

**ANALYSIS OF LIQUIDITY AND SOLVENCY RATIOS ON THE
BALANCE SHEET OF THE REGIONAL GOVERNMENT OF
TEMANGGUNG IN 2014-2015**

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Abstract

The purpose of this study is to determine the ratio of liquidity and solvency on the balance sheet of the Temanggung Regional Government. The object of research used is the balance sheet of the Temanggung Regional Government for the period of 2014-2015. The method used is descriptive qualitative method. The results of this study indicate that the Temanggung district government has sufficient assets to pay off its debts and can pay debts quickly and with a high level of liquidity. Hence, it can be concluded that the Temanggung district government has financial adequacy to carry out government operational activities, and able to fulfill all its obligations, both short-term and long-term obligations, as well as the Temanggung district government has the opportunity to attract investors and creditors to channel their funds for the development of the Temanggung government

Keywords: Liquidity Ratio, Solvency Ratio, Balance Sheet, Temanggung Regional Government

1. INTRODUCTION

Regional autonomy requires regional leaders to provide financial accountability reports in the form of Budget Realization Reports, cash flow reports, regional balance sheets, and notes to financial reports (Bastari, 2004). Financial statements are created to give relevant data about a reporting entity's financial situation and all transactions that occurred during the reporting period (Hartina, 2009).

The Regional Balance is one of the financial reports that the Regional Government is required to prepare in compliance with Government Regulation (PP) No.24/2005. This report is critical for local government management not only to comply with current rules and regulations, but also to serve as a basis for targeted decision making in the context of regional economic resource management that is efficient and effective.

As in the business world, many parties are interested in the regional balance sheet, including not only the regional executive but also the legislature, the community, and other users, in order to determine the quality of assets owned by the region and how to manage them efficiently and effectively in order to provide better services to society. As a consequence, interested parties must be aware of the local government's financial situation.

Financial ratios, according to Kasmir (2015), are actions that compare figures in financial accounts by dividing one number by another. Comparing one component to other components in the same financial report or between components in different financial statements is possible. The figures being compared can be in the form of numbers from one or several periods. Therefore, the ratio analysis of liquidity and solvency was used in this study.

Furthermore, Harahap (2016) defines the liquidity ratio as "a measure of a company's ability to meet its short-term obligations." Meanwhile, the solvency ratio (leverage) indicates the extent to which the business is financed through debt (Fahmi, 2013).

Based on the background above, the formulation of the problems in this study is: How the regional government of Temanggung regency's financial performance when examined from the balance sheet side with an analysis of liquidity and solvency ratios. Therefore, the study aims to provide empirical evidence regarding the financial performance of the local government's balance sheet in Temanggung district. Hopefully, this study can be a reference for evaluation, correction, and future improvements by the executive (top, middle, and lower management), the legislature, and stakeholders (the wider community) on the performance of local governments in implementing various programs/policies, especially those related to the people's economy.

2. LITERATURE REVIEW

2.1. Regional Financial Report

Regional financial reports are documents that provide data on many aspects of the assets and financial structures, as well as the outcomes of specific actions. All reports and varied explanations that accept the report will be recognized as part of the financial report are referred to as "Local Government Financial Report." (Mardiasmo, 2004).

2.2. Balance

According to Abdul Halim (2013), a balance sheet is one of the components of the government's financial statements that shows the position of assets, debt, and equity funds (also known as capital in the private sector) of an organization at a given time. The information on the balance sheet becomes something that the government must possess. The financial condition of a reporting company in terms of assets, liabilities, and equity as of a stated period is referred to as balance. Each entity divides its assets into current and non-current assets, as well as its obligations into short-term and long-term liabilities, on its balance sheet. Assets, liabilities, and equity are the three main categories of things on the balance sheet. These sections are then subdivided into various subcategories, each of which provides readers with extra information. The basic accounting equation in the balance sheet, according to Nordiawan (2010), is:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Assets are economic resources that the government controls or owns as a result of past events and from which future economic or social advantages are expected to be derived, both by the government and the community, and can be measured in monetary units, including resources. non-financial resources that are needed to provide services to the broader public and are kept for historical and cultural purposes. The potential for assets to contribute, either directly or indirectly, to government operational activities in the form of revenue streams or spending reductions are the future economic advantages inherent in assets. Cash, accounts receivable, inventory, land, and buildings are examples of assets.

