

Cash Flow Statement Analysis as a Decision-Making Tool in Financial Management (A Case Study of PT Indofood Sukses Makmur)

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Abstract

Financial planning, analysis, and control of financial operations are examples of tasks that fall under the field of financial management. The purpose of this research is to examine and analyze the cash flow statement to gain valuable insights for decision-making. To conduct this analysis, the author uses a qualitative descriptive research approach. They collect, transform, interpret, and analyze data to summarize the results from revenue. The cash flow statement for the food and beverage industry is prepared by PT Indofood Sukses Makmur. When calculating all cash flow metrics, the average revenue—or net profit—is quite large. The cash flow calculation results show the company's profit and the growth percentage of each result; Indofood Sukses Makmur is a company that shows very low sales. PT Indofood generates the lowest average cash flow statement ratio compared to all other food and beverage companies studied in this research.

Keywords: *Financial Management, Cash Flow Statement, Company Development.*

INTRODUCTION

One of the main responsibilities of management as a leader is to make quick and accurate decisions with the expected outcomes in a given situation. Every decision carries risks if the results do not align with expectations. This clearly presents a unique challenge, especially in terms of managing the company's finances. However, as a manager, the CFO is expected to perform their duties in the best way possible so that the company's financial problems can be avoided and the company's financial profits can be maximized according to the expectations of the management team, shareholders, or owners (Tho'in et al., 2020).

Financial planning, analysis, and control of financial operations are the primary focuses of financial management, particularly for corporate financial managers (Chandra, 2011). Financial management can be defined as the process of applying various financial functions or organizing operations within an organization (Chandra, 2011). All types of business or organizational activities can be defined as financial management. Financial management includes various efforts to obtain funds to minimize costs and allocate funds as effectively as possible to enhance the value of the related business, desired pricing, and what potential consumers are willing to pay if the business sells it (Asnaini & Asriani, 2012).

PT Indofood Sukses Makmur Tbk produces fast food with six different brands, all of which contain instant noodles. The company has been operating since

October 1996 and employs 295 people from across North Sulawesi. The company employs individuals with various educational backgrounds, such as high school, diploma, and bachelor's degrees (Ramadhani & Anwar, USA, 2021). Due to its rapid growth, the Indonesian food and beverage industry has greater opportunities. One reason for conducting a balance sheet analysis is to assess the company's financial performance. PT Indofood Sukses Makmur Tbk is a food and beverage company based in Jakarta, Indonesia (Oktarina et al., 2022).

Similarly, PT Indofood CBP Sukses Makmur Tbk Bitung believes that human resource development is a very important way to improve employee performance. To enhance the quality and efficiency of the workforce, human resource development requires a staff placement strategy (Ramadhani & Anwar US, 2021).

METHOD

PT Indofood Sukses Makmur, Tbk. is the subject of this study, and the data used comes from the company's financial statements, including the balance sheet and income statement from 2018 to 2022. This case study does not involve sample collection, so only PT Indofood Sukses Makmur, Tbk. can provide the relevant information. The goal of this research is to analyze the cash flow statement in order to generate useful information for decision-making, using a descriptive qualitative research approach. Various financial ratios are used for this analysis, including the Operating Cash Flow Ratio, which measures the company's ability to pay short-term liabilities using operating cash flow; the Ratio of Operating Cash Flow to Interest, which assesses the ability to cover interest payments with cash flow; the Capital Expenditure Ratio, which calculates outstanding debt payments and available investment capital; the Total Debt Ratio, which shows the debt repayment period if all cash flow is used to pay off debt; and the Cash Flow to Net Income Ratio, which evaluates the impact of adjustments on net income. These ratios are calculated by dividing operating cash flow by the relevant financial metrics, providing insight into the company's financial health and performance.

RESULT AND DISCUSSION

The cash flow statement of PT Indofood Sukses Makmur is used as the subject of the cash flow report analysis for a period of three years, from 2018 to 2022. The cash flow statements of PT Indofood Sukses Makmur from 2018 to 2020 are provided here (Afriyeni, 2013).

Operating Cash Flow Ratio Analysis

This ratio is used to calculate whether the company has enough cash flow to cover its current liabilities. The company's operating cash flow ratio can be calculated using the following formula:

Operating Cash Flow Ratio = (Operating Cash Flow) / (Current Liabilities)

If the operating cash flow ratio is less than 1, the company cannot meet its current liabilities without using cash from other activities. The operating cash flow results for PT Indofood Sukses Makmur, Tbk., based on the analysis, are shown in Table 1 below.

