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# ANALYSIS OF FINANCIAL STATEMENT AND SUSTAINABILITY OF CDMA SERVICE PROVIDER COMPANY (A CASE OF PT TELECOMMUNICATION X DAN PT TELECOMMUNICATION Y)

Athira Azalika Ayu and Asep Darmansyah
School of Business and Managament
Institut Teknologi Bandung, Indonesia
athira.azalika@sbm-itb.ac.id

*Abstract. Telecommunications is very vital to help people socialize and live. Various means are provided to facilitate the course of the telecommunications activities. One of them is the establishment of telecommunication service provider company. In Indonesia itself, there are to types of telecommunication service provider, which are GSM and CDMA. In the past year, CDMA service provider companies suffer bankruptcy one by one leaves only two companies remaining named PT Telecommunication X and PT Telecommunication Y. The purpose of this research is to determine the financial performance of the companies during the period 2011 through 2014 at the CDMA service provider companies and to determine the sustainability prediction in the future at the CDMA service provider companies. If those companies are aware of its financial condition and able to improve its performance, the company would likely to survive in telecommunication industry. The financial performance of both companies were analyzed and compared using financial ratio calculation and trend financial statement. For the sustainability analysis, Altman Z-Score is the method used in this research to predict a future bankruptcy indicator. The result of analysis shows that PT Telecommunication X and PT Telecommunication Y are not performing a good financial performance and are in the state of bankruptcy based on Altman Z-Score analysis.*

*Keywords: Telecommunication industry; financial ratios; Altman Z-Score; sustainability analysis; trend analysis, financial performance.*

## Background

With the analysis of the trend financial statements and in recognition of the company's bankruptcy indicators, many people who could use that information. In this case, the authors chose to analyze a company engaged in the field of telecommunications services in particular CDMA network service provider in Indonesia, PT Telecommunication X and PT Telecommunication Y. But until today, CDMA is not able to compete with GSM, there are even worse indications. In online media, issues about CDMA service "close the book" in 2014 is growing rapidly. Telkom Flexi has been shifting its services to Telkomsel. According to Ridwan Effendi, Member of BRTI Commisioner (Indonesian Telecommunications Regulatory), almost all CDMA operators loss. He said, the entire CDMA operator income, only contibuted 3% in the telecommunications business. This is deterioration compared to the early days of the current operating income of the entire CDMA operators that reach 7%. Based on the financial data, it can be reported that performance of all CDMA service providers suffering loss.

The number of PT Telecommunication Y customers in 2012 is decreasing. Therefore, in the year 2012 PT Telecommunication Y suffered losses amounted to 3 trillion rupiahs. PT Bakrie Telecom Tbk then do a revitalization, steps taken include closing some BTS (base transceiver station) that is not productive. The results began to appear at the end of 2014; PT Telecommunication Y successfully pressed the losses to 2,5 trillion rupiahs. Current customers PT Telecommunication Y reached about 12 million customers spread over a wide area, Banten, Jakarta and West Java. In terms of technology, ESIA is not inferior compared to GSM technology. If GSM relies on 3G, PT Telecommunication Y also had technology on par with it, namely EVDO (Evolution-Data Optimized). PT Telecommunication Y also seeks to boost the performance of its business through a strategy of OTT (over the top). One of the real form is synergizing with social media Path. As we knew, PT Telecommunication Y has recently bought Path stocks.

In the third quarter of 2014 PT Telecommunication X posted a net loss of 939,93 billion rupiahs or ( 13,36 ) rupiahs per share in the third quarter of year 2014. Net profit of the third quarter of year 2014 show the performance of the company compared with net loss in the third quarter of the year 2013 which is 1,54 trillion rupiahs or ( 24,63 ) rupiahs for each stock. This is because the operating expenses of the company had declined from 3,19 trillion rupiahs to 3,07 trillion rupiahs. The company principal income has increased from 1,75 trillion rupiahs in the third quarter of 2013 to 2,19 trillion rupiahs in the third quarter of year 2014. Financial burden of the company had declined from 280,16 billion rupiahs to 245,26 billion rupiahs.

Based on the financial statements will be calculated a number of financial ratios commonly used as the basis of predictions of bankruptcy. Financial statement analysis results will help interpret various relationships and trends that can provide the basis for consideration on future predictions whether a company can survive or not (S. Munawir, 2002: 292). By analyzing the information above the authors are interested in making the two companies as the object of a study entitled:
"Analysis of Financial Statement and Sustainability of CDMA Service Provider Company, Case of PT Telecommunication X and PT Telecommunication Y"

**Literature Review**

*Financial Statement*
The financial statements consist of the Balance Sheet, Profit and Loss, and Statement of Changes in Financial Position. According to G. Sugiyarso and F. Winarni (2006, p8), the financial statements is a list of the organization's financial transactions end summary that shows all operational activities of the organization and consequently for the standard in question.

