Surabaya and is engaged in trading HPL (High Pressure Laminate). This HPL product is imported from China. CV Alfaiz Putra Mandiri conducts its business process by first receiving orders from customers.

CV Alfaiz Putra Mandiri achieved sales of Rp8,163,290,785.00 in 2020. In 2021, sales increased to Rp10,247,105,887.00. Furthermore, in 2022, sales also experienced an increase, reaching Rp18,144,083,876.00. Despite the company's increasing sales each year, the generated profits did not rise proportionally. The company's profits fluctuated. For instance, in 2020, the generated profit amounted to Rp237,793,512.63. In 2021, the company's profit saw an increase of Rp367,552,333.29. However, in 2022, the company's profit decreased by Rp147,885,739.47.

Initial interviews with the company's management revealed that financial statement analysis had never been conducted. This insight was gained from the explanation provided by the management, indicating that the company hadn't achieved optimal profits due to a lack of awareness regarding the sources of cost increases or reductions that could influence the rise or fall of the company's profits.

2. Literature Review

A financial report is an information that describes the financial condition of a

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company, and furthermore, this information can be used as an overview of the financial performance of the company.[7] The overall purpose of financial statements is to provide useful information to investors and creditors in making investment and credit decisions. The specific objectives of financial statements are to present the financial position, results of operations, and other changes in financial position fairly and in accordance with generally accepted accounting principles.[8] Performance measurement is a process of assessing the progress of work against predetermined goals and objectives, including information on the efficiency of resources in producing goods and services.[9] Financial statements cannot yet be considered to fully represent the overall financial condition of the company. This is due to the existence of matters that are not yet or are not recorded in those financial statements. For example, there are sales or purchase contracts that have been agreed upon, or orders that are not influenceable but have not been reported in the financial statements for that period. Additionally, there are aspects that cannot be expressed in numbers, such as reputation, managerial performance, and others.[10] Financial statement analysis is the application of tools and techniques for analyzing general-purpose financial statements and related data for the purpose of making estimates and meaningful conclusions in business analysis.[11] Financial ratios are figures obtained from the comparison of one item in the financial statement with another item that has relevant and significant (meaningful) relationships.[12]

3. Method

This research employs a qualitative research approach using the observation method. The observation method is one of the data collection techniques conducted through observing and recording the conditions or behaviors of the target object. Data collection is carried out through the collection of documents or records from the company, in the form of financial reports for the past three years, namely from 2020 to 2022. Additionally, interviews were conducted regarding the issues faced or occurring in the company. The analysis technique used in this research involves measuring financial performance through liquidity and profitability ratios.

3. Results and Discussion

1. Liquidity Ratio Calculation
   a. Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Debt}} x100\%$$

$$\text{Year 2020} = \frac{\text{Rp934.587.025,08}}{\text{Rp559.488.069,19}} x100\% = 167\%$$

$$\text{Year 2021} = \frac{\text{Rp843.056.971,23}}{\text{Rp100.405.682,05}} x100\% = 840\%$$

$$\text{Year 2022} = \frac{\text{Rp3.239.304.983,82}}{\text{Rp2.363.047.955,17}} x100\% = 137\%$$

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Table 1 Liquidity Ratios Based on Current Ratio at CV Alfaiz Putra Mandiri for the Years 2020-2022

Year	Current Asset		Current Debt		Current Ratio
2020	Rp	934.587.025,08	Rp	559.488.069,19	167%
2021	Rp	843.056.971,23	Rp	100.405.682,05	840%
2022	Rp	3.239.304.983,82	Rp	2.363.047.955,17	137%

Source: Processed data, CV Alfaiz Putra Mandiri

b. Quick Ratio

$$\text{Quick Ratio} = \frac{\text{Current Asset} - \text{Inventory}}{\text{Current Debt}} x100\%$$

$$\text{Year 2020} = \frac{\text{Rp934.587.025,08} - \text{Rp272.180.000,00}}{\text{Rp559.488.069,19}} x100\% = 118\%$$

$$\text{Year 2021} = \frac{\text{Rp843.056.971,23} - \text{Rp0,00}}{\text{Rp100.405.682,05}} x100\% = 840\%$$

$$\text{Year 2022} = \frac{\text{Rp3.239.304.983,82} - \text{Rp958.830.000,00}}{\text{Rp2.363.047.955,17}} x100\% = 97\%$$

