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Research Article

# How to Current Liabilities are Reported and Analyzed Based on IFRS ?

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## Abstract

The purpose of doing this writing is to determine the current liabilities in the company and analyze it directly according to the provisions of IFRS. The method used is using a literature review. In the discussion carried out more emphasis on the current ratio report. So that the final results that will be shown are also related where the acquisition of a value below 1 for the company states that the company has not fully met the current ratio and when it is above 1 it can be said that the company can meet the current ratio.

***Keyword :*** Liabilities, Reported, Analyzed, International Financial Resporting Standard.

## 1. INTRODUCTION

Increasingly competitive competition makes companies have to maximize their resources in order to achieve organizational goals. Generally, the company's goal is to get the maximum profit. Companies that are able to show their competitive advantages and obtain maximum profits, and are able to capture high market share will have a good impact on the company itself, especially from the financial side of the company. The profits obtained will have a positive impact on the financial performance of a company.

Financial statement analysis is usually used to see more clearly the problems that occur in a company. By analyzing the financial statements of a company, managers will be able to know the state and financial development of the company, and will be able to know the financial results of the company that have been achieved in the past and current time (Haykal et al., 2020). Financial ratios are numbers that show the relationship between one element and another in the financial statements. The relationship between the elements of the financial statements is expressed in a simple systematic form.

Financial ratio analysis is an analysis that describes a relationship or balance between a certain amount with another amount, and uses an analytical tool in the form of a ratio that can explain or provide an overview to the analyst about the good or bad state of a company's financial position, especially when the ratio figure is compared with comparison ratio figures are used as standards (Runtunuwu et al., 2021).

One way to see the financial health of a company is to look at its financial statements. In general, investors will analyze a company's financial statements as stock investment decisions in the hope of obtaining maximum stock returns and minimal risk, for that investors need to analyze a company's financial statements to obtain company financial information and the right steps in

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making investment decisions. The measure that is often used in analyzing the financial performance of a company is the financial ratio. By using financial ratio analysis, the company can find out the current and future development of a company so that it can be seen whether a company's financial performance is healthy or not. The financial ratios commonly used in measuring the company's financial performance are the ratios of liquidity, solvency and profitability.

The liquidity ratio used is the current ratio, because the current ratio is the most commonly used ratio in financial statement analysis and provides a rough measure of the company's overall liquidity level. The solvency ratio used is the debt ratio, because the debt ratio can see the company's ability to cover its debts when the company is liquidated. While the profitability ratio used is return on investment, because return on investment can measure the overall total assets to generate net profits effectively.

Current Ratio is a ratio to measure the company's ability to pay short-term obligations or debts that will soon be due when fully billed (McCosker, 2021). The higher the current ratio, the better for the company because it shows that the company is able to pay its current debt using current assets which are not so large.

## 2. LITERATURE REVIEW

### 2.1. Financial Report

The financial statements, which were initially only used as a testing tool for the work of the bookkeeping department, were subsequently used as a basis for determining or assessing the company's financial position, then with the results of the assessment the interested parties made a decision. So financial statements are needed to find out the financial position of a company during a certain period of time. Financial statements are part of the financial reporting process, complete reports usually include a balance sheet, income statement, statement of changes in financial position (which can be presented in various ways, such as a cash flow statement or statement of funds flow), notes and other reports and explanatory materials that are an integral part of the financial statements. In addition, it also includes schedules and additional information related to the report, for example, financial information on industry and geographic segments as well as disclosure of the effect of price changes. Financial statements are basically the results of the balance sheet and the calculation of profit and loss and the statement of changes in equity. The balance sheet shows/describes the total assets, liabilities and equity of a company on a certain date, while the income statement (report) shows the results that have been achieved by the company and expenses incurred during a certain period, and the statement of changes in equity shows the sources and uses or reasons for the changes in equity.

### 2.2. Financial performance

The measurement of the company's financial performance has several objectives including: (Abdel-Basset et al., 2020)

a. To determine the level of liquidity, namely the company's ability to meet its financial obligations that must be met immediately when billed.
b. To determine the level of solvency, namely the company's ability to meet its financial obligations if the company is liquidated.
c. To determine the level of profitability and profitability, namely the company's ability to generate profits during a certain period compared to the productive use of assets or equity.

d. To determine the level of business activity, namely the company's ability to run and maintain its business in order to remain stable, as measured by the company's ability to pay principal debt and interest expenses on time, as well as regular dividend payments to shareholders without experiencing difficulties or financial crises.

