LIQUIDITY LEVEL ANALYSIS OF FOOD AND BEVERAGE COMPANIES

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ABSTRACT

This study aims to determine the Financial Performance of the Liquidity Level of Food and Beverage Companies as measured by the Current Ratio, Quick Ratio, and Cash Ratio. The results showed the liquidity level of seven companies used in the study. In the Current Ratio, six companies had a liquidity level above 100%, so the companies had the ability to meet their short-term obligations. While in the Quick Ratio, there are five companies that have a liquidity level above 100%, then the companies have the ability to meet short-term obligations outside of inventory and have no difficulty in fulfilling short-term obligations. In the Cash Ratio, the companies have a liquidity level below 100%, thus the company does not have the ability to pay short-term obligations from the available cash, and the companies have cash difficulties paying the short-term debt. Companies need to increase the level of liquidity from the ratio quickly, by managing the amount of inventory efficiently and handling the amount of inventory according to needs.

Keywords : Liquidity

PREFACE

Background of the Study

Food and beverage companies are manufacturing companies processing raw materials to become half-produced goods. The industry contributes to the economy's national achievement growth. The performance is consistently recorded as always optimistic in enhancing productivity, investment, export, and the absorption of labor. With these conditions, there will be more demand for food and beverage production, which will impact the rapid development of food and beverage companies (Industry Info – Detik News).

Companies with low financial performance will result in a fall in company value in the eyes of investors and can potentially bring the company into bankruptcy. Financial statements are important information as an indicator to measure a company's economic performance. For example, ratio analysis is an essential tool to determine the company's financial position. In addition, the results that have been achieved in connection with the selection of the company's strategy that has been implemented can be used as a guide for companies to measure the quality of the company's financial

performance, related to liquidity capacity, ability to pay debts, inventory and asset turnover, profit potential and so on .

The results of financial ratio analysis can be used to determine financial performance. They can help investors or financiers, business people, and the government evaluate the company's past and present financial condition and predict future profits, thereby knowing whether the company's situation is good or bad. Financial ratios can be grouped into liquidity ratios, leverage ratios, activity ratios, profitability ratios, and market ratios .

The liquidity ratio consists of the Current Ratio, Quick Ratio, and Cash Flow Ratio (Cash Flow Liquidity Ratio) (Kasmisr: 2010) . The current ratio measures the financial performance of the company's balance sheet liquidity; this ratio also shows the ability to convert products into cash. The Quick Ratio measures the company's ability to meet short-term obligations using the most liquid assets . Finally, the Cash Flow Ratio determines whether the company can meet its short-term obligations . The calculation of this ratio is the most conservative because it uses cash and cash equivalents .

A company has a high level of liquidity if the company can pay off its short-term obligations or financial due date (Malik: 2015). While the results of research conducted at PT. Telekomunikasi Tbk in 2011-2015 showed that the company could meet its current obligations because it has an average percentage value of above 100%. However, in 2011 the percentage was below 100%, but the company could still cover its current debt (Tampi et al.: 2016). In contrast to research (Suhendro: 2017) which researched the level of liquidity at PT Siantar Top Tbk resulted in poor liquidity because the average current ratio is below the industry average. Companies prefer to use funds in the form of investments to generate optimal profits rather than fulfilling short-term obligations.

Problems and Objectives of the Study

Based on the background above and there are different results in the studies done before, the researcher is interested in doing a study to answer the question of How the Level of Financial Performance Seen from the Ratio Liquidity of Food and Beverage Companies listed on the Indonesia Stock Exchange on the year 2017-2019 .

LITERATURE REVIEW

A financial report is used to know the development of a company and its financial conditions. Financial reports are results from recording, classifying, and summarizing events financed with a method precisely as a tool for communicating between financial data or activity of a company with parties interested in the data or activity of the company (Malik: 2015). A financial report is an information that can describe the state of the Company's financial report (Fahmi: 2012). Whereas according to Kasmir (2010), a financial report is a report which shows the financial condition of a company at the time or in a certain period. According to PSAK No.1 of 2009 financial report is part of the financial reporting process .

