ANALYSIS OF FINANCIAL STATEMENTS TO DETERMINE THE FINANCIAL PERFORMANCE OF THE COMPANY

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Abstract: *The method in this research is to use the literature study method. The data collection techniques are by reading, recording, verifying data related to research. The data used come from textbooks, journals, scientific articles, literature reviews related to the topic under study. The data processing technique is by verifying the material obtained and reviewing it in accordance with answering the identification of the problem.*
Keywords*: Financial Reports, Financial Performance, Financial Statement Analysis*

INTRODUCTION

Financial performance is the result or achievement that has been achieved by the management of the company in carrying out its function of managing the company's assets effectively during a certain period. Financial performance is needed by companies to find out and evaluate to what extent the company's success rate is based on the financial activities that have been carried out (Rudianto 2013:189). In a company, the leader or company management has a very important part in the financial statements that have been analyzed and make the financial statements as a measurement for making decisions in the future.

Financial performance within a company has a very close relationship with the measurement and assessment of the company's performance. By definition, performance measurement is a qualification, efficiency and effectiveness of a company in operating its business in an accounting period. Performance appraisal concerns the measurement of operational effectiveness, organizational effectiveness, and also the effectiveness of employees based on predetermined goals, standards and criteria and is carried out periodically (Srimindarti, 2006). By using the performance measurement used by a company, improvements can be made to its operational activities to be able to compete actively with other companies. Furthermore, an analysis of financial performance is carried out as a process in critically reviewing data reviews, calculating, measuring, interpreting, and then providing solutions to the company's finances in a certain financial period.

Kasmir (2013) defines a financial report as a report whose contents describe a financial condition in the current company and also in the period to come. Some time ago after reaping a polemic, after examining the report in 2018 against PT Garuda Indonesia (Persero), the Financial Services Authority (OJK) announced that Garuda Indonesia was declared to have made a mistake regarding the case of presenting the Annual Financial Statements as of December 31, 2018. In this case the Ministry of Finance has stated that Garuda Indonesia's financial statements are not in accordance with accounting standards, after an examination of the Public Accounting Firm (KAP). For this reason, OJK has given Garuda Indonesia a deadline of 14 days or two weeks to revise and restate the Annual Financial Statements as of 31 December 2018. Things like this example can cause a company's financial performance to be significantly affected (Azzura 2019).

Financial statement analysis can also be measured using financial ratios making it easier for financial managers and related parties to more easily review the financial statements or peel and also find out whether the company's finances are in good condition or not. Before analyzing a financial report, the author must really understand the financial report. The author must also have sufficient policies to draw conclusions, and must also pay attention to changes in the condition of a company as well as the background of the financial data.

Financial statements are structures that present the financial position and financial performance of an entity. The general purpose of these financial statements for the public interest is the presentation of information about the financial position (financial position, financial performance) and cash flows of the entity that is very useful for making economic decisions for its users. In order to achieve this goal, financial statements provide information about elements of the entity consisting of assets, liabilities, network, expenses, and revenues (including gains and losses), changes in equity and cash flows. The information, followed by notes, will help users predict future cash flows.

The purpose of financial statements is useful for most users in making economic policies with its ability to provide information about the financial position, performance and changes in financial position of an enterprise, which is prepared for this purpose in meeting the common needs of most users. On the other hand, financial statements do not provide all the information that users may need in making economic decisions because they generally reflect the financial effects of past events. Financial statements also show what management has done (stewardship) or management's responsibility for the resources entrusted to it (Indonesian Institute of Accountants, 2002).

So based on this background the author wants to know more about financial statements to determine the company's financial performance. And the author is interested in conducting research with the title: "Financial Statement Analysis to Determine the Company's Financial Performance".

Statement of the Problem

Based on the background of the problem above, the author will discuss how the financial statements, financial performance and financial statement analysis to determine the financial performance of a company.

Research Aims and Objectives

The aims and objectives of this study are to understand the concept of financial statements, financial performance and how to determine financial performance through analysis of the financial statements of a company. Apart from that, this study intends and aims to increase knowledge for researchers in relation to financial statements and their analysis and how to determine the financial performance of a company.

LITERATURE REVIEW

Financial statements

As a slice of a reporting process, a complete financial report generally contains a statement of changes in financial position, balance sheet, income statement, (usually displayed by several methods such as a cash flow statement, or statement of funds flow), a note and other reports. and explanatory materials, all of which are an integrated part of a financial report. In addition to this, in a financial report there is also a schedule and additional related information such as financial information on industrial and geographical segments as well as disclosure of the effect of price changes (PSAK No.1, 2015). The importance of a financial report for an organization or company in making decisions and providing information will be able to help the company or organization in making the right decisions, so that the good or bad of a financial report can be evaluated later.

