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LIQUIDITY RATIO ANALYSIS IN PREDICTING POTENTIAL FINANCIAL DIFFICULTIES AT THE COMPANY PT. ULTRAJAYA MILK INDUSTRY

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Abstract

The paper discusses the analysis of liquidity ratios in predicting potential financial difficulties in PT Ultrajaya Milk Industri. Liquidity ratios are used to measure the company's ability to pay short-term obligations. The research method employed is empirical research with a descriptive qualitative approach. The data used is quantitative data from secondary sources, specifically the financial statements of PT Ultrajaya Milk Industry & Trading Company Tbk. The objectives and benefits of liquidity ratios include measuring the company's ability to pay obligations, comparing inventory to working capital, and serving as a planning tool for the future. Liquidity ratios are utilized to assess a company's ability to pay third-party obligations. The analysis of liquidity ratios at PT. Ultrajaya Milk Industri, Tbk indicates that the company has a strong ability to pay debts. The company's current ratio and quick ratio are both above 100%, demonstrating an excess of current assets and the ability to pay debts. Evaluation of liquidity ratios should consider industry context, comparison with competitors, and other analyses related to the company's financial policies and strategies. It is also important to consider the balance between liquidity and long-term growth.

Keywords: ***Liquidity Ratio, PT Ultrajaya Milk Industri, Liquidity Ratio Analysis***

Introduction

This journal presents a comprehensive analysis of the role and relevance of liquidity ratios as a predictive tool in uncovering potential financial difficulties that may be faced by PT Ultrajaya Milk Industri. By focusing on the company's ability to meet short-term obligations, this research uses an empirical research approach with qualitative descriptive characteristics. The data that forms the basis of the analysis comes from secondary sources, especially the financial reports of PT Ultrajaya Milk Industry & Trading Company Tbk, with an emphasis on quantitative aspects. The purpose of using liquidity ratios in the framework of this research involves measuring the company's capability to pay off obligations, comparing inventory and working capital, as well as using it as an instrument for future planning. The results of the liquidity ratio analysis at PT Ultrajaya Milk Industri, Tbk provide an illustration that the company shows a solid ability to pay debts, which is reflected in the current ratio and quick ratio, both of which exceed 100%. This indicates the existence of excess current assets and the ability to pay off obligations effectively. The importance of evaluating liquidity ratios is also emphasized in the context of the industry as a whole, which includes comparisons with competitors and in-depth analysis of company financial policies and strategies. In this context, this research highlights the need to consider the balance between the level of liquidity and long-term growth as an integral part of a company's financial policy. Thus, the findings in this journal provide deeper insight into the crucial role of liquidity ratios in helping companies manage their finances effectively and plan for a sustainable future.

According to the journal entitled Analysis Of Bankruptcy Rates Based On The Altman Z-Score Method In Food And Beverage Companies Listed On The Indonesian Stock Exchange In 2014-2016, Currently, the Company has subsidiaries which are also listed on the Indonesia Stock Exchange (BEI), including: Indofood CBP Sukses Makmur Tbk (ICBP) and Salim Ivomas Pratama Tbk (SIMP). Based on the Company's Articles of Association, the scope of INDF's activities includes, among other things, building and running the processed food industry, seasonings, soft drinks, packaging, cooking oil, milling wheat and textiles making wide sacks. In the past few decades, Indofood has transformed into a total food solutions company with operational activities covering all stages of the food production process, starting from production and processing of raw materials to finished products. The final product available on the shelves of retailers. Indofood already has products with brands that are well known to the public, including other instant noodles (Indomie, Supermi, Sarimi, Sakura, Pop Mie, Pop Bihun and Mie Telur Cap 3 Ayam), milk (Indomilk, Cap Enaak, Tiga Sapi, Indomilk Champ, Calci Skim, Orchid Butter and Indoeskrim), snacks (Chitato, Lays, Qtela, Cheetos and JetZ), food flavorings (Indofood, Piring Lombok , Indofood Racik and Maggi), nutrition & special foods (Promina, SUN, Govit and Provita), drinks (Ichi Ocha, Tekita, Caféla, Club, 7Up, Tropicana Twister, Fruitamin, and Indofood Freiss), wheat flour & Pasta (Cakra Twin, Blue Triangle, Blue Key, Red Badge, Chesa, La Fonte), cooking oil and butter (Bimoli and Palmia).