Understanding financial statements according to the Indonesian Institute of Accountants (2004, p2) is as follows: The financial statements are part of the financial reporting process. Complete financial statements usually include Balance Sheet, Income Statement, Statement of Changes in Financial Position (which is presented in a variety of ways, such as for example, a cash flow statement or funds flow statement), notes and other statements and explanatory material that are an integral part of the report financial. Based on the above definition, it can be concluded that the financial statements that include the two main points, namely: Balance Sheet and Income Statement. Balance Sheet reflects the value of assets, debt and equity capital at any given moment. Income Statement reflects the results achieved during a given period, usually covering a period of one year.

*Financial Ratios*
Based on the opinion Sawir Agnes (2005, p6), to assess the financial condition and achievements of the company, financial analysts need some benchmarks. Benchmark that is often used is the ratio or index, which connects the two financial data with each other. In the opinion of Munawir Slamet (2002, p37),

ratio analysis is an analysis method to determine the relationship of certain items in the balance sheet or income statement as an individual or a combination of the two reports. That is based on the data contained in the financial statements either of the balance sheet, income statement, and both can be calculated various types of ratios that can be used as a guide in making decisions for the company's survival. . Type of financial ratio analysis by Agnes Sawir (2005, p8-22) are as follows:

A. Liquidity Ratio
Is a ratio that describes the company's ability to meet maturing obligations. Liquidity ratios are commonly used are:

• Current Ratio
This ratio is calculated by dividing current assets by debt. The current ratio is the most common measure used to determine the ability to meet short-term obligations, as this ratio indicates how far the demands of short-term creditors are expected to be met by the assets into cash within a period equal to the maturity of debt.
Current Ratio = Current Assets / Current Debt
Low current ratio is usually considered to indicate the occurrence of problems in liquidity. Instead of a company that is too high current ratio is also not good, because it shows the number of idle funds, which in turn may reduce the profitability of the company. According to Kasmir (2008: 143) industry standard for current ratio is 2 or higher.

• Quick Ratio
This ratio is calculated by subtracting the Inventory of Current Assets and then dividing the result by Debt.
Quick Ratio = Current Assets - Inventories / Debt
Inventory is an element of the current assets of low liquidity levels, frequent price fluctuations, and the elements of current assets is often cause a loss in the event of liquidation. So the sooner the better ratio in measuring the ability of a company to meet its short-term liabilities. According to Kasmir (2008: 143) industry standard for quick ratio is 1,5 or higher.

B. The ratio of Debt Management (Solvability Ratio).
Leverage ratio measures the degree of solvency of a company. This ratio indicates a company's ability to meet all financial obligations if the company at that time liquidated. Thus solvency means the ability of a company to pay all his debts, both long term and short term. Leverage ratio commonly used are:

• Debt ratio
This ratio is calculated by dividing the Total Debt to Total Assets. This ratio provides a benchmark for how much the total assets owned by the company that financed through the use of debt.
Debt Ratio = Total Debt / Total Assets
This ratio shows the proportion of liabilities held and all property owned. The higher the percentage, the greater the risk of financial tend to creditors and shareholders. According to Kasmir (2008: 164) industry standard for debt ratio is below 0,35 or lower.

C. Asset Management Ratio
Is a ratio that measures the extent to which the effectiveness of the management company to manage assets-its assets. This means that in this case is to measure the ability of the management company to manage the inventory of raw materials, work in process, and finished goods as well as policy management in other assets and marketing policies. Asset management ratios to analyze the relationship between the income statement, especially with the sale of the elements that exist on the balance sheet, in particular elements of assets. Akitivitas ratio is measured in terms of the velocity of the elements associated with the sale of assets. Activity ratios are commonly used:

• Total Assets Turnover Ratio

This ratio is calculated by dividing sales by average total assets.
Total Asset Turnover Ratio = Sales / Average Total Assets
This ratio indicates the effectiveness of the use of the entire property companies in order to generate sales or describe how many dollars net sales generated by each dollar invested in the form of company property. If the slow-moving, this indicates that the assets held too large compared with the ability to sell. According to Kasmir (2008: 187) industry standard for total asset turnover ratio is twice a year.
D. Profitability Ratio
Profitability (profitability) is the net end result of a variety of policy and management decisions. Profitability ratios will give the final answer about the effectiveness of the company's management, this ratio gives an idea of the level of effectiveness of the management of the company. Profitability ratios are commonly used:

