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The importance of liquidity and solvency ratio: A case study at PT Indo Guna Artha

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Abstract

This research measures the company's financial performance with the liquidity and solvency ratios of Indo Guna Artha for 2018-2022. In this study, the authors used a quantitative descriptive approach from the research results that for the liquidity ratio with the calculation of the current ratio and the quick ratio indicates a very unhealthy condition of the company, and for the solvency ratio using the calculation of the debt to asset ratio and debt to equity indicates a very unhealthy condition.

Keywords: Financial Performance, Liquidity, Solvency

Introduction

The progress of the development of a company can be seen from the financial statements reflected in the financial performance. To be able to see the financial performance can be measured by calculating its ratio. Companies can use ratios to measure among them is the ratio of liquidity and solvency ratio. The ratio is a benchmark for company performance in analyzing financial reports.

PT Indo Guna Artha is a trade or retail company located in Tangerang City, Banten. PT. Indo Guna Atha produces fashion products such as bags, shoes and clothing under the Veltra (Man Fashion) and Velicia (Woman Fashion) brands. PT. Indo Guna Artha has released many models and types of products that are trending with high enough demand. Before that happens, Indo Guna Arta sells various products from many categories. However, it became a factor of defocus in managing and managing existing categories and caused instability in the supply of product stock, sales, and the company's cash flow. Therefore, it was decided to focus on the Fashion category until now. According to Kasmir (2018), ratio finance compares existing numbers in report finance by sharing one number with the other.

This study analyzes the balance of liquidity and solvency ratios using Indo Guna Artha as a case study. We hope that this study can provide input to Indo Guna Artha in preparing plans based on information from financial report ratios.

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Theoretical Background

According to Kasmir (2016), the ratio liquidity (liquidity ratio) describes ratio ability company fulfill term (debt) obligations short. That is, if the company billed, it would be capable of paying the debt especially existing debt due.

Table 1. Liquidity Ratio Rating Standard

Current Ratio		Quick Ratio	
%	**Criteria**	**%**	**Criteria**
200% - 250 %	Healthy	200% - 250 %	Healthy
175% - 200%	Healthy Enough	175% - 200%	Healthy Enough
150% - 175%	Unwell	150% - 175%	Unwell
125% - 150%	Not healthy	125% - 150%	Not healthy
<125%	Very Unhealthy	<125%	Very Unhealthy

The types of liquidity ratios that companies can use to measure ability, according to Sjahrial (2011), namely: current and quick ratios. The current ratio is the ratio used to measure a company's ability to pay its short-term obligations using its current assets, and the formula can calculate the current ratio:

$$\text{Current Ratio} = \frac{current\ assets}{\text{current liabilities}} \text{X } 100\%$$

Meanwhile, the quick ratio is the ratio used to measure a company's ability to pay its short-term obligations using more liquid assets. This formula can calculate the quick ratio:

$$Quick\ Ratio = \frac{current\ assets - inventory}{current\ liabilities} X\ 100\%$$

Furthermore, the solvability ratio measures the ratio of how much good structure capital a company. Structure capital is funding permanently composed of a long debt period, share preference and shareholder capital shares (Wahyono, 2012).

Table 2. Solvability Ratio Rating Standard

Debt to Asset Ratio		*Debt to Equity Ratio*	
%	**Criteria**	**%**	**Criteria**
≤ 50%	Healthy	≤ 70%	Healthy
>40% - 50%	Healthy Enough	>70% - 100%	Healthy Enough
>50% - 60%	Unwell	>100% - 150%	Unwell
>60% - 80%	Not healthy	>150% - 200%	Not healthy
>80%	Very Unhealthy	>200%	Very Unhealthy

Debt to Asset Ratio (DAR) compares total debt and total assets. So this ratio shows the extent to which assets can cover the debt. The debt ratio shows the proportion between the liabilities owned and all the assets owned (Sawir, 2013). The formula for finding *the* Debt Ratio can be used as follows:

$$Debet\ to\ Asset\ Ratio = \frac{total\ liabilities}{Total\ Assets} X\ 100\%$$

Meanwhile, the debt-to-equity ratio (DER) is used to assess debt-to-equity. This ratio is sought by comparing all debt, including current and all equity. The leverage ratio is a ratio to measure how good the company's capital structure is. The capital structure is permanent funding consisting of long-term debt, preferred shares and shareholder capital (Wahyono, 2014). This formula could calculate DER:

$$DER = \frac{Total\ Liabilities}{Total\ Equity} X\ 100\%$$

Method

PT Indo Guna Arta was established in 2015 and is engaged in fashion retail trade, namely the Velicia (Woman Fashion) and Veltra (Man Fashion) brands and, of course, has obtained official permission from the Tangerang City Trade Office in the form of a Trade Business License (SIUP) and has also registered IPR (Intellectual Property Rights) for each brand that is run, since then PT. Indo Guna Artha can run its business and have a trading desk and legal place of business according to the regulations of the Tangerang city government.