Financial statements generally consist of a balance sheet as well as a calculation of profit and loss as well as changes in equity of an entity in the balance sheet consisting of data on a number of assets, liabilities of the company and also the equity of a company in a certain period, while the profit and loss section contains various results and also company expenses that have been achieved (Munawir 2010:5) Financial reports can also help the credibility of the company to provide an increase in the presence of good financial reports, if the financial statements are managed properly then the company can be said to be successful in managing finances.

Financial report format

Financial report is a report that shows the financial condition of an entity in a certain period (Mekari). In general, the form or format of the Financial Statements of a company there are five types, namely Cash Flow Statements, Balance Sheets, Income Statements, Statements of Changes in Capital and CALK (Notes to Financial Statements).

Income statement. The type of income statement or income statement or profit and loss statement is a report that serves to assess financial performance. From the information in this report, it will be known whether the company experienced a profit or loss in an accounting period in addition to providing information about corporate taxes, and can be used as material for evaluating decision making in management. Usually this report contains information about income, operating expenses, basic production prices, tax burdens, and profits or losses of a company.

Mekari continued that the form of a company's income statement consists of single and multiple steps. The Single Step report format has a simple feature where all income and profits earned are placed at the beginning of the income statement and will then be reduced by all expenses or costs incurred by the company. The company's profit or loss will be shown from the difference between the total revenue and the total expenses for the period. Whereas in the Multiple Step Income Statement, the format is more complex. The first must separate operational and non-operational transactions. Second, it must compare costs and expenses with related revenues. Then calculate its operating profit which shows the difference between ordinary activities and incidental or extra ordinary activities.

Statement of changes in capital. The report on changes in capital is a collection of data that contains a description of an increase or decrease in net assets for a period. Deposits of capital at the beginning of the company's establishment by the owner of the company and during operation there are changes according to their performance, as well as looking at the factors causing these changes.

Balance Sheet. A balance sheet is a type of financial report that shows the position and financial information of a company in a certain period of time. In the balance sheet, you can see complete and detailed information about the company's assets, liabilities and capital.

Cash flow statement. The cash flow statement or cash flow statement displays data and information on the entry and exit of cash flows within a company, and besides that, the cash flow statement can be used as an indicator in forecasting cash flows in the coming period. In the statement of cash flows, the company classifies activities into 3 (three) groups, namely: operational activities, investment activities, and financing activities.

Notes to Financial Statements. This record is part of one type of company financial statements. The purpose is to provide a detailed explanation of the important matters in the financial statements.

Financial Performance

Financial performance can be interpreted as a form of achievement of the success of a company against the results that have been achieved in various forms of activities or activities that have been carried out. It is further explained that the extent to which financial implementation rules are carried out properly and correctly can be analyzed through financial performance (Fahmi, 2012).

Financial performance also serves to measure an achievement that has been achieved by a company or organization within a certain period which reflects the level of success of the implementation of its activities. It can also be used to determine the company's strategy for future goals. As a basis for determining investment policies in improving company efficiency and productivity.

RESEARCH METHODS

This research uses literature study method. Literature studies are obtained through written references, including books, archives, magazines, articles, and journals, or documents that are relevant to the problems studied. Henceforth, the information that will be obtained from the results of this literature study will be used as reference material to strengthen the existing arguments. (Fatin 2017). Furthermore, Zed (2008) states that the literature study method is a series of activities related to the methods of collecting library data, reading, taking notes, and processing research materials. By collecting secondary data and information related to the discussion of the problem under study to obtain the results of research analysis. The data used come from textbooks, journals, scientific articles, literature reviews related to the topic under study. This study also uses financial ratios as the basis of analysis for determining the financial performance of a company. The facts obtained are compiled, analyzed, and concluded so that conclusions will be obtained relating to the confirmation of a company's financial performance.

Data Analysis Techniques

The sequence will start with the most relevant, relevant, and quite relevant research material. It can also be done in other ways, for example by referring to the research year starting with the most recent year and gradually moving back to an older year. In addition, by first reading the abstract of each study, it is considered that it will be able to show whether the problems discussed are in accordance with those to be solved in the study.

Take notes on important and relevant parts of the research problem, including noting sources of information and including a bibliography. Make notes, quotes, or information that is systematically arranged so that research can easily be looked back if at any time needed. (Darmadi, 2011).