Financial Ratio Analysis

According to Munawir (2010), financial ratio analysis is future-oriented, meaning that the analysis can be used to predict future financial conditions and business results. Meanwhile, according to (Sartono: 2010), financial accounting, which includes an analysis of financial statements, is an analysis that provides for strengths and weaknesses in finance and will be very helpful in assessing past management achievements and prospects in the future. The ratio can indicate whether the company has sufficient obligations. In fulfilling financial obligations, the amount of receivables is entirely rational, inventory management efficiency, good investment spending planning, and healthy capital structure, so that shareholders can achieve the goal of the prosperity. Types of financial ratio analysis are; Liquidity Ratio, Solvency Ratio or Leverage, Activity Ratio, Profitability Ratio, and Market Ratio (Hanafi: 2005).

Liquidity Ratio

The ratio describes the company's ability to meet short-term obligations (debt). This means that if the company is billed, it will be able to meet the debt, especially when it is due (Kasmir: 2010). Meanwhile, according to (Brigham & Houston: 2002), the liquidity ratio shows the relationship between cash and other current assets of a company and its current liabilities. This ratio is used to analyze and interpret short-term financial positions. Still, it is beneficial for management to determine whether or not the working capital used by the company is efficient and is also essential for creditors and shareholders (Hanafi: 2005). The liquidity ratio shows the level of the relative ease of

an asset to be immediately converted into cash with little or no impairment and the level of certainty about the amount of cash that can be obtained (Tampubolon: 2013). There are several types of liquidity ratio measurement methods, namely as follows:

Current ratio

The current ratio is the ratio that shows to what extent the short-term obligations from creditors could be fulfilled with expected assets and will become cash in a short time (Margaretha : 2014).

Quick Ratio

The quick ratio is a ratio of comparison between current assets reduced by inventories toward current debts. Inventory is an element of current assets in which the level of liquidity is low and often experiences price fluctuation, and often causes loss if liquidation occurs. Thus, the quick ratio is better for measuring the ability of a company to fulfill its short-term obligation (Malik: 2015). Inventories don't have a stable value because of damaged or declining quality. The quick ratio is a quick test ratio showing a company's ability to pay obligations in a short period without considering inventories' values.

Cash Ratio

It measures the comparison between cash and current assets that can immediately become cash (cash equivalent) with current liabilities. This ratio measures the amount of cash available compared to current liabilities. The definition of cash is sometimes extended to cash equivalents to include easily traded securities. A cash ratio is a tool used to measure how much cash is available to pay a company's debts (Kasmir, 2010).

Solvency Ratio

The solvency ratio uses assets or funds for such use to cover or pay fixed expenses. Solvency shows the proportion of the use of debt to finance investment. According to (Harahap: 2009), the solvency ratio is a ratio that describes the company's ability to meet long-term obligations or obligations if liquidated. Companies that are not solvable are companies whose total debt is more significant than their total assets (Hanafi: 2005).

Activity Ratio

The activity ratio is a ratio that measures how effective the company is in utilizing all the resources available to it. According to Kasmir (2010), the activity ratio is the ratio used to measure the effectiveness of the company in using its assets. This ratio looks at the efficiency of the company's use of assets.

Profitability Ratio

According to Kasmir (2010), the profitability ratio is used to assess the company's ability to seek profit. Profitability ratios also measure the effectiveness of a company's management. This is indicated by the profit generated from sales and investment income. Basically, the use of this ratio shows the level of efficiency of a company.

Market Ratio

This ratio is used to measure market performance relative to book value, earnings, and dividends; and to calculate the company's stock market price close to book value (Hanafi:2005). As for those interested in the market ratio of investors or potential investors, the company's management also has an interest, especially companies that have gone public, so that companies can measure the company's share price.