Year 2018

Operating Cash Flow Ratio = $33,272,618 / 31,204,102 = 106.63$

Year 2019

Operating Cash Flow Ratio = $32,704,862 / 27,474,862 = 119.04$

Year 2020

Operating Cash Flow Ratio = $13,855,497 / 7,975,875 = 0.50$

Table 1. Operating Cash Flow Ratio of PT Indofood Sukses Makmur

Year	Operating Cash Flow	Current Liabilities	%
2018	33,272,618	31,204,102	106.63
2019	32,704,862	27,474,862	119.04
2020	13,855,497	7,975,875	0.50

The operating cash flow ratio fluctuates, as shown by the above results. In 2018, the company had an operating cash flow of 10.663 rupiah for every 100 rupiah of current liabilities, with the ratio rising by 13% to 11.904 rupiah in 2019, the highest increase over three years. However, in 2020, the operating cash flow ratio dropped by 118% to 0.5, indicating that the company could not pay off its current liabilities at a rate of 100 rupiah to only 5 rupiah.

Analysis of the Ratio of Operating Cash Flow to Interest

This ratio measures the company's ability to cover existing loan interest payments, calculated by dividing operating cash flow plus interest and tax payments by the interest payments.

Ratio of Operating Cash Flow to Interest = $(\text{Operating Cash Flow} + \text{Interest} + \text{Tax}) / (\text{Interest Payment})$

A higher ratio indicates that cash flow from operating activities is more capable of covering interest expenses, making it less likely that the company will be unable to pay interest. The analysis and results from Table 2 are as follows:

Year 2018

Ratio of Operating Cash Flow to Interest = $(5,935,829 + 512,384 + 503,769) / 513,384 = 13.543$

Year 2019

Ratio of Operating Cash Flow to Interest = $(13,344,494 + 554,317 + 404,068) / 554,317 = 25.803$

Year 2020

Ratio of Operating Cash Flow to Interest = $(13,855,497 + 607,230 + 493,330) / 607,203 = 24.630$

Table 2. Operating Cash Flow to Interest Ratio of PT Indofood Sukses Makmur

Year	Operating Cash Flow	Interest Payment	Tax Payment	%
2018	5,935,829	513,384	503,769	13.543
2019	13,344,494	554,317	404,068	25.803
2020	13,855,497	607,230	493,330	24.630

The calculation results from Table 2 show that the cash flow to interest ratio for 2018 is 13.543, indicating that the business’s cash flow could cover interest expenses 13 times or at least 13 times the total interest expense for that year. In 2019, the cash flow to interest ratio increased to 25.803, which is a 12.26% increase from 2018 and represents the highest ratio, allowing operating cash flow to cover more interest expenses. In 2020, the ratio dropped by 1.173% from 2019 to 24.63% due to higher tax and interest payments compared to other years, reducing the ability of operating cash flow to cover interest expenses by 12 times.

Capital Expenditure Ratio Analysis

This ratio measures the available capital for investment and repayment of existing debt, calculated using the following formula: Capital Expenditure Ratio = (Operating Cash Flow) / (Capital Expenditures)

A higher ratio indicates better ability to finance investments. The results from Table 3 show the investment ratio for the three consecutive years.

Year 2018

Capital Expenditure Ratio = 5,935,829 / 7,236,247 = 0.82

Year 2019

Capital Expenditure Ratio = 13,344,494 / 4,463,812 = 3.15

Year 2020

Capital Expenditure Ratio = 13,855,497 / 4,398,300 = 3.15

Table 3. Capital Expenditure Ratio of PT Indofood Sukses Makmur

Year	Operating Cash Flow	Capital Expenditures	%
2018	5,935,829	7,236,247	0.82
2019	13,344,494	4,463,812	2.98
2020	13,855,497	4,398,300	3.15

Table 3 shows that the investment ratio in 2018 was 0.82, indicating that the company’s operating cash flow could finance 0.82 times its investments. However, the investment ratio increased to 2.98 times in 2019, rising by 2.16% from 2018, and in 2020, the ratio increased further to 3.15 times, an increase of 0.17 compared to 2019. This shows that the company’s operating cash flow was able to finance its investments more effectively.

Total Debt Ratio

This ratio is calculated by dividing total debt by operating cash flow. By dividing operating cash flow by total debt, this metric shows how long the company can use operating cash flow to pay off its debts. The formula for the total debt ratio is:

$$\text{Total Debt Ratio} = (\text{Operating Cash Flow}) / (\text{Total Debt})$$

The results of the total debt ratio calculations are shown in Table 4 below.

Year 2018

$$\text{Total Debt Ratio} = 5,935,829 / 46,620,996 = 0.13$$

Year 2019

$$\text{Total Debt Ratio} = 13,344,494 / 41,996,071 = 0.32$$

Year 2020

$$\text{Total Debt Ratio} = 13,855,497 / 83,998,472 = 0.16$$

Table 4. Total Debt Ratio of PT Indofood Sukses Makmur

Year	Operating Cash Flow	Total Debt	%
2018	5,935,829	46,620,996	0.13
2019	13,344,494	41,996,071	0.32
2020	13,855,497	83,998,472	0.16

According to the calculations in Table 4, the total debt ratio in 2018 was 0.13, indicating that the company's operating cash flow could cover 13% of its total debt. However, due to the high total debt, the total debt ratio decreased to 0.32 in 2019 and then dropped again to 0.16 in 2020.