In running the business, at the beginning of its establishment, it was assisted by three employees. Along with developing its business, it showed more and more customer loyalty from the Veltra and Velicia brands under the auspices of PT. Indo Guna Artha and sales are increasing, and employees are added the following year—products produced from Veltra and Velicia. This study uses descriptive statistical methods to describe Indo Guna Artha's financial performance.

Results

The following is partial financial report data which contains current asset accounts, current liabilities, inventories, total debt and total equity from PT Indo Arta for the 2018-2022 period calculates the ratio.

Table 3. Financial Data of Indo Arta

No	Components	2018	2019	2020
1	A Current asset	1,819,727,697	2,395,528,215	1,676,869,750
2	Current liabilities	2,497,564,109	2,847,351,189	1,993,145,832
3	Supply	553,024,520	395,206,582	276,644,608
4	Total Debt	2,497,564,109	2,847,351,189	1,993,145,832
5	Total Assets	2,744,247,500	3,648,168,811	2,553,718,168
6	Total Equity	696,394,005	800,805,622	560,570,935

From this financial information, the following is the result of the ratio analysis that has been calculated:

Table 4. Financial Performance of PT Indo Artha

Tahun	Current Ratio	Quick Ratio	DAR	DER
2018	72.86	50.71	91	358
2019	84.12	70.25	78	355
2020	84.13	70.25	78	355

Based on the results of the current ratio comparison at PT Indo Guna Artha, for 2018, every 1 rupiah of debt is guaranteed by 0.73 rupiahs of current assets, while for 2019, every 1 rupiah of debt is guaranteed by 0.84 rupiahs of current assets and in 2020 it is the same as in 2019, namely every 1 rupiah of debt is guaranteed by 0.84 rupiahs of current assets. It can be seen that the amount of current assets in 2018 is smaller, namely Rp. 1,819,727,697 compared to its current debt of Rp. 2,497,564,109, in 2019, there was an increase between current assets of 2,395,528,215 and current debts of Rp. 2,847,351,189, and in 2020 there has been a decrease in current assets of Rp. 1,676,869,750 with a current debt of Rp. 1,993,145,832.

Based on the quick ratio comparison results at PT Indo Guna Artha for 2018, every 1 rupiah of current debt is guaranteed by current assets without calculating an inventory of 0.50 rupiah. In 2019 every 1 rupiah of current debt was guaranteed by current assets without calculating the inventory of 0.70 rupiahs, and for 2020 has the same value as 2019. Current assets guarantee every 1 rupiah of current debt without calculating the inventory of 0.70 rupiahs. It is due to the smaller current asset value in 2018, Rp. 1,819,717,697 less inventories of Rp. 553,024,520 compared to the larger current debt value of Rp. 2,497,564,109, in 2019, the current assets are smaller, namely Rp. 2,395,528,215 less inventories of Rp. 395,206,582 compared to the current debt of Rp. 2,847,351,189, the same thing happened in 2018 and 2019, in 2020 the same thing happened, namely current assets were smaller, namely Rp. 1,676,896,750 less inventories of Rp. 276,644,608 compared to the larger current debt of Rp. 1,993,145,832.

Based on the results of a comparison of the debt to asset ratio in 2018 shows the results of corporate funding financed by debt of 91%, in 2019 shows the results of company funding financed by debt of 78% and in 2020 shows the results of company funding that financed by the same debt as in 2019, namely 78%. In comparison results, the debt to equity ratio 2018 shows that a debt of 358% finances the company. 2019 and 2020 show the same result: the company is financed by a debt of 355%.

Comparison results in the liquidity ratio of PT Indo Guna Artha obtained from the balance sheet reports for the period 2018 to 2020 are as follows:

Table 4. Comparison Results (Current Ratio)

Year	Results (%)	Criteria
2018	72.86%	Very Unhealthy
2019	84.13%	Very Unhealthy
2020	84.13%	Very Unhealthy

Current ratio table PT Indo Guna Artha from 2018 to 2020 has an average ratio of 80% or is in a very unhealthy industry category, so it can be said that the company's condition is in an illiquid state because the ratio value obtained is below the industry standard ratio of 250% which means that the company cannot meet its short-term obligations.