According to the journal entitled Analysis Of Bankruptcy Prediction Using The Altman Model Z-Score And Grover On Food And Beverage Companies Listed On The Indonesian Stock Exchange For The 2018 – 2020 Period, the food and beverage industry is a very important and influential sector for Indonesia's economic growth. According to the Ministry of Industry of the Republic of Indonesia (2017), the contribution of the food and beverage sector to gross domestic product (GDP) is the highest of all sectors, namely 34.17 percent. The food and beverage sector is a priority given by the government to support industrial growth and become driving force for national economic recovery. Companies operating in the food and beverage industry sector, which is an industry with a high level of competition in Indonesia and a company sector that has quite an important role in economic growth in Indonesia, has shown an increase in the last few years. One of the common causes of bankruptcy in manufacturing companies is moving in the food and beverage industry sector is a decline in sales, small product sales which can cause a decline company income and has an impact on the small profits earned. If a company is unable to detect this, over time the company will experience losses and could cause the company to go bankrupt. There are several other signs that can be seen of a company experiencing financial difficulties, such as a decrease in revenue, profits, total assets and stock market prices.

Companies that cannot compete and develop in carrying out their business can be threatened with bankruptcy. Bankruptcy of a company begins with financial difficulties which can be seen from the condition of the company's financial statements. Financial reports published by companies are one source of information regarding financial position company, performance and changes in the company's financial position which are very useful for supporting appropriate decision making. The financial data contained in financial reports can be used as a reference to see the financial condition of a company. The risk of bankruptcy in a company can be observed and measured by carrying out ratio analysis of the company's financial statements. Do Financial report analysis can provide benefits for companies, especially for making company decisions in the future so as to reduce the risk of bankruptcy for the company. Bankruptcy analysis of a company can be carried out using discriminant analysis created by Edward I. Altman in 1968. This analysis uses five financial ratios including retained earnings to total assets, working capital to total assets, market value of stock capital to book value of debt, sales to total assets, and income before tax and interest on total assets. The calculation results from this analysis will obtain a Z-Score value which can be used to predict the company's financial condition in the categories of healthy, vulnerable or in bankruptcy.

Research Method

This research embraces an empirical research approach supported by qualitative descriptive methods as a methodological basis for exploring and revealing in detail the analysis of liquidity ratios at PT Ultrajaya Milk Industri. The research process involves holistic steps, starting from quantitative data collection to the classification stages, in-depth analysis and interpretation of relevant data related to the company's liquidity ratios. This research aims to achieve a deep and comprehensive understanding of the dynamics of problems faced by companies. Specifically, the descriptive approach is the main pillar in this research. In this context, comparison of the collected data with actual conditions in the company becomes a critical basis for formulating informative conclusions. The analysis process is carried out carefully, with the aim of identifying and explaining the implications contained in each liquidity ratio that is the focus of the study. The exclusive use of quantitative data indicates caution and clarity in this research approach. This data comes from the financial reports of PT Ultrajaya Milk Industry & Trading Company Tbk, indicating accuracy and reliability as a basis for analyzing the company's liquidity ratios. Through the perspective of these numbers, this study thoroughly explores and measures the elements of a company's liquidity, forming a solid foundation for an in-depth understanding of financial performance and potential financial difficulties that may arise.

Table 1. Current Ratio Calculation

Year	Current Assets	Current Liabilitas	Current Ratio (100%)
2021	4.844.821	1.556.539	311,25
2022	4.618.390	1.456898	317,00

Source: processed data

$$\textit{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Debt}}$$

When a company's current ratio exceeds 100%, this reflects a condition where the current assets owned by the company are more abundant than the number of current liabilities that must be settled in one annual period. In a deeper context, the current assets in question generally include elements such as available cash, receivables that must be received, and inventory. On the other hand, current liabilities encapsulate debts that are expected to be repaid within a short period of time. A situation where the current ratio exceeds 100% provides a positive indication that the company has solid financial capabilities in meeting its short-term obligations. Abundant assets, including sufficient cash, expected receivables, and adequate inventory, provide flexibility in responding to and settling financial obligations efficiently. Thus, a high current ratio is often interpreted as a sign of the company's financial sustainability and stability in facing challenges and financial obligations that may arise in the next one year period.

