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Research Article

The Analysis of Liquidity Ratio as Tool to Measure Financial Position in PT. Iplug Indonesia at Medan

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ABSTRACT

The objective of this research study is to know the financial position of PT. Iplug Indonesia, whether if the company can cover up their short term liabilities or not and if they can, how good they can in covering up their short term liabilities. In doing the research, the writer obtains the data from PT. Iplug Indonesia. 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 2010 until 2014 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, research data shows that the company has result of 1.05-1.33 in the 2010-2011 and decrease in year 2013-2014 with result of 1.16-1.02, shows that the 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 research 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 in this globalization era, the situation has demanded every company to work efficiently and generate as much profit as they can to survive in the business competition. Some may not have known that the financial condition of the company is also taken as a big consideration for the company to determine whether the company can still run or not. Therefore the financial position of the company is very important. It is also beneficial for the company itself as well as outside parties concerned with the company. For some company,its financial wellbeing can be used as a tool to measure the company's success, some also used it as a decision making tool and to plan for future.Financial is 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 which is about liquidity ratios. Some companies with high sales also failed to survive in this modern competition. Because in order to survive and to thrive well in this era, sales is not the only factor that are measured. Failing to cover debts can also lead one company to bankruptcy. Many big companies experience difficulties in maintaining their financial condition. They cannot cover and manage their big debts well thus bankruptcy occurs even if they generate good sales.Therefore the analysis of financialposition of the company is very important for the company in term of maintaining the survivability of the company. Even for small companies, the financial analysis is not to be underestimated because it is highly tied to whether the company can cover their short-term debts or not, therefore allowing the company to know their financial position. Liquidity ratios is one of

many measurement that can be used to measure a company’s capability to cover its short-term debt allowing the company to know their financial position.

The definition of Liquidity ratio is a class of financial metrics that is used to determine a company's ability to pay off its short-terms debts obligations. Generally, the higher the value of the ratio, the larger the margin of safety that the company possesses to cover short-term debts.Liquidity management is very important for every organization that means to pay current obligations on business, the payment obligations include operating and financial expenses that are short term but maturing long term debt. Liquidity ratios are used for liquidity management in every organization in the form of current ratio, quick ratio and Acid test ratio that greatly affect on profitability of organization. So business has enough liquid assets (Cash, Bank) to meet the payment schedule by comparing the cash and near-cash with the payment obligations. Liquidity ratios work with cash and near-cash assets (together called "current" assets) of a business on one side, and the immediate payment obligations (current liabilities) on the other side. The near-cash assets mainly include receivables from customers and inventories of finished goods and raw materials. The payment obligations include dues to suppliers, operating and financial expenses that must be paid shortly and maturing installments under long-term debt.

According to many university researchers (Basno & Dardac, 2004),” The required liquidity for each business depends on the balance sheet situation of the business. In order to evaluate the liquidity state, special importance is held by the way in which there are classified organizational assets and liabilities).”Liquidity risk is seen as a major risk, but it is the object of: extreme liquidity, "security cushion" or the specialty of mobilizing capital at a "normal" cost. In this research, writer uses liquidity ratio to assess the financial position of the company. Liquidity ratio is measured to know the availability of cash to pay the short-term liabilities. Liquidity ratios that will be measured are current ratio, quick-ratio and cash ratio.

2. LITERATURE REVIEW

2.1. Financial Statement

A Financial statement (or financial report) is a formal record of the financial activities of a business, person, or other entity. For large corporations, these statements may be complex and may include an extensive set of footnotes to the financial statements and management discussion and analysis. The notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail. According to Sofyan S. Harahap (2009, p.5) regarding the financial statement: “Laporan keuangan menggambarkan kondisi keuangan dan hasil usaha suatu perusahaan pada saat tertentu atau jangka waktu tertentu.” It can be explained as: Financial statement describes the financial condition and operational result of a company at a certain time or period. According to the Ikatan Akuntan Indonesia (2012, p.5), “Laporan keuangan merupakan struktur yang menyajikan posisi keuangan dan kinerja keuangan dalam sebuah entitas”. The definition can be explained as: Financial statement is a structure that provide financial position and financial performance in an entity.

