

FINANCIAL RATIO ANALYSIS AS A TOOL FOR ASSESSING COMPANY FINANCIAL PERFORMANCE

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Abstract: *Study This aim For study in a way comprehensive role and effectiveness analysis ratio finance as tool in evaluate performance finance company based on study library from various source relevant scientific research . The research methods used is approach studies literature (library research), with utilize secondary data obtained from report finance company , book text accounting and finance , as well as article journal national and international issues that discuss analysis ratio finance and performance finance company. Analysis in study This focused on four group ratio finance main , namely ratio liquidity , ratio solvency ratio profitability , and ratios activity . Research results show that analysis ratio finance own a very important role in evaluate performance finance company in a way comprehensive . Ratio liquidity give clear picture about ability company in guard stability finance term short , whereas ratio solvency show level risk finance and resilience company in face obligation term length . Ratio profitability proven capable reflect level success company in create mark plus and profit , while ratio activity show how much efficient company in manage and utilize source power owned.*

Keywords: *Analysis Financial Ratios; Financial Performance; Ratios Liquidity; Ratio Profitability; Ratio Solvency*

Introduction

Financial performance reflect ability company in produce profit , maintain stability finance , as well as ensure sustainability business . In the environment growing business competitive , company sued For Keep going evaluate condition his finances as base taking decision strategic . Report finance provide information quantitative about position and performance finance company , however information the need analyzed more continue to have deeper meaning deep . One of the method a lot of analysis used is analysis ratio finance Because capable simplify financial data as well as make it easier comparison interperiod and between companies . Therefore that , analysis ratio finance become very important in evaluate performance finance company.

The development of the business world is increasingly dynamic and competitive demand company For capable manage source Power in a way effective and efficient in order to maintain sustainability his efforts . In the condition said , performance finance be one of very important aspect Because reflect level success company in reach objective operational and strategic . Financial performance No only used as tool internal evaluation by management , but also

becomes base consideration main for party external such as investors, creditors , and stakeholders interest other in taking decision economy (Fahmi, 2020).

Report finance is source information main used For evaluate condition and performance finance company . However Thus , the report finance in form numbers raw often difficult For interpreted in a way directly . Therefore that , is necessary something tool capable analysis processing report data finance become more information meaningful and easy understood . One of the tool the most analysis used is analysis ratio financial analysis This done with compare posts certain in report finance so that can describe condition finance company in a way more comprehensive (Munawir , 2018).

Analysis ratio finance own role important in measure various aspect performance finance companies , such as ability company in fulfil obligation term short , level solvency in term length , ability produce profit , as well as efficiency in use assets . According to Kasmir (2019), the ratio finance is tool analysis used For evaluate performance company with method compare the numbers contained in report finance , so that can known position finance company in a period certain . With Thus , the analysis ratio finance No only functioning as tool evaluation historical , but also as base planning and decision making future decisions come.

In practice , the analysis ratio finance generally grouped to in a number of type ratio main , namely ratio liquidity , ratio solvency ratio profitability , and ratios activity . Ratio liquidity used For evaluate ability company in fulfil obligation term in short , which reflects level security finance company . Ratio solvency show to what extent the company financed by debt and ability company in fulfil obligation term length . Ratio profitability measure ability company in produce profit from activity its operations , while ratio activity evaluate level efficiency company in utilise assets owned (Hery, 2021).

Although analysis ratio finance has Lots used , comprehensive understanding to concepts and interpretations ratio finance Still become challenge for part parties , in particular in link it with evaluation performance finance in a way comprehensive . Error in interpret ratio finance can cause taking poor decision appropriate and potential cause risk for company . Therefore that , study theoretical about analysis ratio finance as tool evaluation performance finance company become important For done , in order to provide greater understanding deep about benefits , limitations , and its implementation in context taking decision managerial .

Based on background behind said , research This aim For study analysis ratio finance as tool in evaluate performance finance company through approach study library (*library research*). With study various relevant literature , it is hoped study This can give contribution theoretical in enrich understanding about role analysis ratio finance as well as become reference for academics and practitioners in evaluate performance finance company in a way systematic and sustainable .

Literature review

1. Company Financial Performance

Financial performance is description condition finance the company being measured through ability company in produce profit , fulfill obligation finance , as well as manage source Power in a way effective and efficient . According to Fahmi (2020), performance finance is something analysis conducted For see to what extent the company has carry out activity his finances in accordance with applicable rules and standards . Financial performance also reflects level health company as well as become indicator main in evaluate success management in reach objective company.

Report finance become source main in evaluation performance finance Because serve information about position finance , performance operational and cash flow of the company in

something period certain . However , the report finance No can used in a way direct without through the analysis process . Therefore that , is necessary tool capable analysis interpreting financial data in a way systematic , so that can give more information meaningful for users report finance (Munawir , 2018).