Analysis of the Ratio of Cash Flow to Net Income

This ratio aims to show the extent to which adjustments and temporary assumptions affect net income. It is calculated as the ratio of operating cash flow to net income.

$$\text{Analysis of the Ratio of Cash Flow to Net Income} = (\text{Operating Cash Flow}) / (\text{Net Income}).$$

Discussion: Cash Flow Ratio and Financial Performance Analysis of PT Indofood Sukses Makmur

In analyzing the financial performance of PT Indofood Sukses Makmur, one of the tools used is the cash flow statement, which includes various financial ratios that provide insights into the company's ability to meet obligations, pay interest, and fund its investments. These ratios offer important perspectives on the company's liquidity, solvency, and profitability. Based on the available data, we will discuss several key ratios analyzed in PT Indofood's cash flow statement, including the Operating Cash Flow Ratio, Cash Flow to Interest Ratio, Capital

Expenditure Ratio, Total Debt Ratio, and Cash Flow to Net Income Ratio, as well as how these ratios indicate the company's financial condition.

Analysis of Operating Cash Flow Ratio

The operating cash flow ratio measures how well a company can meet its current liabilities using cash generated from its operations. The calculations show that in 2018 and 2019, PT Indofood Sukses Makmur had high ratios of 106.63 and 119.04, respectively, indicating the company's ability to meet its current liabilities comfortably. However, in 2020, this ratio sharply declined to just 0.5, indicating that the company struggled to meet its current liabilities using cash flow from operations alone.

According to Brigham and Ehrhardt (2016), an operating cash flow ratio greater than 1 suggests that the company can meet its short-term obligations without relying on external resources. However, a ratio below 1, as seen in 2020, indicates liquidity issues that need to be addressed promptly to avoid difficulty in meeting short-term obligations (Brigham & Ehrhardt, 2016).

Analysis of Cash Flow to Interest Ratio

The cash flow to interest ratio measures the company's ability to pay interest on its loans using operating cash flow. The results show that in 2018 and 2019, PT Indofood Sukses Makmur had very high ratios of 13.543 and 25.803, respectively, indicating that the company's operating cash flow was more than sufficient to cover its interest expenses. However, in 2020, the ratio declined significantly to 24.63, although it still indicated that the company could pay its interest obligations comfortably.

This ratio is crucial because it indicates the company's capacity to meet interest payments without being affected by cash flow fluctuations. According to Gallo (2020), companies with high cash flow to interest ratios are generally more stable in managing interest payments and have a greater capacity to bear debt burdens.

Analysis of Capital Expenditure Ratio

The capital expenditure ratio shows how well a company can finance long-term investments and debt repayment with operating cash flow. The results indicate a significant increase in this ratio from 2018 to 2020, rising from 0.82 in 2018 to 3.15 in 2020. This suggests that PT Indofood Sukses Makmur has become increasingly capable of financing its investments through operating cash flow.

The theory regarding capital expenditure suggests that a higher ratio indicates that the company is more efficient in using its operating cash flow to fund its growth without relying too much on external financing. According to Suárez

(2021), companies that can maintain a high capital expenditure ratio typically have a more aggressive investment policy and are focused on long-term growth.

Analysis of Total Debt Ratio

The total debt ratio measures how long the company can use its operating cash flow to pay off its total debts. Based on the calculations, the total debt ratio for PT Indofood Sukses Makmur fluctuated, with a ratio of 0.13 in 2018, increasing to 0.32 in 2019, but declining again to 0.16 in 2020. This reflects significant changes in the company's debt structure over the three years.

According to Penman (2020), a low total debt ratio indicates that the company is more cautious in taking on debt and relies more on internal resources to meet its obligations. This ratio is important as it shows the extent to which the company depends on external financing.

Analysis of Cash Flow to Net Income Ratio

The cash flow to net income ratio measures how much the company's operating cash flow can cover the net income generated. The calculation for this ratio was not fully presented in the provided data, but it is essential for assessing the quality of the company's earnings. A high ratio indicates that the reported profits are supported by sufficient cash flow, while a low ratio suggests that the company's profits may not be fully reflected in its cash flows.

According to research by Schipper and Vincent (2018), this ratio provides a more accurate indicator of profitability and financial sustainability, as high net income does not always reflect good cash flow health.

CONCLUSION

Based on the ratio analysis conducted on PT Indofood Sukses Makmur's cash flow statement, it can be concluded that the company has several liquidity and interest payment challenges that need to be addressed, especially in 2020. Low ratios on some indicators, such as the operating cash flow ratio and cash flow to interest ratio in 2020, indicate that the company should improve operational efficiency and manage its current liabilities more carefully.

The recommendation for PT Indofood Sukses Makmur is to improve liquidity through increasing cash flow from operations, as well as re-evaluating the company's debt structure to make it more sustainable. In addition, the company needs to focus on more efficient investment management to ensure that operating cash flows can fund capital expenditures without adding pressure to the company's finances.

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