Budapest International Research and Critics Institute-Journal (BIRCI-Journal)
Humanities and Social Sciences
ISSN 2615-3076 Online)
ISSN 2615-1715 (Print)
www.bircu-journal.com/index.php/birci
Budapest Institute

Study of Key Financial Activities as a Tool for Managerial Decision Making at PT MDM Indonesia Tbk

Fitri Purnamasari[1], Nurul Azizah[2]
[1]*Faculty of Economics, Universitas Negeri Malang, Indonesia*
[2]*Faculty of Economics and Business, Universitas Wijaya Kusuma Surabaya, Indonesia*
nurulazizah.uwks@gmail.com

Abstract

As users of financial information, interested parties certainly need a variety of information to assess how well the company provides benefits for them, allows them to be invited to cooperate professionally, or has the potential to be given investment. Even internally, financial reports are also able to be a measuring tool to measure how well managers and employees have worked during the last period, so that the measurement of several key financial activities can be an evaluation tool that is very helpful for company managers. In this study, the company that is the object of research is PT MDM Indonesia, as one of the leading cosmetic manufacturers in Indonesia. From the results of the analysis, PT MDM Indonesia in 2014 obtained an RNOA of 14.20% of the average net operating assets of approximately 179 billion Rupiah, ROCE ratio of 14.58%, and an NBC value of -5.75% . This indicates that from the three perspectives, PT MDM Indonesia is considered to have high performance profitability and growth were quite good during the period from 2013 to 2014 then

Keywords
location; price; service quality; patient satisfaction

I. Introduction

It is very important for us to know not only how the business operates but also how the operations are represented in the financial statements, this is revealed by Penman (2010). In his book, Penman also reveals that the first thing that must be done in analyzing financial statements is to reformulate financial statements with the aim of separating operating activities and financial activities in financial statements. In this analysis report, the company analyzed is PT MDM Indonesia Tbk, which was published in 2013-2014.

In this study, three important financial statements will be studied that can be used to measure the profitability and growth of a company. The three reports are the statement of financial position, income statement and cash flow statement.

The statement of financial position or often referred to as the balance sheet presents assets and liabilities, which are usually classified into current/short-term and fixed/long-term categories. For the purpose of equity analysis, the company's reported financial statements would be better formulated into operating and financial assets, and operating and financial liabilities. Operating assets and liabilities are simply assets and liabilities used in the business of selling products to customers, relating to customers and suppliers (Penman, 2010:239). Meanwhile, financial assets and liabilities are assets and liabilities used for business financing, related to trading in the capital market.

DOI: *https://doi.org/10.33258/birci.v4i4.3366*

Budapest International Research and Critics Institute-Journal (BIRCI-Journal)
Volume 4, No 4, November 2021, Page: 13032-13038
e-ISSN: 2615-3076(Online), p-ISSN: 2615-1715(Print)
www.bircu-journal.com/index.php/birci
email: birci.journal@gmail.com

The difference between operating assets and operating liabilities is known as Net Operating Assets (NOA). The difference between operating assets and liabilities is not always positive, but can be negative. This occurs when the value of operating liabilities is higher than the operating assets owned by the company. No longer Net Operating Assets (NOA), but Net Operating Liabilities In investing activities the assets and liabilities are called financial assets and financial liabilities. The difference between financial assets and financial liabilities is called Net Financial Assets (NOA). If the value of financial liabilities is higher than financial assets, then this value is not a Net Operating Asset but (Net Financial Obligation/NFO).

Operating activities in a company's business involve purchasing inputs from suppliers (labor, materials, etc.) and applying them to operating assets (plant, land, and equipment) to produce goods or services that are sold to customers (Penman, 2010:240). The increase in the value of the company's shares, the higher the company value, the higher it will be (Katharina, 2021). In the current economic development, manufacturing companies are required to be able to compete in the industrial world (Afiezan, 2020). An organization will continue to make efforts to keep maximizing their profits by satisfying and retaining their customers, for example by establishing a good communication with their customers.

According to Priansa in Nusjirwan (2020) "Implementation of communication activities to customers within the company is carried out formally, however, currently there are also companies that practice their communication activities to consumers in an informed manner so that they can explore in-depth information from customers". Moreover, the maximum customer value can be made only if positive influence of marketing and individual environment association does exist (Kusumadewi, 2019).

The trade that occurs between the company and its suppliers is called operating expense (OE), while the result of trade in goods and services to customers is called operating income (operating reject/OE) . The difference between operating income and operating expenses is operating profit (Net Operating Income / NOI). If the business goes well, the operating profit will be positive and the company value will increase. If the business does not go well, the operating profit will be negative and the value of the company will decrease. In addition to operating profit, the company has other sources of income which are summarized in net financial income (Net Financial Income / NFI) or if it is negative it is called Net Financial Expense / NFE.