Table 2 Liquidity Ratios Based on Quick Ratio at CV Alfaiz Putra Mandiri for the Years 2020-2022

Year	**Current Asset**		**Inventory**		**Current Debt**		**Quick Ratio**
2020	Rp	934.587.025,08	Rp	272.180.000,00	Rp	559.488.069,19	118%
2021	Rp	843.056.971,23	Rp	0,00	Rp	100.405.682,05	840%
2022	Rp	3.239.304.983,82	Rp	958.830.000,00	Rp	2.363.047.955,17	97%

Source: Processed data, CV Alfaiz Putra Mandiri

c. Cash Ratio

$$\text{Cash Ratio} = \frac{\text{Cash} + \text{Bank}}{\text{Current Debt}} x100\%$$

$$\text{Year 2020} = \frac{\text{Rp5.717.724,00} + \text{Rp93.005.550,08}}{\text{Rp559.488.069,19}} x100\% = 18\%$$

$$\text{Year 2021} = \frac{\text{Rp125.228.579,15} + \text{Rp99.667.918,82}}{\text{Rp100.405.682,05}} x100\% = 224\%$$

$$\text{Year 2022} = \frac{\text{Rp36.387.370,00} + \text{Rp1.630.403.511,82}}{\text{Rp2.363.047.955,17}} x100\% = 71\%$$

Table 3 Liquidity Ratios Based on Cash Ratio at CV Alfaiz Putra Mandiri for the Years 2020-2022

Year	**Cash**		**Bank**		**Current Debt**		**Cash Ratio**
2020	Rp	5.717.724,00	Rp	93.005.550,08	Rp	559.488.069,19	18%
2021	Rp	125.228.579,15	Rp	99.667.918,82	Rp	100.405.682,05	224%
2022	Rp	36.387.370,00	Rp	1.630.403.511,82	Rp	2.363.047.955,17	71%

Source: Processed data, CV Alfaiz Putra Mandiri

2. Calculation of Profitability Ratios
   a. Profit Margin on Sales
      1. Gross Profit Margin

$$\text{Gross Profit Margin} = \frac{\text{Sales} - \text{Cost of goods sold}}{\text{Sales}} x100\%$$

$$\text{Year 2020} = \frac{\text{Rp}8.163.290.785{,}00 - \text{Rp}7.128.334.880{,}00}{\text{Rp}8.163.290.785{,}00} x100\% = 13\%$$

$$\text{Year 2021} = \frac{\text{Rp}10.247.105.887{,}00 - \text{Rp}8.930.241.770{,}00}{\text{Rp}10.247.105.887{,}00} x100\% = 13\%$$

$$\text{Year 2022} = \frac{\text{Rp}18.144.083.876{,}00 - \text{Rp}16.871.177.830{,}00}{\text{Rp}18.144.083.876{,}00} x100\% = 7\%$$

Table 4 Profitability Ratios Based on Gross Profit Margin at CV Alfaiz Putra Mandiri for the Years 2020-2022

Year		Sales		Cost of goods sold	Gross Profit Margin
2020	Rp	8.163.290.785,00	Rp	7.128.334.880,00	13%
2021	Rp	10.247.105.887,00	Rp	8.930.241.770,00	13%
2022	Rp	18.144.083.876,00	Rp	16.871.177.830,00	7%

Source: Processed data, CV Alfaiz Putra Mandiri

2. Net Profit Margin

$$\text{Net Profit Margin} = \frac{\text{Net profit after tax}}{\text{Sales}} x100\%$$

$$\text{Year 2020} = \frac{\text{Rp}237.793.512{,}63}{\text{Rp}8.163.290.785{,}00} x100\% = 3\%$$

$$\text{Year 2021} = \frac{\text{Rp}367.552.333{,}29}{\text{Rp}10.247.105.887{,}00} x100\% = 4\%$$

$$\text{Year 2022} = \frac{\text{Rp}147.855.739{,}47}{\text{Rp}18.144.083.876{,}00} x100\% = 1\%$$

Table 5 Profitability Ratios Based on Net Profit Margin Ratios at CV Alfaiz Putra Mandiri for the Years 2020-2022.