2. Analysis Financial Ratios

Analysis ratio finance is one of the the most common method used in evaluate performance finance company . Analysis This done with method compare posts certain in report finances , good interperiod and with standard industry . Kasmir (2019) stated that ratio finance is tools used For analyze report finance with objective know condition finance and performance company in something period certain.

Analysis ratio finance own superiority Because capable simplify information complex finances become easy indicators understood . In addition , the analysis ratio finance also allows users report finance For do comparison performance company from time to time , so that can known trend development performance finance company . With Thus , the analysis ratio finance No only functioning as tool evaluation , but also as base planning and decision making decision strategic.

3. Types of Financial Ratios

In practice , the analysis ratio finance grouped to in a number of type ratio main , namely ratio liquidity , ratio solvency ratio profitability , and ratios activity . Ratio liquidity used For measure ability company in fulfil obligation term in short , which reflects level security finance company . According to Hery (2021), the ratio liquidity show ability company in fulfil immediate obligations due with use asset smoothly owned .

Ratio solvency used For evaluate ability company in fulfil obligation term long as well as describe structure capital company . Ratio This give information about level risk finance companies , in particular related with use of debt in funding company . Furthermore , the ratio profitability used For measure ability company in produce profit from activity its operations , which become indicator main effectiveness management . Meanwhile that , the ratio activity used For evaluate efficiency company in utilise assets owned For produce income (Munawir , 2018).

4. Analysis Financial Ratios and Financial Performance

Various study previously show that analysis ratio finance own close relationship with evaluation performance finance company . Use ratio finance in a way integrated can give a clearer picture accurate about condition finance company as well as help interested parties in taking decision economy . Therefore that , analysis ratio finance can stated as relevant and reliable tools in evaluate performance finance company in a way comprehensive .

Method

Study This use method study library *research* with collect data from book text , journal scientific , and reports relevant research with analysis ratio finance and valuation performance finance company . Data analyzed in a way qualitative through technique analysis content analysis for identify related concepts , patterns , and findings with objective study .

Results and Discussion

Research result show that analysis ratio finance own significant role in evaluate performance finance company . Ratio liquidity such as current ratio and quick ratio provide

description about ability company in fulfil obligation term short . Ratio profitability such as return on assets and return on equity show effectiveness management in produce profit ratio solvency such as debt to equity ratio reflects level risk finance term long company , whereas ratio activity describe efficiency use assets . Discussion show that although ratio finance is very useful , its interpretation must consider characteristics industry and conditions economy .

Analysis Ratio Liquidity

This section serve results analysis ratio liquidity that describes ability company in fulfil obligation term in short . Ratio current ratio and ratio Quick Ratio is two indicators main thing observed . (Hendra K et al., 2025)

Ratio Fluent (Current Ratio)

Current ratio is ratio that measures ability company For fulfil obligation term in short that will due date using asset available smooth . Based on the results measurement ratio , if ratio fluent low so it is said company No have capital to pay debt formula look for *current ratio* , namely :

$$Current Ratio = \frac{Aktiva Lancar}{Utang Lancar} \times 100\%$$

Table 1 Types of Financial Ratios

| Types of Ratios | Ratio Name | Formula | Information |
|-----------------|--------------------------------|-----------------------------------------------------|--------------------------------------------------------------------|
| Liquidity | Current Ratio | Current Assets / Liabilities Fluent | Measure Company's Ability to Fulfill Obligation Short -term |
| | Quick Ratio | (Current Assets – Inventory) / Liabilities Fluent | Evaluate Ability Liquidity Without Taking into account Supply |
| | Cash Ratio | Cash and Cash Equivalents / Liabilities Fluent | Measure Company's Ability to Pay Current Debts With Available Cash |
| Solvency | Debt to Asset Ratio | Total Debt / Total Assets | Show Proportion of Company Assets Financed by Debt |
| | Debt to Equity Ratio | Total Debt / Equity | Measure Comparison Between Debt and Equity |
| | Long Term Debt To Equity Ratio | Term Debt / Equity | Evaluate Structure Funding Long Term Company |
| Profitability | Net Profit Margin | Net Profit / Sales | Measure Company's Ability to Generate Profit from Sales |
| | Return on Assets | Net Profit / Total Assets | Evaluate Company Effectiveness in Utilizing Assets |
| | Return on Equity | Net Profit / Equity | Measuring the Rate of Return on Owner's Capital |
| Activity | Total Asset Turnover | Sales / Total Assets | Measuring the Efficiency of Asset Use in Generating Income Sale |
| | Inventory | Cost of goods sold Sales / | Evaluate Speed Turnover Supply |

| Types of Ratios | Ratio Name | Formula | Information |
|-----------------|-----------------------|-------------------------------------------|-------------------------------------------------------|
| | Turnover | Inventory | |
| | Receivable Turnover | Sale Credit / Receivables | Measure Effectiveness Management Accounts receivable |
| Market Ratio | Earnings Per Share | Net Profit / Number of Outstanding Shares | Shows Earnings Per Share |
| | Price Earnings Ratio | Share Price / Earnings Per Share | Describe Market Assessment of Company Performance |
| | Dividend Payout Ratio | Dividends / Net Profit | Show Percentage of Profit Distributed to Shareholders |