- Profit Margin on Sales Ratio
  This ratio is calculated by dividing Net Income to Sales. This ratio measures the net profit after tax to sales. According to Kasmir (2008: 208) industry standard for net profit margin ratio is 0,2 or higher.
  Ratio of Net Profit Margin = Net Income / Sales
- ROA (Return on Assets Ratio)
  This ratio is calculated by dividing Net Income to Total Assets. This ratio shows how much net profit to be gained from all property owned by the company. Investment professionals like to see a company's ROA come in at no less than 5%.
  ROI = Net Income / Total Assets
- ROE (Return on Equity Ratio).
  This ratio is calculated by dividing Net Income to Equity. This ratio shows the extent to which the company's own capital effectively manage, measure the profitability of the investments made equity owners or shareholders of the company. According to Kasmir (2008: 208) industry standard for ROE is 0,4 or higher.
  ROE = Net Income / Equity
  To overcome the shortcomings of the ratio analysis should be combined various ratios in order to become a significant predictive models. Analysis of Z-score is a model to predict the failure of the company's business are obtained from a combination of financial ratios that most contribute to the prediction model (STIE Supra, 2003, p90).

*Bankruptcy Indicator*
Bankruptcy simply means that our debts is greater than the assets we have. Alternatively, it can also be interpreted as a condition in which the cost of our lives is greater than the income we earn. Palepu, Bernard and Healy (2000, p37), more emphasis on issues of financial difficulties from the point of view of creditors, mentioning the importance of the problem financial difficulties in credit analysis: "A key element of credit analysis is the prediction of the likelihood a firm will face financial difficulties". Furthermore, Palepu, Bernard and Healy (2000, p37), said the purpose of this analysis is as follows: The purpose of this analysis is not only assess the likelihood that a potential borrower will fail to repay the loan. It is also important to recognize the nature of the risks associated key, and how the loan can be structured to reduce or control these risks. Loans are structured to provide a loan to the "exit strategy" that can walk, even in case of failure. The key to this structure is agreement on the exact design based accounting.

Edward I. Altman in the mid-1960s to create a model equation for predicting corporate bankruptcy using discriminant analysis (STIE Supra 2003, P95). In the opinion of Sawir Agnes (2005, p24), Z-Score Altman creation has proven its reliability to survive until now. Discriminant function Z (Zeta) Edward I. Altman found is (STIE Supra 2003, P95):

$Z = 1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + 1.0X5$

If the total score (Z-score) companies is greater than 2.99 means that everything goes well (non-bankrupt). If the total score (Z-score) is smaller than 1.81, bankruptcy (bankrupt) may occur. If the total score (Z-score) company located between 1.81 to 2.90, the company is in a gray area (gray area).

## Methodology

### Research Object

The author conducted research on CDMA service provider company listed on the Jakarta Stock Exchange or in other words CDMA service provider in Indonesia that has to go public. From my observation, there are two companies who observed that:

1. PT Telecommunication X
2. PT Telecommunication Y

The object of research that will be examined in this study is the Financial Statements of both CDMA service provider company listed on the JSE mentioned above for a period of approximately four years back that began in 2010-2014.

### Operationalization of Research Variable

| No | Variable | Concept | Indicator | Ratio |
|---|---|---|---|---|
| 1 | Liquidity Ratio | Company's ability to meet maturing obligations. | Current Ratio = Current Assets / Current Debt | 2 times or higher. |
| | | | Quick Ratio = Current Assets - Inventories / Debt | 1,5 times or higher. |
| 2 | Leverage Ratio | Company's ability to meet all financial obligations if the company at that time liquidated. | Debt Ratio = Total Debt / Total Assets | 0,35 or below. |
| 3 | Asset Management Ratio | Measures the extent to which the effectiveness of the management company to manage assets-its assets | Total Asset Turnover Ratio = Sales / Total Assets | 2 times a year |
| 4 | Profitability Ratio | Level of effectiveness of the management of the company. | Ratio of Net Profit Margin = Net Income / Sales | 0,2 or higher. |
| | | | ROA = Net Income / Total Assets | 0,05 or higher |
| | | | ROE = Net Income / Equity | 0,4 or higher |
| 5 | X1 | This ratio indicates the company's ability to generate net working capital of the whole of its total assets. | Net Working Capital to Total Assets | Ratio |