Table 5. Comparison Results (Quick Ratio)

Year	Results (%)	Criteria
2018	50%	Very Unhealthy
2019	70%	Very Unhealthy
2020	70%	Very Unhealthy

Quick ratio PT. Indo Guna Artha in 2018 has an average ratio of 63% or is in the very unhealthy industry category. Even though there was an improvement due to an increase in the number of current assets, which was greater than the increase in the number of current liabilities and a decrease in the amount of inventory, however, it can be concluded that the quick ratio of PT Indo Guna Artha for the 2018-2020 period, it can be said that the company's condition is in an illiquid state because the ratio value obtained is below the industry standard ratio of 250%, which means the company cannot meet its short-term obligations.

Table 6. Comparison Results from Debt to Asset Ratio

Year	Results (%)	Criteria
2018	91%	Very Unhealthy
2019	78%	Not healthy
2020	78%	Not healthy

Based on table 6, the *debt-to-asset ratio of* PT Indo Guna Artha from 2018 to 2020 has an average ratio of 82% or is in the unhealthy category. It shows that the financial performance of PT Indo Guna Artha is in the unhealthy category because it has the highest amount of debt from its total assets, or it can be interpreted that the company cannot pay its long-term obligations or other obligations if it is liquidated.

Table 7. Comparison Results from Debt to Equity Ratio

Year	Results (%)	Criteria
2018	358%	Very Unhealthy
2019	355%	Very Unhealthy
2020	355%	Very Unhealthy

Debt to equity ratio PT Indo Guna Artha from 2018 to 2020 has an average ratio of 356% or is in the very unhealthy category. It shows the financial performance of PT. Indo Guna Artha is in the very unhealthy category because it has the highest amount of debt from the total capital, or it can be interpreted that the company cannot pay its long-term obligations or other obligations if it is liquidated. It is unfavorable for creditors because it is feared that the greater the risk borne by the failure may occur in the company, but this is getting better for the company. When viewed from the average ratio of liquidity and solvency, PT Indo Guna Artha shows an unhealthy condition. As measured using the current and quick ratios, the liquidity ratio is still below the industry standard. Where For ratio *current ratio,* with an average value of 80%, is below the industry standard of 250%. The *quick ratio* with an average value of 63% is still below the industry standard of 250% or is very unhealthy.

The solvency ratio measured using *the debt-to-asset and debt-to-equity ratios* also shows results below industry standards. Where For ratio *The debt to asset ratio* with an average ratio of 82% is below the industry standard. ≤ 50%. The *debt-to-equity ratio* of 356% is below the industry standard ≤ 70%. That means the company's performance in 2018-2020 was not good. Companies must improve this condition so that the level of trust in the company does not decrease.

It also has similar results from research conducted by Sari (2023) with the title Analysis Of Financial Reports To Measure The Financial Performance of Tunas Baru Lampung Tbk, where results study the state that Performance ratio solvency PT. New Bud Lampung Tbk 2018-2020 in the calculation DAR ratio, DER ratio, and ratio LTDter belong not enough good and productive high ratio, this resulted in a company must pay high load. This study is also in line with Shintia (2017) entitled Solvency Ratio Analysis For Assessing Financial Performance Regarding Assets And Equity At PT Bank Rakyat Indonesia (Persero) Tbk Period 2012 - 2015 states that results analysis ratio solvency with *debt to assets ratio* and *debt to equity ratio* that shows that from aspect debt owned by PT Bank Rakyat Indonesia (Persero) Tbk it turns out from 2012 to 2015 experienced increase so that PT Bank Rakyat Indonesia (Persero) Tbk own enough assets for close receivables.

Conclusion

This study concluded that the current ratio, with an average value of 80%, is below the industry standard of 250%. The quick ratio with an average value of 63% is still below the industry standard of 250% or is very unhealthy. Meanwhile, the solvency ratio of PT Indo Guna Artha from 2018 to 2020 on the debt to asset ratio with an average value of 82%, which is below the industry standard. ≤ 50%For a debt to equity ratio of 356%, it is below the industry standard ≤ 70%or in a very unhealthy category. From the results of the comparison of liquidity ratios, Indo Guna Artha reduced current liabilities due soon and increased the amount of cash and cash equivalents so that the company could demonstrate its ability to pay its short-term debts. We suggest Indo Guna Artha to increased total assets. Because of the high value of operational costs, it is feared that the company will find it difficult to cover debts with its assets.

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