RESEARCH METHODS

Method is a method of work that can be used to obtain something. While the research method can be interpreted as a work procedure in the research process, both in searching for data or disclosing existing phenomena (Zulkarnaen, W., et al., 2020) .

Research Type

The type of research used is descriptive quantitative research. The research is research in the form of data with numbers or numbered qualitative data.

Population

According to Sugiyono (2011), a population is an object or subject with certain qualities and characteristics determined by the researcher to be studied, and then a conclusion is drawn. This study's population is food and beverage companies listed on the Indonesia Stock Exchange for 2017-2019, as many as 25 companies. Source: www.idx.co.id 2020

Sample

According to Sugiyono (2011), the sample is part of the number and characteristics possessed by a population. From these criteria that meet and serve as samples in this study, as many as seven companies.

Concept Definition

The current ratio is the ratio used by the company to meet its short-term debt (Cashmere, 2010).

The quick ratio is a quick test ratio that shows the company's ability to pay short-term obligations with current assets without considering the inventory value (Malik 2015).

A cash ratio is a tool used to measure how much cash is available to pay a company's debt (Kasmir, 2010). It can be formulated as follows:

Liquidity Ratio Analysis Method

To measure the level of liquidity, the ratio used is the liquidity ratio. If the liquidity calculation is high, it means that the company is currently paying off its short-term obligations. Still, if it is small or low, the company must be careful in carrying out its activities. If it has experienced a continuous decline without investment in fixed assets, the company will be threatened with bankruptcy. The liquidity ratios used in this study are:

Current Ratio

CR = Current Assets / Current Debt

Quick Ratio

Quick ratio = Current Asset-Inventory/Current Liabilities

Cash Ratio

Liabilities Cash ratio = Cash or Cash Equivalent/Current

ANALYSIS AND DISCUSSION

This study uses secondary data to find answers to the problems that exist in the study. The secondary data in question is data derived from the quarterly financial reports of food and beverage companies listed on the Indonesia Stock Exchange for the 2017-2019 period. (Table 1)

For three years, namely from 2017 to 2019, PT CEKA, PT.DLTA, PT.ICBP, PT.INDF, PT.MYOR and PT.SKLT have a current ratio level above 1 or 100%, indicating that the company is more than sufficient to cover the entire short-term

obligations. The higher the current ratio, the more stable the company. The company has a secure financial position and can pay its current debts. As done by previous research by Tampi et al. (2016), if the level of liquidity is above 1 or 100%, the company can pay the short-term debt.

Liquidity level conditions above 1 or 100% will give investors points because one measure of assessing the company's finances is the quick ratio measure. However, if the current ratio is too high, it could be because the company is managing its current assets or its working capital is less efficient. The company that has a current ratio level below 1 is PT.MLBI that the conditions indicate that the company cannot pay its current debt or debt that has a maturity of 12 months. The company has financial difficulties paying its current debt.

The results of Suhendro's research (2017) show that the level of liquidity is below 1 or 100%, meaning the company is unable to pay the short-term debt. As a result, the company has difficulty paying debts that have a maturity of 12 months—meanwhile, the financial condition of PT. MLBI, compared to other companies, has a relatively high proportion of current liabilities compared to current assets. In this condition for three years, there was no significant change or decrease in the amount of current debt. The calculation of the Quick Ratio rate during 2017, which has a quick ratio level above 1, is PT CEKA, PT DLTA, PT ICBP, PT INDF, and PT MYOR. These companies have financial capacity beyond inventory to pay their short-term obligations or debts with a maturity period of 12 months. Meanwhile, PT MLBI and PT SKLT have a fast ratio rate below 1 or 100%; this condition illustrates that the company is experiencing financial difficulties paying the short-term debt.

In 2018 and 2019, there was a change in the number of companies that had a fast ratio rate below 1 or 100%, namely PT INDF, PT MLBI, and PT SKLT. In addition, there was a decrease in the quick ratio rate at PT INDF due to increased inventory. This condition illustrates that inventory turnover is slowing.

