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Research Article

Liquidity Ratio Analysis in Financing Short Term Liabilities

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ABSTRACT

The objective of this research study is to know whether X Consultancy Services company can cover up their short term liabilities or not and if they can, how good they can cover up their short term liabilities. In doing the research, the writer obtains the data from X Consultancy Services. The writer analyzes the data using descriptive method. Based on data collected, the writer calculated the liquidity ratio to know whether this company can cover up their short term liabilities or not. The writer calculated the liquidity ratio using three methods which is quick ratio, current ratio, and operating cash flow ratio from 2018 until 2020 in other to know can this company cover up their short term liabilities and how good they cover their short term liabilities. Based on data analysis, we know that company current assets is grow faster than their current liabilities while their current liabilities grow faster than their cash flow from operating. This thing makes the quick ratio and current ratio increased while operating cash flow ratio is decreased. Based on data presentation and analysis, the writer can conclude that the company can cover up their short term liabilities and they are consider good at covering their short term liabilities. But their must more focus on their cash flow from operating because if we look from operating cash flow ratio, it decreasing year by year and it will be not good for the company.

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1. INTRODUCTION

Nowadays we can see that many companies go bankrupt, even if we look at their sales are good. Of course for normal people, they will confused why it can happened, actually that because of some companies does not count properly about their financial, they just focus on sales and profit whereas financial is also one of the key point if you want to grow up your business. Financial not just about profit and loss, balance sheet, and cash flow but they are a lot such as the one that I will do for my research is about liquidity ratio. According to Qasim Saleem (2011, p. 95), "Liquidity ratio measure a business ability to meet the payment obligations by comparing the cash and near cash with the payment obligation". So we can say that the importance of doing this liquidity ratio is in order to know the ability of the company to cover their short term liability. Every business, small or big also need to calculate this if you want your business to run well, by knowing how big our business can cover its short term liability we can do the plan for the future, as a business owner we must have that knowledge because for small business we can count it by ourselves and if your business is big already you can asked your employee to count it but still you need to understand well. If your liquidity ratio is below one, that is mean your company can not cover their short term liabilities then when your short term liabilities keep increasing, you company will bankrupt. We can see much company go bankrupt because of the company cannot cover their big debts.

That is why I choose this topic as my research. X Consultancy Services is a global business solution company providing services in three main service categories which are IT product and solution, outsourcing, and human capital services. That is why this financial is very important for the company and also this research might be useful for shareholders because they can see how well this company in covering their short term liabilities. Therefore, the writer would like to know how good the company can cover up their short term liabilities.

2. RESEARCH METHODS

According to the Scumacher (1993) "research design is the plan and structure of the investigation used to obtain evidence to answer research questions." The research design provides the basic direction for carrying out a research project so as to obtain answers to research questions. There are some forms of studies necessary for research, in which each of them is listed below: 1) Exploratory study Exploration is particularly useful when the writer lacks a clear idea of the problems during the study. The area of investigation may be so new or so vague that the researcher needs to do an exploration research just to learn something about the dilemma faced by company. 2) Descriptive study The researcher establishes the descriptions of phenomena or characteristics associated with a subject population (who, what, when, where, and how of topic) and discovery of associations among different variables. 3) Causal study The researcher is highly concerned in a causal relationship in which one variable affects, or is 'responsible for' changes in another variable.

The research conducted is a case study, where the development of the concept and the fact gathering conducted by the researcher without applying a hypothesis and writer uses a descriptive method to analyze the data. The steps of analyzing data in this research are: 1) Collect the data about information of financial statement from finance department which is balance sheet 2018 until 2020 3 and cash flow from operation 2018 until 2020. 2) Evaluate the companies' balance sheet and cash flow from operation for year 2018 until 2020. 3) Calculate the liquidity ratios with current ratio, quick ratio and operating cash flow ratio from year 2018 until 2020 with the following formula: Current Ratio: Current Assets / Current Liabilities Quick Ratio: (Current Assets – Inventories) / Current Liabilities Operating Cash Flow Ratio: Cash Flow from Operation / Current Liabilities: 4) Evaluate the result of each ratio by using trend analysis. 5) Determine from the data whether the company could cover their short term liabilities or not. 6) Evaluate from the data to know how much the company can cover their short term liabilities. 7) Give a conclusion and provide recommendation that might be useful for company

3. RESULTS AND DISCUSSION

The data obtained from the company is presented in the form of table as following:

Table 1. Current Assets 2018 - 2019

	2018	2019
Petty Cash	4,284,546	560,893
Bank - IDR	2,783,146,957	4,164,134,095
Bank - USD	1,111,658,090	1,485,054,004
Total	3,899,089,593	5,649,748,992
CA: Trade Debtors	396,686,788	2,187,934,844
CA: Due by Holding	818,829,919	1,983,443,139
CA: Due by Subsidiaries	250,855,248	0
CA: Due by Related Party Corp	891,783,150	1,404,578,082
CA: Deferred Expense	604,187,503	1,340,173,843
CA: Other Debtors	0	5,500,000
CA: Deposit Rental	320,252,775	457,965,063
CA: Deposit Utilities	41,928,302	40,611,298
CA: Deposit Others	18,000,000	20,000,000
CA: Prepayments Others	140,286,686	444,331,714
CA: Prepayments WHT & Surtax	-1	0
CA: Unbilled Receivables (% of Complete	0	920,000,000

Total Current Assets	7,381,899,963	14,454,286,975

From this data the writer can conclude that their current assets is highly increased from 2018 – 2019.