RESEARCH RESULTS AND DISCUSSION

Research Result

The results obtained from the research can be described, as follows:

a. There are 5 forms of company financial statements, namely profit and loss statements, changes in capital reports, balance sheets, cash flow statements, and notes to financial statements.

b. Determining financial performance requires analysis of financial statements, namely whether through comparative analysis, common-size analysis, ratio analysis, cash flow analysis, and valuation models.

c. Apart from that, there is an analysis based on the Altman model that leads to financial distress prediction models and estimates the company's bankruptcy up to two years before the bankruptcy occurs.

Discussion

In this context, the author will present the financial statements, financial statement analysis, financial performance and financial statement analysis to determine financial performance.

Financial statements

The business success of a company is determined by various aspects as benchmarks, and one of the common ways that many investors do in viewing the company's performance is by viewing and reading the company's financial statements. In general, the function of financial statements is to show the financial condition of a company along with the company's financial performance to be notified to the readers of the financial statements if there are changes in the company's financial condition at a certain time (Laretta, 2020).

Income statement, cash flow statement, capital, balance sheet, change report are included in the financial statements. The income statement will contain information about the company's business profits or losses in a certain period so that information about the company's income and expenses in a certain period will also appear in this report. Furthermore, by reading this report, stakeholders or related parties can assess ongoing business performance.

The balance sheet is to find out the company's financial position and condition at a certain time period. The balance sheet has 3 important financial elements, namely assets, equity and liabilities where in the equity position the initial capital is recorded, issued capital, as well as premium and disagio shares. While the report on changes in capital aims to determine changes in capital that occur in the company. While the cash flow report aims as a tool to find out the financial decisions made by a company.

Analysis of Financial Statements

The company will look good or bad by measuring the company's performance, and the company's performance will be seen with the financial statements and the financial statements will show what the company has experienced and is currently experiencing. According to Harington (2003:1), states that: "The primary resources of information these analysts use to evaluate a firm's performance are its financial statement, the historical record of its past performance."

The achievements and weaknesses of the company will be known through the results of the analysis that has been carried out on the company's finances. From this, consideration will be given in making a decision in the company. Parties who have different interests in a company require analysis of financial statements to assess the health of the company.

Harington (2003:1) further said that: "The financial performance of corporation is a vital intense to many groups and individuals." Then, the relationship between company health and financial statement analysis is as stated by Martin (2002:421), namely financial analysis involves assessing the company's past, present, and anticipated future financial conditions. The aim is to identify any weaknesses in the company's financial health that could cause problems in the future and to determine any strengths the company might capitalize on.

Based on the two theories that have been described above, it can be concluded that the company's health level is determined from the company's performance which can be seen based on the results of interpretation or analysis of its financial statements. Furthermore, the parties who have an interest in the company will make decisions through the information they will get from the company's performance, so that in the future this will be able to assist company management in making decisions that are considered important for the company.

The interpretation and analysis of financial statements has several benefits, including determining the amount of profit/profit for the coming period; as a decision-making tool in investing; improve the company's work efficiency and determination in debt anticipation policies.

According to Yustisia, the tools for financial analysis consist of:

1. Comparative Financial Statement Analysis (horizontal = trend): examine the balance sheet, income statement or cash flow statement sequentially from one period to the next including analysis of changes from year to year, and analysis of trend index numbers.
2. Common-size Financial Statement Analysis (vertical); includes balance sheet analysis, total assets expressed as 100 percent; and analysis of the income statement, sales are expressed as 100 percent.
3. Ratio Analysis consists of:
    a. Credit Analysis (risk), namely, (liquidity: which will evaluate the ability to fulfill short-term obligations); and capital structure and solvency: which will measure strength in fulfilling long-term obligations);

b. Profitability Analysis, is a measurement of the level of return on investments that have been made by assessing financial compensation to equity and debt funding providers; operating performance evaluating the profit margin from operating activities; asset utilization will assess the effectiveness of asset turnover); and valuation by estimating the value of the company's shares. Ratio analysis can be interpreted in terms of comparisons with ratios in the previous year, as well as pre-determined standards and competitor ratios.

4. Cash Flow Analysis will evaluate the source of funds and their use
5. Valuation Model performs debt valuation and equity valuation

Apart from the analysis of the financial statements above, there is also a model for predicting financial distress (financial distress prediction models), namely the Altman Z-score. The model is the same as the debt rating model, the model predicts whether the company will face some difficult conditions, generally defined as bankruptcy.