2.2. Liquidity Ratio

According to Richard L. Daft, Danny Samson (2012, p.615), “The liquidity ratio indicates an organization’s ability to meet its current debt obligations.” According to Marta Sukiennik (2012, p.339), “The demonstration of liquidity by an enterprise signifies a situation where a company is able permanently and without any obstacles meet all its short term liabilities on current bases: bills, current purchases, employee remuneration.” According to Riyanto (2001, p.25), “Likuiditas adalah kemampuan perusahaan atau badan usaha untuk memenuhi kewajiban finansialnya yang harus segera dipenuhi.” The definition can be explained as: Liquidity is the ability of the company or business entities to fulfill its financial obligation that must be met. Investors often take a close look at liquidity ratios when performing fundamental analysis on a firm. Since a company that is consistently having trouble meeting its short-term debt is at a higher risk of bankruptcy, liquidity ratios are a good measure of whether a company will be able to comfortably continue as a going concern. Any type of ratio analysis should be looked at within the correct context. For instance, investors should always look at a company’s ratios against those of its competitors, its sector and its industry and over a period of several years. The liquidity ratios are a result of dividing cash and other liquid assets by the short term borrowings and current liabilities. They show the number of times the short term debt obligations are covered by the cash and liquid assets. If the value is greater than 1, it means the short term obligations are fully covered. Generally, the higher the liquidity ratios are, the higher the margin of safety that the company posses to meet its current liabilities. Liquidity ratios greater than 1 indicate that the company is in good financial health and it is less likely fall into financial difficulties. According to Kleopatra Nikolaou (2009, p.07) regarding about liquidity: “Financial liquidity is an elusive notion, yet of paramount importance for the well-functioning of the financial system.” According to Sutrisno (2009, p.215) regarding about liquidity: Likuiditas menjelaskan kemampuan perusahaan untuk membayar kewajiban-kewajiban yang harus segera dipenuhi, dalam hal ini yaitu hutang jangka pendek, oleh karena itu rasio ini biasa digunakan

untuk mengukur tingkat keamanan kreditor jangka pendek, serta mengukur apakah operasi perusahaan tidak akan terganggu bila kewajiban jangka pendek ini segera ditagih. It can be explained as : Liquidity describes the ability of the company to pay its obligations that must be fulfilled, which is account payable, this is why this ratio usually use to measure the security level of short-term creditors and measure whether the company's operation will not be disturbed if the short liabilities is immediately charged. The biggest difference between each ratio is the type of assets used in the calculation. While each ratio includes current assets, the more conservative ratios will exclude some current assets as they aren't as easily converted to cash. The concept of cash cycle is also important for better understanding of liquidity ratios. The cash continuously cycles through the operations of a company. A company's cash is usually tied up in the finished goods, the raw materials, and trade debtors. It is not until the inventory is sold, sales invoices raised, and the debtors' make payments that the company receives cash. The cash tied up in the cash cycle is known as working capital, and liquidity ratios try to measure the balance between current assets and current liabilities.

2.3. Operating Cash Flow Ratio

The Operating cash flow ratio is cash from operating activities as a percentage of current liabilities in a given period. Operating cash flow ratio is generally calculated using the following formula: Operating Cash Flow Ratio = Operating Cash Flow / Current Liabilities. The operating cash flow ratio is not the same as the operating cash flow margin or the net income margin, which includes transactions that did not involve actual transfers of money (depreciation is common example of a noncash expense that is included in net income calculations but not in operating cash flow). The operating cash flow ratio is also not the same as EBITDA or free cash flow. Because working capital is a component of operating cash flow, investors should be aware that companies can influence the operating cash flow ratio by lengthening the time they take to pay the bills (thus preserving their cash), shortening the time it takes to collect what's owed to them (thus accelerating the receipt of cash), and putting off buying inventory (again thus preserving cash). The operating cash flow ratio is a measure of a company's liquidity. If the operating cash flow is less than 1, the company has generated less cash in the period than it needs to pay off its short-term liabilities. This may signal a need for more capital. Thus, investors and analysts typically prefer higher operating cash flow ratios. It is important to note, however, that having low operating cash flow ratios for a time is not always a bad thing. If a company is building a second manufacturing plant, for example, this could pay off in the end if the plant generates more cash.

Definition on operating cash flow ratio is a measure of how well current liabilities are covered by the cash flow generated from a company's operations. The operating cash flow ratio can gauge a company's liquidity in the short term. Using cash flow as opposed to income is sometimes a better indication of liquidity simply because, as we know, cash is how bills are normally paid off. The operating cash flow ratio is one of the most important cash flow ratios. Cash flow is an indication of how money moves into and out of the company and how you pay your bills. If the Operating Cash Flow Ratio for a company is less than 1.0, the company is not generating enough cash to pay off its short-term debt which is a serious situation. It is possible that the firm may not be able to continue to operate. It is important to note, however, that having low operating cash flow ratios for a time is not always a bad thing. If a company is building a second manufacturing plant, for example, this could pay off in the end if the plant generates more cash. The numerator of the OCF ratio consists of net cash provided by operating activities. This is the net figure provided by the cash flow statement after taking into consideration adjustments for noncash items and changes in working capital. The denominator is all current liabilities, taken from the balance sheet. Operating cash flow ratios vary radically, depending on the industry.

3. METHODOLOGY

3.1. Research Design

The research design is a detailed outline of how an investigation will take place. A research design will typically include how data will be collected, what instruments will be employed, how the instruments will be used and the intended means for analyzing data collected. The research design provides the basic direction for carrying out a research project so as to obtain answers to research questions. In this research, the writer will use the descriptive study. 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. The writer will collect data from the company then do the calculation using ratio and analyze the results to provide clear description about the financial position of the company.