In this article, we will describe the research method, the results of the research that include analysis of profitability and growth measurements such as RNOA (Return On Net Operating Assets), ROCE (Return On Common Equity) and NBC (Net Borrowing Cost). At the end of the article, conclusions are also given on the analysis carried out.

II. Research Methods

Public companies (Tbk) that have registered or listed on the Indonesia Stock Exchange (IDX), are periodically required to upload and publish their financial statements. Basically, this financial report can be a reference to assess how the company's performance is. Other external users of financial statements, can perform an analysis of how well the company provides benefits for them, allows for professional collaboration, or potential for investment. Even internally, financial reports are also able to be a measuring tool to measure how well managers and employees have worked during the last period, so that the measurement of several key financial activities can be an evaluation tool that is very helpful for company managers.

In this study, the company that is the object of research is PT MDM Indonesia, as one of the leading cosmetic manufacturers in Indonesia. More specifically, the research was conducted on financial reports published in 2013-2014. PT MDM Indonesia is also known to have a Tbk predicate, which indicates that this company has been listed on the IDX and trades its shares publicly in Indonesia.

This study uses a quantitative approach, by analyzing the financial statements of PT MDM Indonesia through the calculation of financial ratios. The data in this study is secondary data, in the form of documentation of the financial statements of PT MDM Indonesia. The time span of the research conducted is approximately one month.

III. Discussion

In the statement of financial position of PT MDM INDONESIA Tbk. In 2014 there were several accounts that needed to be adjusted to reformulate the statement of financial position. Here are some accounts to watch out for.

1. Cash and cash equivalents
   Cash and cash equivalents on the statement of financial position are divided between the portion for operating needs and investing excess cash in financial assets. Identifying operating cash within the company is difficult, therefore analysts assume that operating cash and cash equivalents at PT MDM INDONESIA Tbk are equal to 5% of the company's net sales. Financial cash and cash equivalents at PT MDM INDONESIA Tbk is the total cash minus operating cash and cash equivalents.
2. Other receivables
   Other receivables on the balance sheet should be classified under operating and financial activities. In the statement of financial position of PT MDM INDONESIA Tbk. other receivables consist of long-term and short-term employee loans (Note 8). In this case, other receivables are still receivables in operating activities.
3. Tax debt
   Taxes payable in the statement of financial position of PT MDM INDONESIA Tbk. divided into taxes payable which are included in operating and financial activities. Information is obtained from notes to financial statements point 16. Operational tax payables consist of tax payables of article 21, article 25, article 4 (2). Articles 23 and 26 tax payables are separated into financial liabilities because Articles 23 and 26 tax payables are related to dividends.
4. Equity Shareholders (*Common Shareholder's Equity* / CSE)
   Shareholders' Equity in the reformulation of the statement of financial position of PT MDM INDONESIA Tbk follows the equation that shareholders' equity is equal to the difference between net operating assets and net financial liabilities (bonds) ($CSE = NOA - NFO$)

In addition to analyzing several accounts in the statement of financial position, there are also several things that need to be considered in reformulating the income statement:

1. Operating Expenses (Operating Expenses)
   Detailed information about expenses is obtained from the notes to the financial statements. Analysts restate operating expenses on the income statement reformulation based on related notes.
2. Net interest income
   Net interest income is the financial income of PT MDM INDONESIA Tbk. 2014. Net interest income is derived from the difference between interest income and interest expense. PT MDM INDONESIA Tbk. does not have interest expense because in 2014, the total interest expense from bank loans was capitalized to fixed assets amounting to

Rp 3.5 billion (Notes 12 and 18). Thus the net interest income value of PT MDM INDONESIA Tbk. in 2014 is equal to Rp 1,807,939,871.00

3. Tax Allocation
   - Tax Benefits
     Tax benefits on debt will reduce the company's financial income. The tax benefit on debt is derived from the net interest income multiplied by the marginal tax of 25% (notes 3 and 25).
   - Taxes on other operating income
     Tax on other operating income is obtained by adding up other income (expenses) before tax multiplied by marginal tax, which is 25%
   - Operating income tax
     Operating income tax is obtained by calculating reported taxes less other operating income taxes and tax benefits.

Basically, for PT MDM's Cash Flow Statement, the accounts in it are separated according to operating and non-operating or financial activities. Researchers only need to calculate the *Free Cash Flow* obtained from the reduction in the company's 2014 *Operating Income* (Operating *Income* after Tax) account on the Income Statement with the difference in *Net Operating Assets* (NOA, or Net Operating Assets) between 2014 and 2013 on the Statement of Financial Position. The following are the details of the calculation.