Year		Sales		Net profit after tax	Net Profit Margin
2020	Rp	8.163.290.785,00	Rp	237.793.512,63	3%
2021	Rp	10.247.105.887,00	Rp	367.552.333,29	4%
2022	Rp	18.144.083.876,00	Rp	147.855.739,47	1%

Source: Processed data, CV Alfaiz Putra Mandiri

b. Return on Asset/ROA

$$Return\ on\ Asset\ (ROA) = \frac{\text{Net profit after tax}}{\text{Total assets}} x100\%$$

$$\text{Year 2020} = \frac{\text{Rp}237.793.513{,}63}{\text{Rp}951.487.025{,}08} x100\% = 25\%$$

$$\text{Year 2021} = \frac{\text{Rp}367.552.333{,}29}{\text{Rp}1.209.755.760{,}97} x100\% = 30\%$$

$$\text{Year 2022} = \frac{\text{Rp}147.855.739{,}47}{\text{Rp}3.620.253.773{,}56} x100\% = 4\%$$

Table 6 Profitability Ratios Based on Return on Assets (ROA) Ratio at CV Alfaiz Putra Mandiri for the Years 2020-2022

Year	Net profit after tax		Total Assets		ROA
2020	Rp	237.793.513,63	Rp	951.487.025,08	25%
2021	Rp	367.552.333,29	Rp	1.209.755.760,97	30%
2022	Rp	147.855.739,47	Rp	3.620.253.773,56	4%

Source: Processed data, CV Alfaiz Putra Mandiri

c. Return on Equity/ROE

$$Return\ on\ Equity\ (ROE) = \frac{\text{Net profit after tax}}{\text{Equity}} x100\%$$

$$\text{Year 2020} = \frac{\text{Rp237.793.512,63}}{\text{Rp391.998.955,89}} x100\% = 61\%$$

$$\text{Year 2021} = \frac{\text{Rp367.552.333,29}}{\text{Rp1.109.350.078,92}} x100\% = 33\%$$

$$\text{Year 2022} = \frac{Rp147.855.739,47}{Rp1.257.205.818,39} x100\% = 12\%$$

Table 7 Profitability Ratios Based on Return on Equity (ROE) Ratios at CV Alfaiz Putra Mandiri for the Years 2020-2022

Year	Net profit after tax		Equity		ROE
2020	Rp	237.793.512,63	Rp	391.998.955,89	61%
2021	Rp	367.552.333,29	Rp	1.109.350.078,92	33%
2022	Rp	147.855.739,47	Rp	1.257.205.818,39	12%

Source: Processed data, CV Alfaiz Putra Mandiri

Discussion

1. Liquidity Ratio

From the calculations above, it can be concluded that the company's financial performance based on liquidity ratios is quite favorable. In 2020, the significant amount of current assets was due to a large down payment resulting from the company's substantial purchases of inventory that had not yet arrived at the warehouse. Therefore, these purchases were recorded as down payments, and these down payments will convert to cash when the inventory is sold within a year. The same situation occurred in 2021.

In 2022, the amount of inventory present in the warehouse did not turn into cash due to the inventory closing date still being within the warehouse. However, the inventory had already been purchased by customers and will soon be converted into cash. The amount of cash in the bank is also relatively high because the company did not utilize these funds for investments.

2. Profitability ratios

From the calculations above, it can be concluded that the company's performance based on the profit margin ratio for the past three years has not been satisfactory. This is due to the increase in sales not being accompanied by a proportional increase in profits, and there are still significant operational costs incurred by the company, resulting in suboptimal profit generation. Based on the return on assets (ROA) and return on equity (ROE) ratios, the company's performance has been fluctuating but remains in the good category. This is evident in 2020 and 2021, where the company's ability to generate profits above 20% from the assets and equity used was notable. This was a result of increased net income due to higher sales.

In 2022, the company's ability to generate profits dropped below 20% of the assets and equity used. This was caused by a rapid increase in sales and the addition of fixed assets and equity. However, this was not balanced by an increase in net income; in fact, net income decreased. Despite the increase in sales, operating expenses also rose, and a significant amount of inventory in the warehouse remained untapped due to coinciding with the inventory closing date, preventing the conversion of inventory into cash. This led to a decrease in profits for the year 2022.

4. Conclusion

Based on the liquidity ratio analysis of CV Alfaiz Putra Mandiri, the company's financial performance is quite satisfactory. This is due to the increasing current assets year by year. However, current liabilities have also increased year by year, offsetting the rise in current assets. Based on the profitability ratio analysis of CV Alfaiz Putra Mandiri, the company's financial performance has not been satisfactory. This is because the increase in sales is not accompanied by a corresponding increase in profits, and there are still significant operational expenses incurred by the company, resulting in suboptimal profit generation.

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