http://ejournal.seaninstitute.or.id/index.php/Ekonomi

JURNAL EKONOMI

Jurnal Ekonomi, Volume 11, No 03. 2022 ISSN: 2301-6280 (print) ISSN: 2721-9879 (online)

Measuring Financial Performance Over Profitability Ratio Analysis

Laelisneni[1], Era Purike[2], Okta Selvia Br Ginting[3] , Nur Azizah[4], Priatna Kesumah[5]
Politeknik LP3I Medan[1], Politeknik Pajajaran ICB Bandung[2,3,4,5]

ARTICLEINFO

Keywords:
financial performance, profitability ratios, financial reports

E-mail: laelisneni@plm.ac.id

ABSTRACT

Financial reports are documents or written records that convey a company's business activities and financial performance. This study aims to determine the company's financial performance as measured using profitability ratios. The purpose of the profitability ratio is to measure a company's ability to earn profits (profits) each year. The data analysis method used is quantitative, focusing only on numbers with a descriptive approach. The data collection technique used in this study is in the form of a report via the company's official website and then takes the company's financial statements. The data analysis technique used by the author is a descriptive analysis that explains financial performance with tables, graphs, and pictures. The results of this study indicate that the company's financial performance measured through Return On Assets is below the standard ratio set, meaning that ROA is not good. Financial performance is measured through Return On Equity which is below the standard ratio set, meaning that ROE is not good. Financial performance measured through Net Profit Margin is below the standard ratio set, which means that the NPM needs to be better formed.

1. INTRODUCTION

Revenue status shows a company's success completed within a certain period and if the company is profitable. If the company's condition worsens, it can be seen that the company's performance also decreases. The financial performance of a company can be described as an activity. Profitability metrics can help assess a company's ability to generate profits and provide a measure of the activity level of a company's management [1].

Profit usually describes the company's profitability, which can be analyzed by how the company develops from year to year because high profits do not necessarily indicate high profitability. However, high profitability ensures that the profits generated will be high. The results of the profitability ratios can be used as a benchmark or an illustration of the effectiveness of management performance in terms of the profits earned by the company [2].

There are several definitions of profitability ratios put forward by experts. Kasmir (2018) [3] “Declaring the Profitability Ratio is a ratio to assess a company's expertise in seeking profit. This ratio also measures the effectiveness of a company's management.

While Arif and Edi (2019) [4] argue that "The profitability ratio serves to measure management effectiveness as seen in wages for investment returns through company activities, so the Profitability Ratio is the ratio to assess the ability of a company to earn profits.

Kasmir (2018) mentions that there are several types of Profitability Ratios, namely:

1 Gross Profit Margin
2 Operating Profit Margins
3 Net Profit Margins
4. Return on Asset
5. Return on Equity
6. Sales Pick Up Ratio
7. Return of capital used

Jurnal Ekonomi, Volume 11, No 03. 2022 ISSN: 2301-6280 (print) ISSN: 2721-9879 (online)

8 Profit to Asset Ratio
In this case, the authors limit the profitability ratio to only three ratios: Return on Assets/ROA, Return on Equity/ROE, and Net Profit Margin.
Net Profit Margin is profit by matching profit after interest and tax compared to sales. The higher the net profit margin, the better the way a company is [3].

$$\textbf{NPM} = \frac{\textbf{Net Profit}}{\textbf{Sales}} \textbf{ X 100\%}$$

Return on Equity is the ratio to assess own capital. The ratio is used to measure net profit after tax with own capital. This ratio shows the ability to use own capital. The higher this ratio, the better the condition of the company [3].
.

$$\textbf{ROE} = \frac{\textbf{Net Profit}}{\textbf{Equity}} \textbf{ X 100\%}$$

Mardiyanto (2018) [5] said that Return on Assets is the ratio used to assess a company's ability to generate profits. In this ratio, all company activities can be seen clearly.

$$\textbf{ROA} = \frac{\textbf{Net Profit}}{\textbf{Total Asset}} \textbf{ X 100\%}$$

2. METHOD

2.1. Type of Data and Data Source

Sugiono (2017: 225) [6] stated that secondary data is a source that does not directly provide data to data collectors, for example, through other people or documents. Secondary data is the type of data used by the authors in conducting this research. The data is in the form of numbers presented in the financial reports of an accounting and tax services company in the 2015-2019 period.

The data source used in this study uses external data sources obtained from an accounting and tax services company where researchers obtain financial reports consisting of income statements and balance sheets for 2015-2019.