Assessment of financial performance can be done by analyzing financial statements using analytical tools in the form of financial ratios. For investors, financial statement analysis aims to predict future profits or dividends. As for the management, financial statement analysis is useful for anticipating future conditions. In addition, the results of the analysis of financial statements can be used as a starting point for taking steps or strategies to improve company performance (Irman et al, 2020). Measurement of financial performance can be done in several ways, one of which is by assessing the profitability ratio. The profitability ratio is considered appropriate because it is able to measure the company's financial performance through the use of assets and equity in generating profits. Assets and equity are important parts that play a role in operational activities.

**2.3. Ratio Analyze**

In addition to comparative analysis, we also need to use ratio analysis for each of the financial statements. The analysis used is profitability analysis. (le and Ngo, 2020)

a. Understanding Financial Ratios It has become a habit that at the end of a period every company will see the performance of the company run by its management.

One of the most important ways to see management performance is from the financial statements that have been prepared for the period in question. The measure of whether management is successful or not in improving performance, then first the financial statements must be analyzed which we know as financial statement analysis. The results of the analysis of financial statements will provide information about the weaknesses and strengths of the company. By knowing these weaknesses, management will be able to improve or cover up these weaknesses. Then the strength of the company must be maintained or even increased. This strength can be used as further capital in the future. What is clear is that there are weaknesses and strengths that are owned, it will illustrate the performance of management so far. In the end, the owners and management by knowing the financial position can plan and make the right decisions about what to do in the future (Utami, 2017). Planning ahead by covering up existing weaknesses, maintaining a position that is in accordance with what is desired, and trying to increase the strengths that have been obtained so far. In conducting the analysis of financial statements, it is necessary to do it carefully by using appropriate analytical methods and techniques, so that the expected results are correct ± correct as well. Errors in entering numbers or formulas to be used will result in inaccurate results. Financial ratios are activities to compare the numbers in the financial statements by dividing one number by another. Comparisons can be made between one component with components in one financial report or between components that exist between financial statements. Then the numbers being compared can be in the form of numbers in one period or several periods. In practice, the analysis of a company's financial ratios can be classified into:

1. Balance sheet ratio, which is to compare numbers that only come from the balance sheet.
2. The profit and loss statement ratio, which compares the figures that only come from the income statement.
3. Inter-report ratio, which compares figures from two sources (mixed data) both on the balance sheet and in the income statement.

b. Types of Financial Ratios

The types of financial ratios that can be used to assess management performance vary. The use of each ratio depends on the needs of the company, meaning that sometimes not all ratios are used. It's just that if you want to see the complete condition and position of the company, then all ratios should be used.

1. Liquidity Ratio is a ratio that aims to determine the company's ability to pay short-term obligations. This means that if the company is billed, it will be able to meet (pay) these debts, including debts that are past due. Liquidity ratios include:

a) Current Ratio (CR) measures the company's ability to pay off its short-term obligations, where it can be seen how far the company's current assets can guarantee its smooth debt. The higher the current ratio, the lower the current assets used to pay off current debts and vice versa. The amount of total assets invested will affect the level of profit to be obtained (Wasiuzzaman, 2015). Therefore, it proves that Current Ratio influences. The current ratio is a comparison between current assets and current liabilities and is the most commonly used measure to determine the ability of a company to meet its short-term obligations. The current ratio shows the extent to which current assets cover current liabilities. The greater the ratio of current assets and current liabilities, the higher the company's ability to cover its short-term liabilities. A low current ratio is usually considered indicates the occurrence of problems in liquidation, on the other hand the current ratio that is too high is also not good, because it shows the number of idle funds which in turn can reduce the company's ability. When measuring the level of liquidity using the current ratio, the level of liquidity or the current ratio of a company can be increased by (a) with a certain current debt, endeavored to increase current assets, (b) with certain current assets, endeavored to reduce the amount of current debt, (c) by reducing the amount of current debt together with reducing current assets.

b) Net Working Capital (NWC), or net working capital. Net working capital ratio is used to determine the ratio of net capital to current liabilities. The company is said to be healthy if the ratio is more than one or more than 100%.

2. Solvency ratio, solvency ratio is a ratio to determine the company's ability to pay its obligations if the company is liquidated. This ratio is called the leverage ratio, which is to assess the company's limits on borrowing money. The solvency ratio includes:

a) Debt to asset ratio (DAR), namely total liabilities to assets. This ratio emphasizes the importance of debt financing by showing the percentage of company assets that are backed by debt. This ratio also provides information about the company's ability to adapt to conditions of asset reduction due to losses without reducing interest payments to creditors.

b) Debt to Equity Ratio, this ratio shows the percentage of provision of funds by shareholders to lenders. The higher the ratio, the lower the company's funding provided by shareholders. Debt to Equity Ratio is the ratio between the company's debt and its capital. When the value of this ratio is relatively high (reaching 100% or more), it means that the company has relatively little capital compared to its total debt. In fact, a healthy company has a debt level that does not exceed its own capital, which is below 100% so that the company's burden is not too high.

