Analysis of Financial Statements in Credit Analysis at Rural Bank

Fauzal Asraf [1], Dewinta Rina Sitepu [2], Fitriana [3], Iskandar Muda [4], Isnen Fitri [5], Erman Munir [6], Endang Sulistya Rini [7]
[1,2,3,4,5,6,7] Universitas Sumatra Utara, Medan, Indonesia.
[2] fadnasution.work@gmail.com

Article Info
Page Number: 1413-1424
Publication Issue:
Vol. 71 No. 3s (2022)

Article History
Article Received: 22 April 2022
Revised: 10 May 2022
Accepted: 15 June 2022
Publication: 19 July 2022

Abstract

This paper purpose to give information to the reader about the analysis of financial statement for credit analysis at rural bank. The research methodology used in this research is library research. The finding are: Before disbursing credit to debtors, credit analysis is required through the analysis of financial statements. Measurement of company performance through financial ratios can provide an overview of how the company is managed and its ability to pay its obligations. The results of this study can explain about (1) the importance of financial position for banks in approve credit applications, (2) analysis procedures of the prospective debtor's financial statements by bank, (3) analysis of the 5C principles of prospective debtors who carried out by banks, (4) effectiveness of supervision credit, and (5) minimize or prevent the occurrence of bad credit by debtors that can harm the bank as a creditor.

Keywords: Assessment, financial statement, credit analysis, finance ratio.

1. Introduction

Every company in carrying out its work requires human resources (man), natural/material resources, capital (money), technology (machine), method and market. Obtaining capital to finance work can be obtained from the company's own profits, credit or loans, and share capital. The company obtains loans through credit to banks. The function of the bank is to provide services to the government, companies and individuals (He et al., 2022). One of them is to finance development projects in order to stimulate the industry by providing credit. Banks as creditors apply the precautionary principle and require a basis or basis that can be trusted so that before providing credit, the bank will conduct credit analysis through an assessment of the company's financial statements. Companies that need capital can make loans to banks such as Rural Banks to obtain credit. The bank performs a credit analysis of the loan. One of them is by evaluating the company's financial statements (Syamsuddin, 2007). Appraisal is a work process to provide estimates and opinions on the economic value of an object of assessment at a certain time (KEPI and SPI in MAPPI 2018). Types of financial reports According to Saraswati (2012), the components of the report that are assessed are statements of financial position, income statements, cash flow projections, plans for receipts and disbursements of funds, calculation of capital requirements, and plans for installments and loan repayments.

2. Literature Review

2.1.The Rural Bank

Rural Banks are banks that carry out business activities conventionally or based on sharia principles which in their activities do not provide services in payment traffic. The activities of BPRs are much narrower than those of commercial banks because BPRs are prohibited from accepting demand deposits, foreign exchange and insurance activities (Erwin et al., 2018). Some of the business activities that can be carried out by BPR are as follows (a) Collecting funds from the public in the form of deposits in the form of time deposits, savings, and or other equivalent forms and (2) Providing credit. According to Financial Services Authority (2014) about POJK Number 20/POJK.03/2014 concerning Rural Banks, the core capital of an RB is set at a minimum of:

a. IDR. 14,000,000.00 in zone 1
b. IDR. 8,000,000,000.00 in zone 2
c. IDR. 6,000,000,000.00 in zone 3
d. IDR. 4,000,000,000.00 in zone 4.

In general, based on the time period, the types of credit are divided into 3, namely:

a. Long-Term
   Loans Long-term loans are types of loans provided by banks with maturities of more than three years. Usually this credit is used by customers for investments such as investment in building purchases, procurement of equipment and machinery, project development and others. Investments require a nominal value that is large enough so that long-term credit is needed for repayment.
b. Medium Term Loans Medium
   term loans are types of credit provided by banks with maturities of 1-3 years. This type of credit is generally used for working capital, investment needs, and consumptive needs. The credit period is determined based on the amount of credit used by the customer.
c. Short-Term Credit Short
   term credit is a type of credit provided by banks with maturities of one year or less. The credit is usually used by customers for working capital with a business cycle of less than or equal to one year.