In finding the Z value which indicates a company's financial condition is in a healthy condition and has a good performance for the reflection of the company's prospects in the future, a model is used, namely the Z-Score Model. Z-Score is a score that is determined from standard calculations multiplied by financial ratios which aims to indicate the level of probability of a company's bankruptcy. The Altman model allows for forecasting bankruptcy up to two years before bankruptcy occurs.

Altman Z-score is expressed in the form of a linear equation consisting of 4 to 5 “T” coefficients that represent certain financial ratios, namely:

$$Z = 1{,}2\ T1 + 1{,}4\ T2 + 3{,}3\ T3 + 0{,}6\ T4 + 0{,}99\ T5$$

Di mana:
T1= modal kerja neto / total aset
T2= saldo laba / total aset
T3= EBIT / total aset
T4= nilai pasar terhadap ekuitas / nilai buku terhadap total liabilitas
T5= penjualan / total aset

Financial performance

The Financial Performance Report is a summary of the Company's Financial Performance that reports on the financial health of a company that helps various investors and stakeholders make their investment decisions.

A financial performance report is part of a company document that is considered very important for the company. A statement on the condition of a company is stated in a financial performance report, where the process of collecting and distributing company funds will be measured carefully which in this case will later be used as an indicator of the company's financial performance in the last period. This financial performance information can be used in several ways, namely:

1. To see the existing performance of the company
2. Determine which capital is right for the company to increase production
3. To plan a company in the future
4. Reviewing the development of the company in each period
5. Be the basis for reviewing important matters for the benefit of the company as a decision

In the analysis of financial performance can see the existing financial performance on the company by using the analysis of changes in gross profit, use of working capital, financial ratios, position trends, financial statements, percentage per component, sources and use of cash.

Financial Statement Analysis to Determine Financial Performance

Financial statements are closely related to the assessment of financial performance, namely to see the efficiency, effectiveness, and economics of the company. In the following, the authors describe several financial statement analyzes in determining financial performance, including:

a. The determination of the standardization of the Altman method can be seen as follows:

If $Z > 2.99$ = “safe” zone

If $1.81 < Z < 2.99$ = “gray” zone

If $Z < 1.81$ = "distress" zone

b. Financial Performance Measurement Standard

Liquidity Ratio. The liquidity ratio shows the company's strength in fulfilling its short-term financial obligations. If the current ratio is 1:1 or 100%, it means that current assets can cover all current liabilities. So it is said to be healthy if the ratio is above 1 or above 100%. This means that current assets must be far above the amount of current debt (Harahap, 2002)

Fast Ratio. The bigger this ratio the better. This ratio number does not have to be 100% or 1:1. Although the ratio does not reach 100% but close to 100% it is also said to be healthy (Harahap, 2002)

Cash Ratio. Shows the portion of cash + cash equivalents compared to total current assets. The bigger the ratio the better. Just like the Quick Ratio, it doesn't have to reach 100% (Harahap, 2002:302)

Activity Ratio. Accounts receivable turnover, measuring the effectiveness of receivable management. The higher the turnover rate, the more effective the management of receivables (Sutrisno, 2001). Inventory turnover, the higher the turnover rate, the more effective the inventory management (Sutrisno, 2001). Fixed asset turnover, the higher this ratio means the more effective the proportion of fixed assets.

Solvability Ratio. The solvency ratio shows the company's ability to meet all of its long-term and short-term obligations if the company is liquidated. Companies that do not have sufficient assets to pay debts are called unsolvable companies. The ratio of debt to assets, the smaller the ratio, the more secure (solvable). The portion of debt to assets should be smaller (Harahap, 2002). Debt to equity ratio, The smaller the portion of debt to equity, the safer.

Profitability Ratios. Is the ratio to determine the survival of the company (going concern). Profitability ratios include Gross profit margin (the bigger the calculation result, the better the company's financial condition); Operating profit margin (this ratio is interpreted as a measure of the efficiency of how the company reduces costs in a period); and Net profit margin (the higher the ratio means the better, because it shows the company's ability to generate profits).

Return On Assets (ROA). ROA shows the company's ability to generate after tax operating profit from the total assets owned by the company. The bigger the ratio, the better (Sutrisno, 2001)

Return On Investment (ROI). ROI shows the company's ability to generate profits that will be used to cover the investment issued. The bigger the result, the better.

CONCLUSION

The author makes conclusions based on the results of this study, as follows

a. That the financial statements of a company are very important because through these reports the interested and concerned parties can find out the development of the financial performance of both internal and external parties.
b. Financial Performance shows that the operational results of a company indicate the extent to which performance has been achieved and is measured using ratios.
c. Financial Statement Analysis is closely related to the determination of financial performance. This can be seen based on financial ratios and other financial analysis.

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