3.2. Research Object

In this research, the writer will use liquidity ratio analysis to determine the financial condition of PT. iPlug Indonesia through current ratio, quick ratio, and operating cash flow ratio.

3.3. Data Analysis Method

In order for the writer to do analysis in the company, data and information is needed from the company. The data is collected directly from the research object (internal sources). Data used in preparing this study researcher are primary data. The writer conducted interview with the employee of the company in order to know more about the situation and problem in the company.

4. RESULTS AND DISCUSSION

4.1. Quick Ratio

Quick Ratio 2010 = Current Assets - Inventories Current Liabilities = 2,821,633,281– 435,910,588 2,265,892,413 = 1.05

Quick Ratio 2011 = Current Assets - Inventories Current Liabilities = 3,430,622,333– 384,974,442 2,289,425,638 = 1.33

Quick Ratio 2012 = Current Assets - Inventories Current Liabilities =4,651,402,384 –895,091,278 2,956,922,624 = 1.27

Quick Ratio 2013 = Current Assets - Inventories Current Liabilities =4,445,304,283 –923,913,701 3,015,893,256 = 1.16

Quick Ratio 2014 = Current Assets - Inventories Current Liabilities =4,087,364,644 –977,624,639 3,045,368,723 = 1.02

The quick ratio is increasing from 2010 – 2012, and slowly decreasing from 2012 – 2014.

From the result & analysis of the ratio above the writer can conclude: 1. The quick ratio increase from 2010 – 2012, means the company can cover their short-term liabilities well. 2. The quick ratio from 2012 – 2014, shows that the company may have been struggling in maintaining or growing up their sales ,paying bills too quickly, or receivables too slowly.

4.2. Current Ratio

Current Ratio 2010 = Current Assets Current Liabilities =3,430,622,333 2,265,892,413 = 1.24

Current Ratio 2011 = Current Assets Current Liabilities =3,430,622,333 2,289,425,638 = 1.49

Current Ratio 2012 = Current Assets Current Liabilities = 4,651,402,384 2,956,922,624 = 1.57 Current Ratio 2013 = Current Assets Current Liabilities = 4,445,304,283 3,015,893,256 = 1.47 Current Ratio 2014 = Current Assets Current Liabilities = 4,087,364,644 3,045,368,723 = 1.34

From the result& analysis of the current ratio above the writer can conclude: 1. The current ratio is increasing from 2010 – 2012, shows that the company can cover their liabilities well during those years. 2. The current ratio is decreasing from 2012 - 2014shows that the company current asset cannot keep up with their current liabilities.

4.3. Cash Flow from Operation

CFO 2010 = Cash Flow from Operation Current Liabilities =2,985,632,542 2,265,892,413 = 1.32

CFO 2011 = Cash Flow from Operation Current Liabilities =3,856,254,895 2,289,425,638 =1.68

CFO 2012 = Cash Flow from Operation Current Liabilities = 4,596,856,214 2,956,922,624 = 1.55

CFO 2013 = Cash Flow from Operation Current Liabilities = 3,552,358,965 3,015,893,256 = 1.18

CFO 2014 = Cash Flow from Operation Current Liabilities = 3,388,526,559 3,045,368,723 = 1.11

The operating cash flow ratio is fluctuating unstably from 2010 – 2013and decreasing in 2014, because their operating cash flow ratio decrease in 2014.

From the result& analysis of the operating cash flow ratio the writer can conclude: 1. The company has a stable operating cash flow ratios shows that the company can cover their short-term liabilities well if only from the result above because it is above 1. 2. The ratio has been decreasing highly toward the end of the 2013. And is decreasing faster than the current ratio and the quick ratio. This is bad for the company if this keep on continuing without any further actions.

5. CONCLUSION

PT. iPlug Indonesia's current asset has been increasing every year. Main reason is that this company developed their business continuously from 2010-2014. And it cause their inventory to grow bigger each year. The current ratio has been increasing in the 2010- 2012 but began to diminish in 2013-2014. It diminished because the increasing of liabilities, so that the company has more bills to be paid. The quick ratio also shown that the company is having difficulty in their short-term liabilities because of the ratio which has not been increasing as they did in 2010-2012. The ratio shows current ratio of 1.33 to 1.27 and 1.16 to 1.02 in the last 2 years. The decreased of this quick ratio was also caused by company's cash spent. Because in the past years, company has spent more cash to acquire fixed asset for their expansion. Quick ratio shows almost the same result of fluctuation as the current ratio. Although the current ratio is decreasing in 2013-2014, the ratio is still above 1, which is tolerated. So the writer concludes that the company can still be considered able

to cover their short-term liabilities.

Although their operating cash flow ratio is decreasing in the last 2 years, the ratio was still considered acceptable for the company since it is above 1. But this also signal the company to increase their operating cash flow even higher.

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