The author carried out data collection through the method of literature and documentation. Researchers take reference materials from books, research journals, and any sources related to the research. Sugiono (2015:240) [6] explains that the document records past events. This document can be in the form of writing, pictures, or work.

2.2. Analysis Method

In conducting this research, the authors use quantitative methods. Nana (2017: 53) [7] explains that quantitative research is based on positivism, which emphasizes objective phenomena studied quantitatively. Therefore, maximizing the objectivity of this research design by using numbers, statistical processing, and structure of controlled trials.

The descriptive method is the data collected, clarified, analysed, and interpreted objectively to provide information that is used to manage data on research, namely analysing financial performance over Profitability Ratios.

3. RESULTS AND DISCUSSIONS

Accounting is an essential means of presenting financial information for business activities provided in a financial report and is a market for planning, monitoring, and tools to assist decision-making. To anticipate potential product growth, companies can continue focusing on consumer decisions regarding product quality and standardization [8].

Jurnal Ekonomi, Volume 11, No 03. 2022 ISSN: 2301-6280 (print) ISSN: 2721-9879 (online)

Good corporate governance includes accountability, welfare, comfort, and responsibility to society and the environment [9]. It is the company's way of doing business that it has applied in work. Trust given by shareholders, customers, creditors, and suppliers is a challenge and opportunity for the company to prove progress and growth of the company [10].

3.1. Company Profitability Ratio Calculation

The profitability ratio assesses the company's ability to make a profit. This ratio also provides a level of management efficiency for a company. By reviewing the company's financial statements, an analysis of the company's financial statements can be seen, which helps see the results obtained and assesses the company's financial performance every year [11].

a.Return On Equity

It is a ratio to measure net profit after tax with own capital. This ratio shows the efficient use of own capital. Can be calculated by the following formula :

$$\textbf{ROE} = \frac{\textbf{Net Profit}}{\textbf{Equity}} \textbf{ X 100\%}$$

The ROE calculation for the company is as follows:

$$2015: \frac{-308{,}896{,}601{,}295}{2{,}445{,}346{,}179{,}224} \times 100\,\% = -12.7\%$$

$$2016: \frac{778{,}012{,}761{,}625}{3{,}158{,}442{,}463{,}132} \times 100\% = 2.47\%$$

$$2017: \frac{595{,}868{,}198{,}714}{3{,}288{,}317{,}572{,}389} \times 100\% = 1.82\%$$

$$2018: \frac{1{,}405{,}367{,}771{,}073}{4{,}288{,}337{,}297{,}565} \times 100\% = 3.28\%$$

$$2019: \frac{968{,}833{,}390{,}696}{4{,}692{,}597{,}823{,}392} \times 100\% = 2.07\%$$

Tabel 1. Results of Return On Equity

Year	Net Profit	Equity	ROE
2015	-308,896,601,295	2,445,346,179,224	-12.7%
2016	778,012,761,625	3,158,442,463,132	2.47%
2017	595,868,198,714	3,288,317,572,389	1.82%
2018	1,405,367,771,073	4,288,337,297,565	3.28%
2019	968,833,390,696	4,692,597,823,392	2.07%

Source : Company Financial Report

From the data above, we can see that return on equity (ROE) has changed from year to year from 2015 to 2019. ROE in 2015 was 12.7%. ROE fell to 2.47% in 2016 but again 2016 to 1.82% in 2017. ROE returned 22 in 2018. ROE fell to 2.07% in 2019, although it increased to 3.28%. The ROE value of the company is below the 40% standard set by Kasmir (2018). It shows that the company's performance is inadequate in terms of capital management, and the amount of capital used by the company is minimal.

b. Return On Asset

Return On Assets (ROA) is a ratio that measures a company's ability to earn profits from managing

Jurnal Ekonomi, Volume 11, No 03. 2022 ISSN: 2301-6280 (print) ISSN: 2721-9879 (online)

company assets. The formula used is :

$$\textbf{ROA} = \frac{\textbf{Net Profit}}{\textbf{Total Asset}} \times 100\%$$

The ROA calculation for the company is as follows:

2015 : $\frac{-308,896,601,295}{6,993,634,266,969} \times 100\ \% = -4,42\ \%$

2016 : $\frac{778,012,761,625}{8,583,223,835,997} \times 100\% = 9,06\ \%$

2017 : $\frac{595,868,198,714}{9,369,891,776,775} \times 100\% = 6,36\ \%$

2018 : $\frac{1,405,367,771,073}{10,965,118,708,784} \times 100\% = 12,82\ \%$

2019 : $\frac{968,833,390,696}{10,751,992,944,302} \times 100\% = 9,01\ \%$

Table 2. The Result of Return On Asset

Year	Net Profit	Total Assets	ROA
2015	-308,896,601,295	6,993,634,266,969	-4.42%
2016	778,012,761,625	8,583,223,835,997	9.06%
2017	595,868,198,714	9,369,891,776,775	6.36%
2018	1,405,367,771,073	10,965,118,708,784	12.82%
2019	968,833,390,696	10,751,992,944,302	9.01%

Source : Company Financial Report

From the data above, we can see that the return on assets ratio (ROA) has changed from year to year from 2015 to 2019. ROA in 2015 was -4.42%. From 2015 to 2016, ROA increased to 9.06% but decreased to 6.36% in 2017. It increased to 12.82% in 2018 but decreased to 9.01% in 2019. ROA in companies below 30 % of the standard rate set by Kasmir (2018).

c. Net Profit Margin

Net Profit Margin is sales profit after calculating all expenses and income tax. Can be calculated through the following formula:

$$\textbf{NPM} = \frac{\textbf{Laba bersih}}{\textbf{Penjualan}} \times 100\%$$

The NPM calculation for the company is as follows:

2015 : $-\frac{308,896,601,295}{4,959.998.829.211} \times 100\ \% = -6.23\%$

2016 : $\frac{778,012,761,625}{5,874,745,032,6151} \times 100\ \% = 13.24\%$

Jurnal Ekonomi, Volume 11, No 03. 2022 ISSN: 2301-6280 (print) ISSN: 2721-9879 (online)

2017 : $\frac{595,868,198,714}{7,337,185,138,762}$ x 100 % = 8.12%

2018 : $\frac{1,405,367,771,073}{9,938,310,691,326}$ x 100 % = 14.4%

2019 : $\frac{968,833,390,696}{8,268,503,880,196}$ x 100 % = 11.72%

Table 3. The Result of Net Profit Margin

Year	Net Profit	Sales	NPM
2015	-308,896,601,295	4,959,998,211	-6.23%
2016	778,012,761,625	5,874,745,032,615	13.24%
2017	595,868,198,714	7,337,185,138,762	8.12%
2018	1,405,367,771,073	9,938,310,691,326	14.14%
2019	968,833,390,696	8,268,503,880,196	11.72%

Source : Company Financial Report

From the data above, the Net Profit Margin (NPM) from 2015 to 2019 fluctuated yearly. In 2015 NPM had a value of - 6.23%. 2017 to 8.12%. In 2018 Return NPM increased to 14.14%. However, in 2019 NPM decreased to 11.72%. The NPM value of the company is below the standard ratio set by Kasmir (2018), which is 20%.

Table 4. The Results of Profitability Ratio of ROE,ROA dan NPM

Description	2015	2016	2017	2018	2019
Profitability Ratio					
ROE	12.7%	2.47%	1.82%	3.28%	2.07%
ROA	-4.42%	9.06%	6.36%	12.82%	9.01%
NPM	-6.23%	13.24%	8.12%	14.14%	11.72%

Source : Authors (2022)

In analyzing the company's financial performance using profitability ratios, this study used ratios such as Return On Equity and Return On Assets.

Table 5. Standard of Profitability Industry

No	Ratio of Financial Report	Industry Standard
1	Return On Equity	40%
2	Return On Asset	30%
3	Net Profit Margin	20%

Source: Kasmir(2018)

a. Return On Equity (ROE)

Table 6. The Result of Return On Equity Calculation

Description	2015	2016	2017	2018	2019

Jurnal Ekonomi, Volume 11, No 03. 2022 ISSN: 2301-6280 (print) ISSN: 2721-9879 (online)

Profitability Ratio					
ROE	12.7%	2.47%	1.82%	3.28%	2.07%

Source : Authors (2022)

As presented above, the company's revenue increased from 2015 to 2016. Then, the company's net profit decreased in 2016, decreased again in 2017, and increased in 2018. Nevertheless, it dropped again in 2019. The decline in ROE is below the industry standard due to the low equity gain ratio and the increase in operational costs resulting in low profit each year. When the value of ROE decreases, the investor's return decreases, which shows how much the value of net income is relative to net income, so we must consider investing [12].

b.Return On Asset (ROA)

Table 7. The Result of Return On Asset Calculation

Description	**2015**	**2016**	**2017**	**2018**	**2019**
Profitability Ratio					
ROA	-4.42%	9.06%	6.36%	12.82%	9.01%

