

# HOW MEASURING FINANCIAL PERFORMANCE

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# HOW MEASURING FINANCIAL PERFORMANCE

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## ABSTRACT

*Financial performance is the achievement of the company's financial performance for a certain period covering the collection and allocation of finance measured by capital adequacy, liquidity, solvency, efficiency, leverage and profitability. Financial performance, the company's ability to manage and control its own resources. Cash flow, balance sheet, profit-loss, capital change can be the basis of information for corporate managers to make decisions. It is important to understand fundamental analysis and technical analysis, it is necessary to learn finance to understand the company's financial behavior through economics, financial management and accounting.*

**Key words:** Financial Performance, Financial Report, Financial Study.

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## 1. INTRODUCTION

Complete planning that identifies the organization's long-term ways of using existing resources within the organization will make the organization or company more competitive (Mochklas & Teguh, 2018).

Business activities are generally divided into three; (a) manufacturing, (b) trading, (c). Manufacturers talk about the cost of production, raw materials, cost of goods sold and profit margins. Speech trade in purchases of goods/services, distribution channels, and retail. And Services talk service fees, speed, convenience, security and service benefits. All business activities must be profitable (Horne & Wachowicz, 2001).

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Financial ratios must be healthy. One healthy size-not a company is to look at financial performance. How big the company is able to create profit, the ability to pay the debt, control the debts, capital turnover, etc. Therefore, the financial statements that are subject to the study. In fact the scale of the company is different, there are small, medium, and large. Starting from individual businesses, families, joint ventures, corporations to conglomerates.

If the business scale is different, then the measurement of financial performance is also different, cannot be equated. Theories with practice in the field are sometimes different. Indeed, the theory is an ideal size, but sometimes empirical readings are not the same as the theory desires. At least this empirical can approach that should be according to the will of the theory.

The study of actual financial performance is to understand the ideal criteria provided with input data from the empirical reality of the firm. This article tries to examine what is meant by Financial performance, financial report, fundamental analysis, technical analysis, and science what if want to learn finance.

## 2. THEORITICAL REVIEW

Financial performance is the company's financial condition over a certain period that includes the collection and use of funds measured by several indicators of capital adequacy ratio, liquidity, leverage, solvency, and profitability. Financial performance is the company's ability to manage and control its resources (IAI, 2016).

The financial statements are financial records covering cash flows, balance sheets, profit-loss and capital changes that become information for corporate managers in taking the company's financial policy. The financial statements are the financial condition of a company comprising the balance sheet of profit/loss calculation, and other financial information, such as cash flows and retained earnings (Didin, 2017).

Fundamental analysis is an analysis based on the company's financial statements, prospectus and other company's financial profile. Technical analysis is an analysis based on market statistical data recorded by a body that describes the increase and decrease in demand and supply. Learning finance is an attempt to understand about financial management, financial reporting and financial decisions (Brealey & Myers, 1991).

## 3. METHOD OF STUDY

The method used in this article is literature review. The scope of study is about studying finance from company's financial performance report. Healthy or not a company will be seen from the financial performance. The company is a surplus or a deficit. Financial learning is necessary to analyze financial performance and financial statements.

## 4. DISCUSSION

Financial Performance Financial performance is a measure of how much a company's ability to create profit, profit or revenue. How to measure the company's financial performance in creating profits, especially companies in the financial industry such as Banking. This can be viewed from the financial statements. The financial statements consist of: (a) Balance Sheet, (b) Income, (c) Cash flow, (d) Changes in capital.

These financial statements are usually prepared and reported in annual, semester or trimester periods. It depends on his needs. Sometimes financial statements can be made different versions depending on their interests. There are financial reports for

directors/commissioners. There are financial reports for tax payments. There are financial statements for the general meeting of shareholders. There are financial statements to obtain credit loans Banking. Healthy-not a company's finances can be analyzed from the four things above.

Can Financial Performance Financial performance is a measure of how much a company's ability to create profit, profit or revenue. How do I measure the company's financial performance in creating profit ?, especially companies in the financial industry such as Banking. This can be viewed from the financial statements. The financial statements consist of; (a) Balance Sheet, (b) Income, (c) Cash flow, (d) Changes in capital.

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Healthy-not a company's finances can be analyzed from the four things above. Can be said healthy financial, if profit surplus company. This is indicated by the ratio of operational costs to operating income. Operating income is greater than the operational cost equals surplus. If the opposite happens it is deficit, loss, bankruptcy, inefficiency. Operational costs are greater than operating income.

There are several ratios to measure the company's financial performance, among others; liquidity ratio, profitability ratio, solvency ratio, efficiency ratio, leverage ratio. For example from profitability ratio there is ROI (Return on Investment), ROE (Return on Equity), ROA (Return on Assets), EBIT (Earning Before Interest and Tax) profit. Liquidity Ratio consists of; fast ratio, current ratio, cash ratio, net working capital ratio to total assets, DER (Debt to Equity Ratio). To know in detail these ratios can be learned in the subject matter of financial management in the faculty of economics.

Fundamental and Technical Analysis Fundamental analysis and technical analysis is an analysis used by investors when making a decision to buy or sell investment instruments/portfolios in the stock market (Schall & Halay, 1991). When to buy and when to sell stocks, bonds or mutual funds. What is the difference between them? Fundamental analysis is an analysis based on the company's financial statements. While technical analysis is based on the image/graph statistics. Both have advantages and disadvantages, but both are equally important when choosing an investment instrument/portfolio. But in practice most investors use technical analysis, because more practical, just see the graphics only. If the fund seems to be more meticulous, especially for investors who can not understand the financial statements.

Learning Finance; the study of finance, you can enter the faculty of economics or high school economics, which consists of three major science courses; Economics, Management and Accounting. Thanks to the progress of science, research, information technology and communication, each of these clusters of science has subsub branches of science in more detail. Especially in finance, banking and accounting.

Economics; the study of how to cultivate limited money to meet unlimited needs with limited money (Pas & Lowes, 1997). Science that learns about how to choose. Economics is learning about money, banking, capital, and wealth. Economics is about activities in production, trade and consumption. Learn about economic growth, economic development,

economic structure. The interest of economics studies is grouped into two; macroeconomics and microeconomics. Macroeconomics studies about economic growth, economic development, inflation, labor, unemployment, poverty, fiscal policy, monetary policy. While microeconomics learn about production theory, production cost, market structure. Specialized financial emphasis can be deepened for example money supply in macroeconomics and monetary economics. Taxation and fiscal. Monopoly market, oligopoly and perfect competition.

Management: How to work with others in the same container to achieve common goals. Planning, budgeting, implementing, monitoring and evaluating. His study interests include; production/operations management, financial/banking management, human resources management, marketing management and consumer behavior, research and development management.

Accounting: Recording, writing, sorting, selecting all financial transactions that have occurred to be reported to interested parties. Such parties are like; shareholders, commissioners, directors, banks, tax authorities and the public to serve as a basis for financial managers' decisions in the future. Interest in the study of accounting, including; Financial accounting, cost accounting, auditing, budgeting, taxation accounting, management accounting, public sector accounting, sharia accounting, banking accounting.

## 5. CONCLUSIONS

Financial performance is the financial achievement of the company, it is important to understand the managers of the company. The ratio of liquidity, solvency, profitability efficiency, leverage can be used as a benchmark of financial performance. The data can be extracted from the financial statements; cash flow, balance sheet, profit-loss and capital change. Also fundamental and technical analysis. To understand finance can learn to understand economics, financial management and accounting.

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