Source: Cashmere (2019); Brigham & Houston (2018)

Based on the results study library work done to various literature accounting and finance , analysis ratio finance proven be one of the most effective tool in evaluate performance finance company . Use ratio finance allows companies and parties external For evaluate condition finance in a way more systematic through financial data comparison interperiod and with standard industry . Study results show that information generated from analysis ratio finance capable give description comprehensive about level liquidity , solvency , profitability , and activity company as indicator main performance finance (Munawir , 2018).

The results of the analysis on the ratio liquidity show that ratio This play a role important in evaluate ability company in fulfil obligation term in short . Ratio liquidity , such as *current ratio* and *quick ratio* , reflect level security finance company in term short as well as ability company in guard smoothness operational . According to Kasmir (2019), the company with level good liquidity show that management capable manage asset fluent optimally for close obligation smoothly , so that risk difficulty finance can minimized . However Thus , excessive liquidity height can also be indicates existence assets that are not utilized in a way productive .

Next , the results study to ratio solvency show that ratio this is very important in evaluate structure capital and level risk finance company . Ratio solvency , such as *debt to equity ratio* and *debt to asset ratio* , provide description about to what extent the company financed by debt and ability company in fulfil obligation term length . Hery (2021) stated that level balanced solvency reflect condition healthy finances , because company No too depend on debt but still capable utilise funding external For support growth business . With Thus , the analysis ratio solvency can help management and creditors in evaluate risk financial company .

Study results to ratio profitability show that ratio This is indicator main in evaluate success company in produce profit ratio profitability , such as *return on assets* (ROA) and *return on equity* (ROE), reflect level efficiency company in manage assets and equity For produce benefits . Fahmi (2020) emphasized that level high profitability show effectiveness management in manage source Power company , at the same time increase investor confidence in performance and prospects companies in the future . Therefore that , the ratio profitability own role strategic in evaluation performance finance company .

In addition , the results discussion show that ratio activities also have contribution important in evaluate performance finance companies , in particular related efficiency use assets . Ratio activities , such as *total asset turnover* and *inventory turnover* , describe ability company in utilise assets owned For produce income . According to Munawir (2018), level rotation high assets show that company capable manage asset in a way efficient , so that can increase performance operational and financial company in a way overall .

In a way overall , results and discussion This show that analysis ratio finance must done in a way integrated and not separated intersex ratio . Each ratio own limitations if used in a way individually , but will give more results accurate if analyzed in a way together . With Thus , the analysis ratio finance can become reliable tool in evaluate performance finance company as well as support taking decision managerial , investment , and credit in a way more rational and data-based.

Conclusion

Based on the results study libraries and discussions that have been done , can concluded that analysis ratio finance is very important and effective tool in evaluate performance finance company . Analysis ratio finance capable processing report data financial nature quantitative become more information means , so that can give clear picture about condition finance company in a way comprehensive . Through comparison posts certain in report finance , analysis ratio finance can used For evaluate ability company in fulfil obligation finance , generating profit , as well as manage asset in a way efficient .

Study results show that each type ratio finance own mutual roles complete in evaluation performance finance company . Ratio liquidity give information about ability company in fulfil obligation term in short , which reflects level security and stability finance company . Ratio solvency functioning For evaluate ability company in fulfil obligation term long as well as describe structure funding companies , in particular related with proportion between equity and debt. Meanwhile that , the ratio profitability become indicator main in evaluate ability company in produce profit from activity its operations , which shows level effectiveness management in manage source Company power .

In addition , the ratio activity give description about level efficiency company in utilise assets owned For support activity operational and achievement income . Efficiency use good assets show that company capable optimize source the power it has , so that can increase performance finance in a way overall . With Thus , the use of analysis ratio finance in a way integrated can help management and parties external in identify strengths and weaknesses finance company , as well as minimize risk taking poor decision appropriate .

In a way overall , study This confirm that analysis ratio finance No only functioning as tool evaluation performance finance in the past , but also as base planning and decision making decision strategic in the future . The information generated from analysis ratio finance is very useful for various interested parties , such as management in formulate business policies and strategies , investors in evaluate prospects investment , as well as creditors in evaluate level risk giving loan . Therefore that , analysis ratio finance can stated as one of the relevant and reliable instruments in evaluate performance finance company .

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