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Bankruptcy Analysis with the Altman Z-Score Method Case Study on Ubamie Restaurant

Earlyne Nur Oktavia[1*], Nurkolish Majid[2]

Universitas Pembangunan Nasional "Veteran" Jawa Timur

Corresponding Author: Earlyne Nur Oktavia earlyneoktavia@gmail.com

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ABSTRACT

Financial statements are documents that present the revenues, costs, and net income or loss of a company over a period of time. This report is an important tool in financial analysis for company performance evaluation and strategic decision making. This journal examines the role of financial statement analysis through company cash flow as an effective tool in making business decisions engaged in the F&B sector, to be precise a case study of Ubamie restaurant. This research uses a quantitative descriptive method with a case study approach that includes analyzing historical data on the company's financial statements. This research aims to provide a better view of effective financial statement analysis methods to support proper decision making at various levels of the company or business. The results of this study can provide valuable insights for stakeholders, such as business owners, investors, and management, to take appropriate steps to improve financial health and reduce the risk of bankruptcy

INTRODUCTION

A small-scale company generally provides information about its business activities through reports that are prepared specifically for each of these activities. Companies in Indonesia, especially those that have gone public, are required to prepare financial statements for each period. According to the Indonesian Institute of Accountants (2009: 3), financial statements aim to provide information about the financial position, performance, and changes in the financial position of a company. This information is useful for a large number of users in making economic decisions. Information produced by companies, both small and large companies, is needed by the parties who need it, both those outside the company (external parties) such as creditors, investors, and the government, especially in terms of taxation, as well as those inside the company (internal parties) such as management, company owners, and employees.

According to Ahmed and Shakawat in research conducted by Sumartini and Widhiyani in 2014, financial reports have an important role as a medium of information in the company to assess financial condition and performance. Financial reports not only present data, but also function as a tool for management in making decisions to develop company performance. In the process of preparing financial statements, the company's transactions with other parties or consumers are systematically collected and organized to form a comprehensive financial report. The company's financial condition reflects an accurate financial condition. Events and situations encountered by a company can provide clues about operational sustainability, such as large and continuous operating losses, which create uncertainty about the company's survival (Foroghi, 2012). The long-term life of the company has high significance for parties who have an interest in the company, especially for investors who need to make investment decisions.

Corporate bankruptcy can occur when a company cannot fulfill its obligations, be it in terms of debt or in overall business management. Difficult financial conditions can hamper company operations, potentially have a negative impact on future business continuity, and can even lead to bankruptcy. Bankruptcy itself is a condition in which the company is no longer able to fulfill its responsibilities, both long-term and short-term, due to the lack of funds needed to run business operations. Therefore, to overcome this problem, companies need to be able to generate profits or use their assets to pay loans, fund operations, and fulfill various existing obligations. (Adaptation from Muharrami, 2018).

According to Altman (1968), the assessment of corporate bankruptcy can be relied upon through the measurement of profitability, liquidity, and solvency ratios, which he considers to be the most significant ratios in several financial ratios. In his research, Altman used a sample of 33 companies that experienced bankruptcy and did not experience bankruptcy. The model developed by Altman was able to identify 90 percent of bankruptcy cases one year before the bankruptcy event. The accuracy of Altman's model reached 95%. In bankruptcy analysis, Altman Z-Score is used to predict bankruptcy because this model has advantages over other bankruptcy prediction methods. The Altman Z-Score model combines various ratios needed to assess liquidity, profitability, solvency, and activity. The ratios of the Z-Score include internal and external assessments of the company, such as the ratio of stock market value to total debt, which is part of the Altman Z-Score method.

Ubamie is a restaurant that presents a unique culinary experience with a focus on delicious noodle dishes. The restaurant serves a variety of interesting noodle variants with natural, authentic flavors and signature seasonings that are ready to impress. Ubamie provides a wide selection of noodles, ranging from hainanese chicken noodles, mushroom chicken noodles, and black pepper beef noodles all served with generous portions and affordable prices. Besides noodles, Ubamie also offers side dishes such as fish dumplings, siomay pao, and mini pao. Their menu is always fresh and prepared with high-quality ingredients, giving each customer a satisfying taste. Ubamie started its sales in June 2023.