Table 2. Current Liabilities 2018 – 2019

	2018	2019
CL: Due to Holding	0	-1,015,031,074
CL: Due to Related Party Corp	-93,442,520	0
CL: Trade Creditors	-57,955,499	-1,028,575,738
Accrued for Salaries/Personnel Exp	0	-70,560,694
Provision for Bonuses	-1,113,300,001	-2,000,000,000
Provision for Others	-650,710,282	-743,702,568
Provision for Severance Pay	-1,054,807,000	-2,652,371,000
Advances from Customers	-1,084,627,176	-374,182,355
GST Output Tax Payable/ Service Tax Pay	-19,980,207	-180,303,881
Withholding Taxes	-246,091,994	-203,328,934
Other Creditors	-241,814,397	-270,057,494
Current Income Tax Payable	-842,400,143	-866,629,297
Total Current Liabilities	-5,405,129,219	-9,404,743,035

From this data the writer can conclude that their current assets is highly increased from 2018 – 2019.

Quick Ratio

$$\text{Quick Ratio 2018} = \frac{\text{Current Assets - Inventories}}{\text{Current Liabilities}}$$

$$= \frac{7{,}381{,}899{,}963 - 1{,}124{,}655{,}265}{5{,}405{,}129{,}219}$$

$$= 1.16$$

$$\text{Quick Ratio 2019} = \frac{\text{Current Assets - Inventories}}{\text{Current Liabilities}}$$

$$= \frac{14{,}454{,}286{,}975 - 2{,}303{,}081{,}918}{9{,}404{,}743{,}035}$$

$$= 1.29$$

$$\text{Quick Ratio 2020} = \frac{\text{Current Assets - Inventories}}{\text{Current Liabilities}}$$

$$= \frac{43{,}166{,}172{,}254 - 5{,}432{,}633{,}454}{21{,}960{,}961{,}137}$$

$$= 1.72$$

From trend analysis of quick ratio the writer can conclude: 1) It increase from 2018 – 2020, it is because their current assets grow faster than their current liabilities. This mean the company can cover up their short term liabilities. 2) The quick ratio is increase from 1.16 to 1.72 means they are good at covering their short term liabilities.

Current Ratio

$$\text{Current Ratio 2018} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{7{,}381{,}899{,}963}{5{,}405{,}129{,}219}$$

$$= 1.37$$

$$\text{Current Ratio 2019} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{14{,}454{,}286{,}975}{9{,}404{,}743{,}035}$$

$$= 1.54$$

$$\text{Current Ratio 2020} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{43{,}166{,}172{,}254}{21{,}960{,}961{,}137}$$

$$= 1.97$$

The current ratio is increase from 2018 – 2019, it is because their current assets grow faster than their current liabilities. From trend analysis of current ratio the writer can conclude: 1) It increase from 2018 – 2020, it is because their current assets grow faster than their current liabilities. This mean the company can cover up their short term liabilities. 2) The current ratio is increase from 1.37 to 1.97 means they are good at covering their short term liabilities.

Cash Flow from Operation

$$\text{CFO 2018} = \frac{\text{Cash Flow from Operation}}{\text{Current Liabilities}}$$

$$= \frac{7{,}982{,}614{,}987}{5{,}405{,}129{,}219}$$

$$= 1.48$$

$$\text{CFO 2019} = \frac{\text{Cash Flow from Operation}}{\text{Current Liabilities}}$$

$$= \frac{14{,}309{,}155{,}956}{9{,}404{,}743{,}035}$$

$$=1.52$$

$$\text{CFO 2020} = \frac{\text{Cash Flow from Operation}}{\text{Current Liabilities}}$$

$$= \frac{25{,}301{,}837{,}287}{21{,}960{,}961{,}13}$$

$$= 1.15$$

The operating cash flow ratio is increase from 2018 – 2019 but highly decreased from 2019 – 2020, it is because their current liabilities grow faster than their operating cash flow. From trend analysis of operating cash flow ratio the writer can conclude: 1) It increase from 2018 – 2019 but decrease from 2019 - 2020, it is because their current liabilities grow faster than their cash flow from operating. The lowest operating cash flow ratio is 1.15, this mean the company still can cover up their short term liabilities. 2) For the first, the operating cash flow ratio is increase from 1.48 to 1.52 in 2018 – 2019 which means they are good at covering their short term liabilities. But in 2019 – 2020 the operating cash flow ratio is highly decrease from 1.52 to 1.15 which the writer can conclude that they are not really good at covering their short term liabilities if we only look from operating cash flow ratio.

4. CONCLUSION

This study concluded that several companies have poor financial performance and wrong. No company who have good financial performance. Companies that have poor financial performance in the vulnerable category are Sunson Textile Manufacture Tbk and Trisula International Tbk. These companies are, on average, in the Gray Area position or are in the range of 1.81 to 2.99. In contrast, companies with good financial performance bad (bankrupt) are PT Panasia Indo resources Tbk, Asia Pacific Investama Tbk, Ricky Putra Globalindo Tbk, and Star Petrochem Tbk. This company has an average value below 1.81, the upper limit of companies with poor financial performance (bankrupt).

5. SUGGESTION

X Consultancy Services current assets grow faster than their current liabilities and somehow their current liabilities grow faster than their operating cash flow. So, their quick ratio and current ratio are increasing year by year while their operating cash flow ratio is decreasing year by year which the quick ratio is from 1.16 to 1.72 and the current ratio is from 1.37 to 1.97 while the operating cash flow ratio is from 1.48 to 1.15. From this result, the writer can conclude that X Consultancy Services can cover up their short term liabilities.

Although their operating cash flow ratio is decreasing year by year, but because the lowest which in 2013 their operating cash flow ratio is 1.15 and it is still above 1 so the writer can conclude that they are good at covering their short term liabilities.

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