Liabilities are debts owed to the government as a result of previous events, the repayment of which results in an outflow of government funds. The basic feature of the duty is that it is a present obligation that, in its resolution, results in the sacrifice of future economic resources. Third-party debt computations, interest payable, and debt to the federal government are all examples of liabilities.

In addition, equity reflects the government's net value, which is defined as the difference between assets and liabilities. The difference between assets and liabilities in commercial companies is equity, which denotes the shareholders' ownership of the company. Meanwhile, equity funds in the public sector do not identify who owns what because there is no individual ownership in a public sector business. Deferred income, funds invested in fixed assets, and funds set aside for the repayment of long-term debt are all examples of equity funds.

2.3. Financial Statement Analysis

The executive (top, middle, and lower management), the legislature, and stakeholders (the broader community) use financial statements to evaluate, correct, and improve the performance of local governments in implementing various programs/policies, particularly those connected to the people's economy.

Financial statement analysis, according to Soemarso (2002), is essentially connecting the numbers in the financial statements with other figures by describing the direction of change (trend). The word "financial statement analysis" refers to the process of examining or studying relationships, tendencies, or trends in order to evaluate a company's financial status, outcomes of operations, and overall development (Falikhatun, 2007)

Hence, the concept of financial statement analysis is that it is a process of evaluating, reviewing, and studying financial statements in order to acquire a good and adequate understanding for decision making in public and private sector businesses.

2.4. Financial Ratio Analysis

In Mahmudi (2007), there are certain types of financial ratios that are less relevant for the public sector, such as analysis of receivables turnover, inventory turnover, asset turnover, ROA, and ROI. These ratios are more suitable for profit-seeking business sectors, because the purpose of using these ratios is to assess financial performance related to profit. Meanwhile, in the public sector, the unavailability of earnings information causes the financial ratio analysis commonly used in the business sector cannot be applied in the public sector. However, there is also a financial ratio analysis that can be used in both the business and public sectors, such as liquidity and solvency analysis.

According to Mahmudi (2007), financial statements ratios in the analysis of local government financial statements include:

1. Liquidity Ratio

The liquidity ratio shows the ability of local governments to meet their short-term obligations. Even though local governments have prepared cash budgets, liquidity analysis will be more useful for management than if only based on cash budgets. To perform liquidity analysis there are several ratios that can be studied, namely:

a. Current Ratio

The current ratio compares current assets owned by local governments at

the balance sheet date with short-term debt. The current ratio is a standard measure for assessing the financial health of organizations, both business organizations and local governments. The ratio has sufficient assets to pay off its debts. The value of the current ratio which is considered current is 2:1. However, this figure is not absolute, it really depends on the characteristics of current assets. However, the acceptable value is 1:1; if it is less than that, the organization's finances are in trouble.

b. Cash Ratio

The cash ratio compares the cash available in the government plus securities that can be immediately cashed (short-term investments) divided by current debt. The cash ratio is useful for determining the ability of local governments to pay debts which must be met immediately with cash and securities owned by local governments.

c. Quick Ratio

The quick ratio compares current assets after deducting inventories with current liabilities. A quick ratio indicates whether a company can pay its debts quickly, the higher the value of the quick ratio, the higher the level of financial liquidity. The value that is considered well for the quick ratio is 1:1.

d. Working Capital to Total Assets

Working capital to total assets is a financial ratio to measure the liquidity of total assets with a net working capital position.

2. Solvency Ratio

The solvency ratio can be used to see the company's ability to meet all of its obligations, both short-term and long-term. The value that is considered good for the solvency ratio is 1:1.

3. RESEARCH METHOD

The descriptive qualitative method was used in this study. The financial performance of the Temanggung Regency Government is described in this study using financial ratios on the balance sheet. The balance statement of the Temanggung Regency Government from 2014 to 2015 is the focus of investigation. The balance received from the Temanggung Regional Government is used in this study as secondary data

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4. RESULT AND DISCUSSION

Table 1 Calculation of the Liquidity and Solvency Ratio of the Regional Government of Temanggung