According to Law no. 7 of 1992 concerning Banking Article 1 Paragraph 11 & 12) and Law No. 10 of 1998 concerning banking that credit is the provision of money or an equivalent claim, based on an agreement or loan agreement between the bank and other parties which requires the borrower to pay off the debt after a certain period of time with interest (Elisabeth et al., 2018 and Warhani et al., 2022). The elements of credit are:

1. **Trust**
   The lender's belief that the credit given is actually received back in the future according to the credit period.
2. **Agreement The**
   agreement of each party (credit provider and credit recipient) regarding their respective rights and obligations as outlined in an agreement. The agreement is included in the credit agreement signed by both parties prior to credit disbursement.

3. **Term The**
   Period is mutually agreed upon in terms of granting credit by the bank and repayment of credit by the debtor.
4. **Risk**
   In order to avoid risk, an agreement to bind collateral or collateral is imposed on the debtor or borrower.
5. **Achievement**
   Object in the form of interest or compensation agreed upon by the bank and the debtor for the distribution of the credit. Because the basis of credit is trust (belief or confidence), a person or entity that provides credit (creditor) must be sure that the credit recipient (debtor) in the future will be able to fulfill everything that has been promised. What has been promised can be in the form of goods, money, services, certain actions or performances.

The purpose of granting credit is not only to seek compensation for services or results for the money lent, in addition, creditors must also be sure that the credit they provide really helps the debtor in achieving the objectives of the activities/actions.

2.2.Credit Analysis

According to Jumingan (2014), granting credit contains a certain degree of risk. To minimize credit risk, the conditions for granting credit, known as 5C, must be met, namely:

1. Character
   The bank/credit provider will seek data on the character, nature and honesty of the company's leadership in fulfilling its financial obligations.
2. Capacity
   This concerns the company's ability in its line of business by taking into account past data, current performance, and future projections.
3. Capital
   Bank must know the balance of debt and equity of the prospective debtor.
   Collateral. This concerns the amount of collateral (collateral) in the form of assets that will be tied as collateral for the loans provided. For this reason, the bank must:
   a. Research the ownership of the collateral,
   b. measure its stability rather than its value
   c. Pay attention to the ability to convert it into money in a relatively short time without reducing its value too much
   d. attention to the binding of goods that can guarantee the bank's interests in accordance with applicable law.
4. Conditions
   Banks must look at macro and micro economic conditions, both regarding the prospective debtor's business and government policies that affect economic prospects in the future.

Credit analysis can also be interpreted as an analysis of loan data and financial statements of individuals or companies, to determine their level of risk (Suprapto et al., 2022). Related to extending credit or borrowing money. how to calculate the creditworthiness of giving credit to a company so that credit is given in the right amount, appropriate, and on time.

2.2.1. Appropriate Use

In the sense that each analyzer is able to determine what sectors are appropriate, individuals must also take into account their capacity and capability to pay or repay loans, whether if given will violate the law and must continue to be monitored with the formation of the

2.2.2. Right Amount

The accuracy and ability to determine the amount in the provision of credit must be non-existent. The provision of credit is also not always about the desired nominal but how much is needed.

2.2.3. Timely

Correct in disbursement which takes into account the exact time needed for funds, such as disbursement of funds per term. Accuracy in the payment period is also something that must be taken into account in determining credit so that there is no over or under.

2.3. Analysis of Credit Needs

Cash flow projections are absolutely necessary, because this approach is one of the right ways to determine the schedule for credit disbursement, determine the time period, and the ability of prospective debtors to pay off. Don't just base your credit on projected profit and loss. Profitable projects do not guarantee the smooth payment of installments, on the other hand projects that are losing money can be used to pay off loans on time. The purpose of credit analysis is to examine potential borrowers and their abilities and to determine the level of risk. The financial analysis techniques used are ratio analysis, trend analysis and the formation of projections as well as detailed cash flow analysis. Banks will also pay attention to aspects of credit considerations to assess the feasibility of a business to be financed by bank credit (Jumingan 2014), including:

1. **General Aspects**
   In This matter must be investigated issues: form, name and address of the company, management structure, line of business, information on the number of employees/labourers, nationality, bank, organizational chart
2. **Economic/Commercial Aspects**
   that are considered are marketing and price conditions, competition, sales volume of each type of product, method of sale, estimated demand and so on.
3. **Aspects of Engineering**
   Researched are raw materials and auxiliary materials needed, land and factory premises, buildings (owned, rented, age, price), sequence of production processes, details of machinery and equipment, amount of production, availability of labor (skills, education, level of wages), etc.
4. **Juridical Aspects**
   What must be examined is the fulfillment of applicable legal provisions and the necessary permits.
5. **Aspects of Benefits and Employment Opportunities**

Things that must be considered are the economic benefits for the population and their impact on the local economic structure, the number of workers that can be absorbed by the project in question, and the priority sectors by the government.

6. Financial

Aspect The financial aspect is the focus of credit analysis because by analyzing financial ratios we can know the level of liquidity, solvency, profitability and stability of a business, and how long it takes for an investment to be returned (Subramanyam, 2017). Data and reports that need to be assessed are:

a. Statement of Financial Position (Balance Sheet)
b. Comprehensive Income Statement
c. Report Source and Use of Working Capital
d. Cash Receipts and Expenditure Plans (Cash Budget)
e. Projected Financial Statements
f. Investment Project Assessment
g. Calculation of Credit Needs Credit
h. Installment Plan (Repayment Schedule)

2.4.Cycle Credit

Procedures are basically a series of credit grants to customers, namely:

1. Target Market

Determining the target to be financed is an important role in providing credit so that lending can meet the goals desired by creditors, determining this target market must also be accompanied by confidence factual based with predetermined boundaries such as, what business will be financed, understand the market to be financed, consider past, present, and future conditions.

2. A. Initiation

The first step in preparing a credit analysis is to collect data from prospective debtors. The data required is adjusted to the type, credit value, and identity of the prospective debtor provided, including:

a. Credit application
b. Licensing documents/business certificates
c. Customer identity document
d. Financial statements
e. Customer credit report (credit history) if the debtor has previously received a loan facility from the bank
f. Copy of collateral/collateral documents
g. Other required documents if any

2.5.Solicitation Solitation

Is the process of finding customers according to the criteria set by the bank. The stages include:

a. Determining the target market.
b. Determination of the business sector.
c. Determination of risk acceptance assets criteria (RAAC).

d. Determination of customers to be financed.

2.6.Analysis

In the stage of analyzing the feasibility of the business to be financed, there will be evaluation evaluations that are needed in consideration of approval by creditors, the evaluation consists of:

a. Evaluation of legality documentation, guarantee assessment, checking (BI, Trade, Personal).
b. The evaluation data is presented in the Financing Proposal (UP), with the following outline:
   1. Objectives.
   2. Customer background (legality, ownership, management, track record, etc.).
   3. Customer banking relationship.
   4. Customer business (means, production process, supplier, consumer, customer industry).
   5. Description of the project to be financed.
   6. Cash flow analysis and determination of financing ceiling.
   7. Guarantee analysis.
   8. Sharia aspect. (if BPR Syariah)
   9. Conclusion.

2.7.Approval

The approval process is the final process in the stage of granting credit by creditors to debtors (Djaja, 2017). This approval process is mostly carried out by creditors internally with several stages as follows:

a. Account Manager (A/M) presents financing proposals in front of the Financing Committee.
b. Financing Committee Decision:
   1. Rejected, all customer documents are returned with a rejection letter.
   2. Approved, A/M makes an Offering Letter (LO) or a letter of approval in principle for financing signed by the GM, MM or Branch Manager or Head of Section.
   3. OL is legal documentation containing the bank's commitment to finance the customer's business.

In accordance with the Financial Services Authority Regulation No.49/POJK.03/2017 concerning the Maximum Limit for BPR Credit, which is fixed by the state with the following limits.

2.8.Repayment Capacity

To determine the ability to pay from Prospective customers can be done in 2 ways, namely:

IDIR = Installment to Disposable Income Ratio
= (Existing Installment + New Installment)/Disposable Income) x 100%

Meaning the ability of a customer to pay all his loans to Banks and/or other financial institutions on a monthly basis, in the sense that the installments made by the debtor are changed into a monthly payment scheme set accumulated on an annual basis.