Table 2. Quick Ratio Calculation

Year	Currentv Assets	Inventory	Current Liabilities	Quick Ratio (100%)
2021	4.844.821	681.983	1.556.539	267,44
2022	4.618.390	1.637.361	1.456.898	204,61

Source: processed data

$$\textit{Quick Ratio} = \frac{\text{Current Assets - Supply}}{\text{Current Debt}}$$

If a company's quick ratio exceeds 100%, this indicates that the company has an advantage in terms of liquid assets that can be quickly converted into cash, exceeding the total amount of current liabilities that are expected to be settled in one annual period. In this context, the quick ratio is measured by comparing the value of the most liquid current assets, which generally include cash, cash equivalents and receivables that can be realized immediately, with the total current liabilities that must be met within a short time. A situation where the quick ratio reaches or exceeds 100% indicates a strong financial capability for the company to face its short-term obligations. Adequate liquid assets provide the company with flexibility in responding and settling its financial obligations effectively, especially in urgent situations that require high liquidity. Therefore, a high quick ratio is often interpreted as a positive signal regarding a company's ability to manage financial challenges as well as to meet its short-term obligations in a responsive and efficient manner.

Result and Discussion

The analysis of liquidity ratios at PT. Ultrajaya Milk Industri, Tbk indicates that the company has a strong ability to pay debts. The company's current ratio and quick ratio are both above 100%, demonstrating an excess of current assets and the ability to pay debts. However, it is important to consider the balance between liquidity and long-term growth. While ratios above 100% indicate an excess of current assets, which can improve the ability to pay debts and financial security, it may also indicate potential inefficiencies in asset utilization for long-term growth and a potential decrease in return on assets. The data used in this study is quantitative and sourced from secondary data, particularly the financial reports of PT Ultrajaya Milk Industry & Trading Company Tbk. The analysis method employed is descriptive, involving the collection, classification, analysis, and interpretation of data related to the company's liquidity ratios to understand the issues at hand. The results of the analysis provide insights into the company's financial performance and its ability to meet short-term obligations.

It is very important to note that in evaluating a company's liquidity ratios, there needs to be in-depth consideration related to the industry context, comparison of performance with competitors, and analysis related to the financial policies and strategies implemented by the company. This contextual and careful evaluation is imperative because there is an understanding that a high liquidity ratio cannot always be interpreted as an indicator of success without considering the extent of efficient use of the company's assets. Therefore, the conclusion that can be drawn is that although liquidity ratio analysis provides invaluable insight into a company's financial health and its ability to meet short-term obligations, it is important to always involve a broader perspective when interpreting these ratios. The aspects involved in this more holistic view involve in-depth consideration of the overall industry context, benchmarking performance against competitors in the same sector, and integrating strategic planning elements involving long-term growth. By including these elements in the conclusion of the liquidity ratio analysis, a more comprehensive and informative framework is formed. This framework provides a more accurate and in-depth understanding of a company's financial condition, while also detailing the long-term growth direction and policies that the company may take. Therefore, towards the conclusion, emphasizing these aspects not only enriches the interpretation of liquidity ratios, but also ensures that the understanding of a company's financial condition and growth strategy becomes more holistic, comprehensive and relevant to the ongoing industry dynamics.

Conclusion

Overall, an in-depth analysis of PT. Ultrajaya Milk Industri, Tbk emphasized the company's superiority in its ability to pay debts, with the current ratio and quick ratio each reaching levels above 100%. These positive indications highlight excess current assets and solid financial capabilities, providing a solid basis for responding to and repaying short-term obligations. However, at the same time, a broadening of the view is necessary to consider the essential balance between high liquidity and long-term growth. Although a high ratio above 100% indicates excess current assets which can be translated into strengthening the ability to pay debts and financial stability, there are also potential risks related to inefficiencies in managing assets to support long-term growth, which may result in a decrease in returns on these assets. The data that is the basis of the research is quantitative and comes from the financial reports of PT Ultrajaya Milk Industry & Trading Company Tbk, allowing detailed analysis by applying descriptive methods.

It should be noted that liquidity ratio evaluations need to be conducted by considering the overall industry context, comparing performance with sector competitors, and including analysis related to the company's financial policies and strategies. Contextual understanding and careful assessment are a must because a high ratio does not always reflect success without considering the level of efficiency in utilizing the assets owned. In conclusion, liquidity ratio analysis not only provides valuable insight into a company's financial health and its capabilities in dealing with short-term liabilities, but also highlights the need to incorporate a broader perspective. Therefore, it is necessary to be careful in maintaining a balance between optimal levels of liquidity and long-term growth strategies in order to achieve and maintain sustainable financial health.

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