Source : Authors (2022)

Net profit and Total Assets are the amounts of ROA formation. From the table above, it can be said that the company's total assets increased in 2015-2016, then decreased in 2019, then the company's net profit increased in 2016 but decreased again in 2017. However, in the end, it increased in 2018, but in 2019 it decreased again. It is due to the decrease in the company's operating profit, which is influenced by the increased cost of goods sold and selling expenses owned by each company [13]. In addition, total assets experienced an increase, which was influenced by a relatively large supply of cash and cash equivalents. Suppose the inventory owned by the company increases. In that case, it should be followed by an increase in sales and reduce the burdens owned by the company so that the inventory can rotate properly. On the other hand, the company's receivables have decreased, which is also the cause of a significant increase in total assets [14]. Therefore, the cause of the decrease in ROA and ROE values that did not reach industry standards was due to a very high increase in total assets but was not followed by an increase in profits for the company, so the ROA value became low [15].

b. Net Profit Margin

Table 8. The Result of Net Profit Margin Calculation

Description	**2015**	**2016**	**2017**	**2018**	**2019**
Profitability Ratio					
NPM	-6.23%	13.24%	8.12%	14.14%	11.72% %

Source : Authors (2022)

The results of the calculation of the Net Profit Margin for the company show that NPM in 2015 decreased. However, it increased again in 2016, there was a decrease in 2017, then it increased in 2018, but in 2019 it again decreased. The cause of the decrease in Net Profit Margin is the increase in the company's operating profit which is not proportional to the high selling price.

4. CONCLUSION

Based on the data that the author has described and has obtained research results from these data, the authors draw the following conclusions: The company's financial performance, as measured by the Net Profit Margin, is below the standard ratio, meaning that the company has a terrible NPM condition. It is due to the decrease in the company's operating profit, which is affected by decreased sales and increased cost of goods sold, and increased total assets being a factor decrease in this ratio The company's financial performance, as measured by Return On Equity, is below the set industry figure, meaning the company has a

Jurnal Ekonomi, Volume 11, No 03. 2022 ISSN: 2301-6280 (print) ISSN: 2721-9879 (online)

poor ROE condition. It is due to the more significant number of operational costs each year causing low profits so that the profit-equity ratio becomes low where the company's performance is not good in managing its capital. The company's financial performance, as measured by Net Profit Margin, has an effect below the standard ratio set. Therefore, it can be said that the company has below-standard NPM. It is because the operating profit is not proportional to the sales results.

REFERENCES

[1] Mulyadi. (2017). *Sistem Akuntansi.* Jakarta: Salemba Empat.
[2] Rudianto. (2017). *Akuntansi Manajemen.* Jakarta: Erlangga.
[3] Kasmir. (2018). *Analisa Laporan Keuangan.* Jakarta: Raja Grafindo Persada.
[4] Edi, Arif. (2019). *Analisis Laporan Keuangan.* Jakarta: PT Grasindo.
[5] Mardiyanto. (2018). *Analisis Laporan Keuangan.* Jakarta: PT.Rajagrafindo Persada.
[6] Sugiono. (2017). *Metode Penelitian.* Bandung: CV Alfabeta.
[7] Nana. (2017). *Metode Penelitian Kuantitatif.* Bandung: CV Alfabeta.
[8] Suteja. (2018). *Pengantar Akuntansi.* Yogyakarta: Pustaka Baru Press.
[9] Hsin-Yi Yu, L.-W. C.-Y. (2022). The profitability effect: An evaluation of alternative explanations. *Pacific-Basin Finance Journal Volume 72, April 2022, 101711*.
[10] Mete Kilic, L. Y. (2022). The cross-section of investment and profitability: Implications for asset pricing. *Journal of Financial Economics Volume 145, Issue 3, September 2022*, 706-724.
[11] Jumingan. (2017). *Analisis Laporan Keuangan.* Jakarta: Salemba Empat.
[12] Valentín Pando, L. A.-J. (2019). Profitability ratio maximization in an inventory model with stock-dependent demand rate and non-linear holding cost. *Applied Mathematical Modelling Volume 66, February 2019*, 643-661.
[13] Hery. (2018). *Analisis Laporan Keuangan.* Jakarta: PT.Grasindo.
[14] Mulyo, B. (2018). *Analisis Laporan Keuangan.* Jakarta: Lentera Ilmu Cendikia.
[15] Jean-Paul Décamps, S. V. (2022). Learning about profitability and dynamic cash management. *Journal of Economic Theory Volume 205, October 2022, 105522* .