No	Evaluated Aspect	Component
1.	Liquidity	
	2014	<ul style="list-style-type: none"> • Current Ratio = $\frac{\text{Current Asset}}{\text{Current Debt}}$ $= \frac{228,025,960,945.95}{27,104,343,136.55}$ $= 8,41289$ • Quick Ratio = $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Debt}}$ $= \frac{228,025,960,945.95 - 12,398,256,437.90}{27,104,343,136.55}$ $= 7.95546$ • Cash Ratio = $\frac{\text{Cash} + \text{Securities}}{\text{Current Debt}}$ $= \frac{169,025,327,575}{27,104,343,136.55}$ $= 6.23609$ • Working Capital to Total Assets = $= \frac{\text{Current Assets} - \text{Current Debts}}{\text{Total Assets}}$ $= \frac{228,025,960,945.95 - 27,104,343,136.55}{2,186,321,514,985.14}$ $= 0.09189$
	2015	<ul style="list-style-type: none"> • Current Ratio = $= \frac{\text{Current asset}}{\text{Current Debt}}$ $= \frac{\text{Current asset}}{282,291,440,926.80}$

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		$= \frac{67,300,420,605.24}{16,449,449,449.44} = 4.19449$ <ul style="list-style-type: none"> Quick Ratio = $= \frac{\text{Current Assets Inventory}}{\text{Current Debt}}$ $= \frac{282,291,440,926.80}{71,998,729,710.20} = 3.98649$ Cash Ratio = $= \frac{\text{Cash} + \text{Securities}}{\text{Current Debt}}$ $= \frac{159,986,682,092}{67,300,420,605.24} = 2.3772$ Working Capital to Total Assets = $= \frac{\text{Current Assets} - \text{Current Debts}}{\text{Total Assets}}$ $= \frac{945.95}{228,025,960,27,104,343,136.55} = 0.09189$
2.	Solvency	
	2014	<ul style="list-style-type: none"> Solvency Ratio = $= \frac{\text{Total assets}}{\text{Total Debt}}$ $= \frac{2,186,321,514,985.14}{46,684,114,486.55} = 46,832$
	2015	<ul style="list-style-type: none"> Solvency Ratio = $= \frac{\text{Total assets}}{\text{Total Debt}}$ $= \frac{2,608,342,350,119.69}{108,811,023,605.24} = 23,971$

4.1. Liquidity Ratio

Table 2 Ratio of Liquidity in 2014 – 2015

Financial Ratio	2014	2015
Current Ratio	8 : 1	4 : 1
Cash Ratio	6 : 1	2 : 1
Fast Ratio	7 : 1	3 : 1
Ratio of Working Capital to Total Assets	0.09 : 1	0.08 : 1

Based on the table above, it is known that the current ratio of Temanggung Regency has decreased, but the value is still very safe. The current ratio figure which is considered reasonable is 2:1, while the current ratio is 4:1. This shows that the Temanggung local government has sufficient assets to pay off its debts.

When compared to 2014, the cash ratio has decreased. Cash ratio in 2015 reached 2:1, of course the ability of Temanggung local government in paying debts that must be immediately filled with cash and securities owned by the regional government has decreased. However, the government's ability to pay debts that must be fulfilled immediately is said to be good because the value is still said to be reasonable.

The quick ratio compares current activities after deducting inventories with current liabilities. From the table above, the rapid ratio has decreased compared to the previous year, which was originally 7:1 in 2014 to 3:1 in 2015. However, despite the decline, the quick ratio in 2015 can be said to be good, because the limit for a reasonable fast ratio is 1:1. This shows that local governments can pay their debts quickly and have a high level of liquidity.

4.2. Solvency Ratio

Table 3 Ratio of Solvency in 2014 - 2015

Financial Ratio	2014	2015
Solvency	46 : 1	23 : 1

Compared to 2014, the solvency ratio has indeed decreased, but its value is still very safe. The solvency ratio that is considered safe is at least 1:1, while the solvency ratio of Temanggung district in 2015 is 23:1. This means that the Temanggung regional government is financially very solvable, or very good in fulfilling all its obligations, both short-term and long-term obligations.

5. CONCLUSION

Based on the results of the liquidity and solvency analysis that has been conducted, it can be determined that the Temanggung district government has sufficient financial resources to carry out government activities and is able to meet all of its obligations, both short- and long-term. Apart from that, the Temanggung district government has the

opportunity to attract investors and creditors who will invest their assets towards the growth of the Temanggung government.

Suggestion

According to the findings of the study, the Temanggung district government has a sufficient ability to meet its financial responsibilities and debt obligations. As a result, the ability to pay off this debt can be leveraged to attract investors to make investments.

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