In calculating the cash ratio of the seven companies, the amount of the cash ratio above 1 or 100% fluctuated from 2017 to 2019. In 2017 which had a cash ratio level above 1 were PT DLTA and PT ICBP. These companies have sufficient cash to pay short-term debts, while other companies have a cash ratio value below 1, meaning they do not have adequate cash to pay their short-term bills.

In 2018 only one food and beverage company had a more than 1 or 100% cash ratio level. However, in 2019 there was an increase in two companies with a cash ratio level of above 1 or 100%. Thus, the amount of cash for food and beverage companies in the 2017-2019 period was not stable.

CONCLUSIONS AND SUGGESTIONS

Conclusion

Based on the results of the analysis presented, it can be concluded that:

1. The level of liquidity is measured by the current ratio (CR) of the companies used as research samples. Six companies have a liquidity level above 100%. This condition illustrates that food and beverage companies can pay their short-term debt. The company's finances are pretty stable, so it will provide high points for investors. However, one company has a liquidity level below 1 or 100%. The company has financial difficulties meeting short-term debt obligations. Current debt is greater than current assets, so current assets cannot meet current liabilities.
2. The level of liquidity is measured by the quick ratio (QR) of the companies used as research samples. Five companies have a quick ratio of more than 1 or 100%, meaning that the company can meet short-term debt capabilities outside of inventory. The calculation of the ratio of quickly removing inventory because inventory has a low level of liquidity means that it takes time to be converted into cash and has a high risk of damage and price fluctuations. Two companies have a quick ratio below 1 or 100%. In 2018 and 2019, some changes are an increase from two companies to three companies with liquidity levels below 1 or 100%.
3. The level of liquidity as measured by the cash ratio means the cash available to pay the short-term debt. Although the number of food and beverage companies with a liquidity level above 1 or 100% fluctuated during the period from 2017 to 2019, this condition indicates that the amount of cash available in food and beverage companies is not stable.

Suggestion

Based on the results of the data analysis, the researcher can provide suggestions that can be used as a reference for company management so that investors are interested in food and beverage companies. Companies can increase liquidity from the quick ratio because it measures the financier investing their funds in the company. In addition, the

calculation is outside of inventory. Therefore, the company is more concerned with managing the amount of inventory not too high so that liquidity is well maintained or a high level of liquidity that will meet its short-term obligations.

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TABLE

Table 1. Ratio Calculation Results Current (CR), Quick Ratio (QR), and Cash Ratio (*Cash Ratios)*. Food and Beverage Company *period* 2017-2019

No	Company Code	2017				2018				2019		
		CR	QR	Cash Ratio		CR	QR	Cash Ratio		CR	QR	Cash Ratio
1	CEK	2 . 44	1 . 45	0 . 04		3 . 26	1 . 85	0 . 04		5 . 10	3 . 56	1 . 23
2	DLTA	8.11	7 . 52	5 . 36		7 . 85	6 . 70	5 . 57		6 . 42	5 . 43	4 . 24
3	ICBP	2.26	1 . 85	1 . 14		2 . 03	1 . 59	0 . 86		2 . 14	1 . 64	0 . 83
4	INDF	1.50	1 . 07	0 . 64		1 . 22	0 . 84	0 . 44		1 . 17	0 . 77	0 . 37
5	MLBI	0.77	0.64 _	0.27 _		0.77 _	0. 61	0.24 _		0. 68	0.83 _	0.18 _
6	MYOR	2.30	1 . 81	0 . 45		2 . 57	1 . 91	0 . 45		3 . 24	2 . 43	0 . 61
7	SKLT	1.29	0 . 73	0 . 05		1 . 25	0 . 71	0 . 05		1 . 26	0 . 73	0 . 06

Source : Processed Secondary data, 2020