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|---|---|---|---|---|
| 6 | X2 | This ratio shows the company's ability to generate retained earnings of the total assets of the company. | Retained Earnings to Total Assets (Sofyan Syafri Harahap, 2009: 353) | Ratio |
| 7 | X3 | This ratio shows the company's ability to generate profits from the assets of the company, before interest payments and taxes. | Earning Before Interest and Tax to Total Assets (Weston & Copeland, 2004:255) | Ratio |
| 8 | X4 | This ratio shows the company's ability to meet obligations - the obligations of the market value of the common stock. | Market Value of Equity to Book Value of Debt<br>(Sofyan Syafri Harahap, 2009: 353) | Ratio |
| 9 | X5 | This ratio indicates whether a company generating enough business volume compared to the investment in total assets. | Sales to Total Assets<br>(S. Munawir, 2002: 309) | Ratio |
| 10 | Z-Score | From the company's financial report data will be analyzed using financial ratios that are considered to predict the bankruptcy of a company. Some financial ratios that detects liquidity, profitability, and the company's activities that will produce ratios that will be further processed by Altman. | $Z = 1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + 1.0X5$<br>(S. Munawir, 2002: 309) | 1. Z-Score < 1.81 means the company experienced financial difficulties and high risk.<br>2. Z-Score between 1.81 - 2.99 the company is considered to be in the area - gray.<br>3. Z-score > 2.99 provide an assessment that the company is in a very healthy financial situation. |
| 11 | Company Performance Prediction | Using trend analytical method to seek the tendency of | Yearly percentage trend = base year / year x 100% | 1. Trend financial position analysis |

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|---|---|---|---|---|
| | | company's financial performance in the future, wether it tends to decrease or increase. | | 2. Trend profit and loss analysis |

**Result, Conclusion, and Recommendation**

Based on the research to evaluate financial performance of CDMA service provider company in Indonesia named PT Telecommunication X and PT Telecommunication Y as their product using financial ratios such as liquidity ratio, leverage ratio, asset management ratio, and profitability ratio, also trend financial financial statement analysis, the results are:

1. **Liquidity Ratio**
   PT Telecommunication X financial performance based on liquidity ratio calculation is not good. The company has very low ratio, lower than the industry standard. Same with PT Telecommunication Y the company also has a low liquidity ratio, because of that both companies will suffer a difficulties in paying the company short-term obligations. The differences between PT Telecommunication X and PT Telecommunication Y in its liquidity ratio is PT Telecommunication X tends to show an increasing liquidity ratio year by year while PT Telecommunication Y liquidity ratio is decreasing yearly. It means there is an improvement in financial performance of PT Telecommunication X compared to PT Telecommunication Y.
2. **Leverage Ratio**
   Based on calculation, both companies have a higher leverage ratio compared to the industry standard. In general PT Telecommunication X has lower leverage ratio compared to PT Telecommunication Y leverage ratio that constantly increasing year by year. The higher leverage ratio means the higher the risk of loss faced, carrying bigger burden in the sense that principal and interest payments take a significant amount of the company's cash flows, and a hiccup in financial performance or a rise in interest rates could result in default. Usually, lenders or investors prefer low leverage ratio, because the lower the company's debt ratio the lenders' interests are better protected in the event of a business decline.
3. **Asset Management Ratio**
   Asset management ratio indicates how successfully a company in utilizing its assets to generate revenues. Thus a higher asset turnover ratios are desirable because they mean that the company is utilizing its assets efficiently to produce sales. Compared to PT Telecommunication X, PT Telecommunication Y has a higher asset management ratio in period 2011 – 2014. But, both companies still have a lower ratio if being compared to the industry standard thus we can't say that the companies have a good financial performance.
4. **Profitability Ratio**
   As we can see from financial report, both companies still can't generate profit while profitability ratio is a ratio that describes the company's ability to gain profit through all of the capabilities and existing sources, therefore the profitability ratio is negative for PT Telecommunication X and PT Telecommunication Y. Net profit margin ratio of PT Telecommunication X is relatively increasing year by year which indicates an improvement in company's financial performance while PT Telecommunication Y net profit margin is decreasing continuously. Same condition happen to ROA and ROE calculation, PT Telecommunication Y can't seem to improve its financial performance, as shown from decreasing ROA and ROE year by year. As for PT Telecommunication X the ROA and ROE ratio still negatives from year to year, it means that the

company don't perform a good financial performance, but the ROA is increasing every year indicating an improvement in its financial performance.