Metode 1:		
C - I = OI - change in NOA		
Operating income, 2014		179.882.064.067
NOA, 2014	1.399.039.006.452	
NOA, 2013	1.134.637.793.223	264.401.213.229
Free cash flow		(84.519.149.162)

Figure 1. *Calculation of Free Cash Flow of PT MDM Indonesia*

From the calculation results, the nominal *Free Cash Flow is* Rp ((84,519,149,162). Later, the nominal *Free Cash Flow* will also be recalculated when calculating the *Pro-forma Financial Statements* if necessary.

3.1 *Profitability* and *Growth* Analysis

Growth analysis starts from identifying which earnings are likely to grow. Earnings from one-period contracts that do not grow are not the basis for further growth. *Earnings* from increases in asset sales or restructuring may be repeated in the future. *Earnings* that can be repeated in the future and grow, can be said to be *sustainable called transitory earnings or unsual items.*

In determining the basis of operating income, there is an OI (*Operating Income*) ratio, which is derived from *core operating income from sales + core operating income+ unsual items.* So the OI ration is the sum of income from sales and other income as well as unsual items.

3.2 RNOA (*Return on Net Operating Assets*)

One of the main instruments in assessing the company's fundamental performance is to use return net operating assets (Maulana, 2021). The basic identification of operating profitability can be represented by the ratio of RNOA (Return *on net operating assets)* which is the result of *operating income* divided by *average* NOA. Ramadhan (2019) in his research reveals that RNOA is able to capture the components of the company's operating activities, which in this case is different from ROA which captures returns from all company business activities. RNOA is said to tend to be better at predicting stock prices based on the company's operating activities, because the company's operating activities are considered as activities that last a long time for the company.

The average value of NOA (Net Operating Assets) is obtained from the Balance Sheet, namely the value of Net Operating Assets in 2013 and 2014 is added, then divided by two. Here the analyst uses a two-year period, namely 2013 and 2014. The RNOA ratio obtained from PT. MDM INDONESIA Tbk is 14.20%. This figure is obtained from the distribution of operating income with an average NOA of 179,882,064,067.3: 1266838399837.3 = 14.20%. So, it can be said that with an average net operating asset of approximately 179 billion Rupiah, an RNOA of 14.20% is obtained.

3.3 ROCE (Return *on Common Equity)*

ROCE describes the Profitability Ratio to measure the company's ability to earn profits from the capital owned (Prastiani, 2018). Penman (2013) reveals that measuring financial performance through profitability analysis can explain what affects the company's ability to benefit from capital investment, through measuring Return on Common Equity (ROCE). *Residual earnings, the* focus of growth, are driven by ROCE (Return *on Common Equity)* and the sum of *common shareholder's equity.*

The analysis of sustainable earnings identifies the components of the RNOA and NBC-the basis of the RNOA and the basis of the NBC. ROCE is obtained from comprehensive income divided by average CSE. Comprehensive income from the income statement divided by the average CSE. The average CSE is obtained from the average Shareholders' Equity in 2013 and 2014. The comprehensive income from the 2014 income statement is 181,238,018,970.5 divided by the average shareholder equity, so the ROCE ratio is 14.58%.

3.4 NBC (Net *Borrowing Cost)*

Borrowing costs can be defined as interest and other costs incurred by a company in connection with borrowing funds. More technically, borrowing costs can refer to loan expenditures such as interest payments arising from loans or other types of loans. The components of the *net financing expense* from the *income statement* can be *broken down* into basic expenses and *one time effects. Break down* of *net borrowing cost is* applied in forecasting future *borrowing costs.*

NBC = *Net financial income* divided by *average* NFA

Net financial income obtained from the *income statement* consists of components of interest income and interest expense. The net financial income is the result of reducing net interest income less tax benefits on debt. The tax benefit on debt is multiplied by the tax rate times the net interest income. The NBC value here is -5.75%. NBC reflects changes in rates, such as after-tax rates, including changes aimed at changing tax rates.

31 Desember 2014				
	Summary measure	ROCE		RNOA
		14,58%		14,20%
	First level breakdown	RNOA+[FLEV*(RNOA-NBC)]		
		14,58%		
	Second level breakdown	RNOA = PM*ATO		
		14,20%		
		PM = OI / Sales	ATO = Sales / NOA	
		7,79%	1,82	
	Third level breakdown			
	individual revenue and expense ratios - seen from common size analysis			

Figure 2. *Profitability and Growth Analysis of PT MDM Indonesia*

As explained above, in the summary measure the ROCE and RNOA ratios are 14.58% and 14.20%, respectively. For the first level breakdown, a number of 14.58% is obtained from RNOA+FLEV*(RNOA-NBC) which is a way to find ROCE. FLEV (Financial Leverage) is the driving component of ROCE. FLEV calculated from the average NFA divided by average CSE.