3. Profitability ratios, profitability ratios include:

a) Net Profit Margin (NPM), this ratio describes the amount of net profit earned by the company on every sale made. This ratio shows the net profit per rupiah of sales. 3% Net Profit Margin means that every Rp. 1 sale generates a net profit of Rp. 0.03. The bigger this ratio, the better because it is considered that the company's ability to earn profits is quite high. When we get a value close to 100% or 1 in this ratio, it can be said that the company has a relatively high ability to collect net income.

b) Return on Assets (ROA), this ratio describes the company's ability to generate profits from every one rupiah of assets used. Return On Assets 20% means every Rp. 1 capital generates a profit of IDR 0.2 for all investors. The ROA value which is getting closer to 1, means the better the company's profitability because every asset that exists can generate profits. If it is close to 0 then it is not good for the company.
c) Return On Equity, this ratio is useful for knowing the amount of return given by the company for every rupiah of capital from the owner. If the results of the ROE calculation are close to 1, it indicates the more effective and efficient the use of company equity is to generate income, and vice versa if the ROE is close to 0 it means that the company is not able to process the available capital efficiently to generate income.

## 3. METHODS

This research is a Literature Review or literature review. Literature review, literature research is research that examines or critically reviews knowledge, ideas, or findings contained in the body of academic-oriented literature, and formulates theoretical and methodological contributions to certain topics. The nature of this research is descriptive analysis, namely the regular breakdown of the data that has been obtained, then understanding and explanation are given so that it can be understood well by the reader.

## 4. RESULT AND DISCUSSION

### 4.1. Result

The current ratio is one of the liquidity ratios, which is a ratio that aims to measure the ability of a company to meet its short-term obligations. The higher the CR of a company, the smaller the risk of the company's failure to meet its short-term obligations. This current ratio shows the level of security of short-term creditors, or the company's ability to pay these debts. A current ratio that is too high indicates an excess of cash or other current assets compared to what is needed now or a low level of liquidity than current assets and vice versa). The greater the current ratio, the greater the company's ability to meet its short-term obligations. This shows that the company has placed a large amount of funds on the current asset side. Placement of funds that are too large on the asset side has two very different effects. On the one hand, the company's liquidity is getting better, but on the other hand the company loses the opportunity to get additional profits, because the funds that should be used for investments that benefit the company are reserved to meet the company's liquidity. It can be concluded that the higher the company's liquidity, the lower the company's ability to generate profits.
This ratio is calculated by dividing current assets by current liabilities. Current assets include cash, tradable securities, accounts receivable, and inventories. If a company experiences financial difficulties, the company starts to be slow in paying bills (trade payables), bank bills, and other obligations which will increase current liabilities. If current liabilities are high compared to current assets, the current ratio will fall, which is a sign of a problem.
If the current ratio is too high, it is considered not good because it can indicate cash accumulation, the number of uncollectible receivables and buildup of inventory, but if the current ratio is low, it is relatively risky, but shows that management has operated relatively current assets. A low ratio indicates a high liquidity risk, while a high current ratio indicates an excess of current assets, which will have an adverse effect on the company's profitability. Current assets generally generate lower returns than fixed assets.

### 4.1. Discussion

The current ratio is calculated using a formula that has been calculated from the financial statements that have been reported by the company.

Current Ratio = Current Assets / Current Debt.

So that every time the calculation is carried out it will show the company's performance related to all current liabilities carried out including the assets seen in the available financial statements.

There are separate limitations that are directly related to the current ratio to show a company is good or not. In reporting it, of course, it will use calculations from financial statements which specifically use the provisions in it. When a company with a current ratio is above 1, the company will be considered safe. The lenders will evaluate the company according to the needs that are directly related to the available financial performance. For example, a company wants to increase capital for debt to other companies, then they need to provide existing performance results. When the current ratio is below 1, it will be a further consideration in the future.

## 5. CONCLUSSION

The Current Ratio is one of the most important aspects of the company's assessment. As can be seen that the current ratio is reported to find out whether the company can meet its current obligations or not. Considering the results of the calculation of the current ratio if it is below 1 then the company is not doing well in its financial statements. Vice versa. Some of these considerations will give the company direct convenience whether the company is in a safe limit in increasing capital or not.

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