Like any other business, Ubamie also requires recording a profit/loss statement to make decisions in its management. As a newly established business, of course, the profit/loss statement will be indispensable in evaluating and making decisions that will be taken by its management. Therefore, this study aims to analyze the management of profit/loss statements as a decision-making tool in the context of a newly established business with a case study of Ubamie restaurant.

With a deeper understanding of the role of profit/loss statements in decision-making, it is expected that companies can improve their performance, optimize resource allocation, and take smarter steps in achieving their business goals. This research is also expected to make a positive contribution to the accounting and management literature, as well as a useful reference source for business practitioners and academics in facing the challenges of managing profit/loss statements in a dynamic and changing business era.

METHODS

The type of research presented in this article is quantitative research with a descriptive approach. This research involves research procedures that produce descriptive data, such as variable data and graphs, from research informants as well as the observed behavior of research objects. In this research, no changes are applied to the data collected in the field; instead, this research aims to describe the symptoms, conditions, and nature of the situation objectively without manipulating during the data collection process. The main purpose of this research is to provide an accurate description of the variables or conditions of the object of research without deliberate intervention. The subject of this research was conducted at Ubamie restaurant located in Surabaya, with the object of research in the form of profit/loss statements whose reporting is presented monthly.

The data source in this study comes from primary data, the primary data used in this study is data obtained directly, namely data on business income and business operating costs. In the research, the data collection technique used is the documentation method, namely the process of obtaining data from documents that are relevant to the issue being investigated.

RESULTS AND DISCUSSION

Table 1. Altman Z-Score Calculation Result at Ubamie Restaurant June, July, August 2023

Ubamie		X1	X2	X5		
Month	Year	Working Capital / Total Assets	Retained Earnings / Total Assets	Sales / Total Assets	Z-Score	Prediction
June	2023	1.32607313	-0.2535414882	0.140709728	1.22	Bangkrupt
July	2023	1.453948992	-0.683981663	0.42207185	1.21	Bangkrupt
August	2023	1.03258245	-0.374080678	0.697199035	1.36	Bangkrupt

From the calculation table with the Z-Score method for Ubamie Restaurant in June 2023 shows that the analysis of the results of the bankruptcy ratio with the Altman Z-Score method is at 1.22, which indicates that the company is in an unhealthy state because the Z-Score value is <1.81 and is included in the bankruptcy classification. In June, where Ubamie was just starting its sales, it had to deal with a very heavy operational burden indicated by the large amount of assets. In addition, the sales proceeds in June were also still insufficient to cover the expenses that must be paid. These results are in accordance with research conducted by Endang S. (2019) that the results of the Z-Score calculation <1.81 indicate that the company has not been able to manage and fulfill its obligations, so the company cannot continue its survival.

July's results were also similar to June's with a Z-Score of 1.21. The results of this calculation show that the company's condition is getting worse because the Z-Score value is decreasing. This is due to the company's operating expenses which are still quite high and not proportional to its sales results. In July, the company has also not been able to generate profits, which further worsens the company's financial condition. These results are in line with research conducted by Rosmayana R. (2021) which states that from the results of the Z-Score calculation which is still below 1.81, it brings the company into a dangerous zone because there is a decrease in profits against the total assets owned by the company.

Furthermore, in August the results of the bankruptcy ratio using the Altman Z-Score method were at 1.36 which was slightly higher than the previous months. This is because operating expenses have decreased and are offset by sales that have begun to rise. However, despite the increase, the resulting Z-Score value is still far below 1.81 which keeps the company in the bankruptcy classification. The results of this calculation are also an indicator that the sales generated are not enough to offset the total assets owned by the company, this result also indicates that the company cannot continue its business. In research conducted by Desyah N. and Meriyana F. (2019) also stated that the very low Z-Score calculation results indicate that the company is in poor condition and is threatened with bankruptcy.

CONCLUSION

From the calculation of the analysis of the results of the bankruptcy ratio with the Altman Z-Score method for June, July, and August, it shows that in these three months the company experienced critical times with Z-Score results that were very far below 1.81. This can occur because all sales generated cannot offset the total assets owned by the company or in other words the company is experiencing losses. With a very unhealthy financial condition experienced by the company for three consecutive months, this minimizes the possibility of the company being able to rise and continue its business. In addition, the calculation using the Altman Z-Score method shows that the company is in the bankruptcy classification. Indications of bankruptcy experienced for three consecutive months further strengthen the prediction that the company cannot continue its business because it is on the verge of bankruptcy

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