5. **Trend Analysis**
   From the calculation of financial position and profit and loss in the form of trend for PT Telecommunication X using 2011 as the base year, some conclusions can be drawn regarding the company's financial performance from 2011 to 2014. In the comparative balance sheet amount of total assets increased from year to year, from 2011 to 2014 the total percentage increase in total assets reached 44.42%, in line with the obligations that continue to increase each year because they do not do payment obligations. Although PT Telecommunication X still recorded a loss from year to year, the percentage of loss continues to decline by up to 57.45% in 2014, this might indicate progress toward a better financial terms, if the company continues to improve the performance likely in the coming years PT Telecommunication X will reap the benefits.

   In contrary to the results of the calculation of financial position and profit and loss form the trend for PT Telecommunication Y using 2011 as the base year, some conclusions can be drawn regarding the company's financial performance from 2011 to 2014. In the comparative balance sheet amount of total assets decreased from year to year, from 2011 to 2014 the total percentage reduction in total assets reached 37.87%, in line with the obligations which continues to decline each year as payment of obligations. PT Telecommunication Y still recorded losses increasing from year to year. If the company does not conduct performance improvement, investors will be reluctant to invest in the company and it is probable that the company will go bankrupt if this condition persists.

6. As we can conclude from the calculation, both PT Telecommunication X and PT Telecommunication Y didn't perform a good financial performance shown from the unachieved industry standard for each ratios. In general we can say that PT Telecommunication X financial performance is slightly better from PT Telecommunication Y, PT Telecommunication X also constantly show an improvement in financial performance year by year shown by the decreasing amount of loss, the company might started generating profit again in upcoming year.

For the sustainability analysis, Altman Z-Score method is used to predict PT Telecommunication X and PT Telecommunication Y probability of bankruptcy. Based on Z-Score indicator, both companies still in the state of bankruptcy. Once again, even if PT Telecommunication Y has a higher Z-Score in year 2011 and 2012 it seems that the company can't maintain its financial performance because the Z-Score is getting worse year by year, different from PT Telecommunication Y that shows an improvement eventhough it still in the bankruptcy state in year 2014.

Knowing company performances in term of financial side can help management to identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long term forecasting and growth can be identified with the help of financial performance analysis. To keep an eye on their investments, investors should consider checking their companies' Z-score on a regular basis. A deteriorating Z-score can signal trouble ahead and provide a simpler conclusion than the mass of ratios. Given its shortcomings, the Z-score is probably better used as a gauge of relative financial health rather than as a predictor. Arguably, it's best to use the model as a quick check of financial health, but if the score indicates a problem, it's a good idea to conduct a more detailed analysis. From the calculation of this research we find both companies are not performing a good financial performance and are in the state of bankruptcy, but both PT Telecommunication X and PT Telecommunication Y can still manage to run its business and they still have loyal customer that becomes their active user of the product. Besides, in CDMA industry, PT Telecommunication X and PT Telecommunication Y are the only companies left, so the chances to get customer is easier due to the small amount of competitor. Their biggest competitor come from outside CDMA market which is GSM provider, in order to be able to compete with GSM provider some improvement should be done, such as:

- Improving company's EBIT because we can clearly see from financial report that both companies still have negative earning before interest and tax. It means that earning power of the company is low and can't cover any expenses. Improving company's EBIT is very important because they will increase the value of the business and help them to get a higher sale price. There are two options to increase business profits which is by increasing sales income and decreasing cost of goods sold. Of course the best result could be achieved if the company do both ways.

- Sales income can be increased by raising the charging price but CDMA is known as its price competitive service provider so this option might be unapproriate. Therefore, we can do other way by creating new demand and maintain the price by not discounting. Creating new demand can be done through better marketing strategy to pack the goods and services that the company provides in more interesting way.

- Decreasing the cost of goods sold requires the company to asses each expenses and examine ways to cut those costs such as by terminating excess employees, reorganization of staff, find a cheaper materials with similar quality, or improving efficiency and productivity with tools. Develop a long term plan to saving the cost of technologies for inventory, production, and sales to increase efficiency is also important.

- Performing a good asset management, such as cash management, inventory and accounts receivable to get good result also control the risk of loss and improving asset productivity.

- Conducting a good relationship with investor or bank by performing a better debt management because both companies have a huge amount of debt.

Further research should be done for both companies especially in the decision making process wether to keep the business or to quit the business through capital budgeting analysis.

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