Profit Margin is the result of Operating Income divided by Sales . Operating Income is taken from the number in the income statement of Rp. 179,882,064,067.25 divided by sales, the sales value is also taken from the figure in the income statement in the net sales section of Rp.2,308,203,551,971,00. The net sales value is taken from the Company's 2014 Financial Statements.

The next step is to calculate the ATO (Assets Turnover) ratio which is the result of the division of sales divided by the average NOA. Sales or sales as previously explained are obtained from the figures in the Income Statement, then the average NOA is also taken from the value of net operating assets in 2013 plus 2014 then divided by two. The ATO ratio was found to be 1.82%.

21			
22	A systematic analysis of growth		
23			
24		Mandom Summary information from balance sheets and income statements	
25			2014
26		Average NOA	1.266.838.399.837,3
27		Average NFA	(23.581.189.376,2)
28		Average CSE	1.243.257.210.461,0
29			
30		Sales	2.308.203.551.971,0
31		Core operating income	194.809.975.505,0
32		Operating income	179.882.064.067,3
33		Comprehensive income	181.238.018.970,5
34		Net financial income (exp	1.355.954.903,3
35		ROCE	14,58%
36		RNOA	14,20%
37		NBC	-5,75%
38		PM	7,79%
39		Core sales PM	8,44%
40		ATO	1,82
41		FLEV	1,90%
42		SPREAD	19,95%
43		* Balance sheet numbers are averages for the year.	

Figure 3. *Systematic Analysis of PT MDM Indonesia's Growth*

The table above is a summary of the *balance sheet* and *income statement* in which there are ratios needed to analyze the profitability and growth of a company. In addition to the ratios such as ROCE and RNOA which have been discussed above, there are several other ratios such as *core sales* PM, SPREAD.

IV. Conclusion

Companies change over time, as well as financial statements, also change. Changes in residual earnings and changes in ROCE and growth in investment are driven by residual earnings and value . Changes in residual earnings equal abnormal earnings growth .

Changes in ROCE were analyzed by distinguishing changes in operating profitability (changes in RNOA) and changes in financials from operations. Growth in investment combined with ROCE to generate growth in residual earnings is determined by sales growth but also changes in operating asset investment require the support of sales growth and changes in funding in firm investments.

From the results of the analysis, PT MDM Indonesia in 2014 obtained an RNOA of 14.20% of the average net operating assets of approximately 179 billion Rupiah, ROCE ratio of 14.58%, and an NBC value of -5.75% . This indicates that from the three perspectives, PT MDM Indonesia is considered to have a fairly good profitability and growth performance during the period from 2013 to 2014.

References

Afiezan, A., et.al. (2020). The Effect of Free Cash Flow, Company Size, Profitability and Liquidity on Debt Policy for Manufacturing Companies Listed on IDX in 2016-2019 Periods. Budapest International Research and Critics Institute-Journal (BIRCI-Journal) Vol 3 (4): 4005-4018.

Katharina, N., et.al. (2021). Influence Capital Structure, Liquidity, Size the Company, Debt Policy and Profitability towards Corporate Value on Property Company, Real Estate and Building Construction Listed on the Stock Exchange Indonesia Period 2016-2019. Budapest International Research and Critics Institute-Journal (BIRCI-Journal) Vol 4 (2): 2241-2256.

Kusumadewi, R. (2019). The Role of Marketing and Individual Environment Association in Elevating the Customer Value. Budapest International Research and Critics Institute-Journal (BIRCI-Journal) Vol 2 (4): 451-460.

Maulana, Y. (2021). Selection of Share through Analysis of Company Characteristics. Journal of Economics, Accounting and Management, 1 (2).

Nusjirwan, Regen, R., and Nardo, R. (2020). The Role of Service Quality and Trust in Building Customer Satisfaction and Loyalty. Budapest International Research and Critics Institute-Journal (BIRCI-Journal) Vol 3 (4): 4059-4069.

Penman, SH (2010). Financial forecasting, risk and valuation: Accounting for the future. Wiley Online Library.

Penman, SH (2013). Financial Statement Analysis and Security Valuation. McGraw Hill.

Prastiani, SC (2018). The Effect of Financial Performance on Bond Ratings With Earnings Management As An Intervening Variable In Manufacturing Companies Listed On The Stock Exchange. Indonesian Journal of Sustainable Accounting, 1 (1), 1. https://doi.org/10.32493/jabi.v1i1.y2018.p1-23

Ramadhan, A. (2019). Analysis of the Effect of Profitability, Intangible Assets, and Risk Management on Company Value (Study on Property and Real Estate Companies listed on the IDX for the period 2015 - 2017). Journal of Accounting and Finance, 16.