Installment = installments
Disposable income = income that is ready to be spent/ (net income) minus debt installments

IDIR Capability Analysis:

Sales Turnover/Income		A	
Cost of Goods Sold	B		
Gross Profit	ABC		
Operating Expenditure		D	
Operating Profit		CD	E
Household Expenditure			F
Other Income	G		
Profit Net	(EF +G)		H
Existing Installment	I		
Installment on financing that will be given		J	
Disposible income (H-(I+J)		K	
IDIR (I + J)/K x 100% maximum 80%			

2.9.Repayment analysis Capacity Customer's

Ability to pay instalments financing, which is calculated from the current net profit or net profit after the customer has received financing (projected net profit).

RPC Ratio = Comparison between the RPC Value and the financing installments that will be given by the creditor to the debtor.
RPC Value = 75% x Net Profit
RPC Ratio = RPC Value/Upcoming Credit Installments

2.10. Financial Statement Assessment

According to KEPI and SPI in MAPPI (2018), a business entity is a commercial, industrial, service or investment entity that carries out economic activities. Business entities are usually profit-seeking which in their operational activities produce products or services to consumers. Closely related to the concept of a business entity are the terms:

- Operating Company, which is a business entity that carries out an economic activity by making, selling or trading a product or service.
- Going Concern, which is an entity that continues to carry out its operational activities on an ongoing basis in the future without the intention or need to liquidate or materially reduce the scale of its business.

Companies can be in the form of individual companies, limited liability companies, firms, limited partnership companies, cooperatives, or state-owned enterprises. The aspects contained in the financial statements that become the bank's assessment are:

1) Calculation of average gross income per month. Average gross income per month is calculated by, Income per day x Number of days = Average gross income per month.
2) Calculation of average expenditure per month. Average expenditure per month is calculated by registering and adding up all costs that must and are routinely issued each month.
3) Calculation of average net income per month Average net income per month is calculated by, Gross income – Expenditure = Net income.

3. Methods

The methods of this study is a literature review with library research and then drawing conclusions.

4. Result and Discussion

4.1. Result

The Rural Banks are not correct in stages in assessing and granting credit to debtors due to the lack of supervision carried out by the executive against the BPR employees, in the sense that there is a lot of fraud. Things that were found, such as granting credit to debtors who did not make complete financial reports, but were still given credit, debtors did not pass BI Checking, but were still given by creditors with target reasons, on average, prospective debtors provided false information about income. monthly earned, resulting in miscalculations and losses to creditors.

Provided by the BPR must be returned to the BPR on time according to the agreement and based on the payment schedule. The credit provided is directed, meaning that the credit received by the prospective debtor/debtor is actually used for its original purpose if there is no indication of a problem, the credit provided is useful, meaning that the credit received by the prospective debtor/debtor can increase business activities, not for other purposes. given to produce, meaning that credit received by prospective debtors/debtors can increase income/profits, expand business, and create new jobs. To ensure that lending has been carried out prudently (prudential banking) and in accordance with sound credit lending principles. To ensure that credit is given on time, in the right amount, on target, and in an efficient manner. The financial statements are analyzed for a minimum of 2 (two) periods in order to apply the analytical techniques.

1. Analysis Per Item/Component

This analysis is carried out by analyzing each item/account in the statement of financial position and statement of comprehensive income. In analyzing each post, the factors that can influence it must be considered. Examples for accounts receivable must know the age of receivables, terms of sale, and a good percentage of receivables.

2. Percentage Per Component

Analysis In this analysis the financial statements are presented in percentage terms, namely for the statement of financial position, the post is compared with total assets; while the statement of comprehensive income is compared with net sales.

3. Comparative Analysis/up and Down

Analysis In this analysis method, each item of the statement of financial position and statement of comprehensive income for the current period is compared with the previous period. You can get the ups and downs of each item and you can see which account posts the changes require further research.

4. Analysis

Ratio describes a relationship or balance between an item or other group of items in the statement of financial position and the statement of comprehensive income. Some of the ratios used for credit analysis are:

a. Liquidity Ratio

Liquidity is the company's ability to meet short-term obligations (usually 1 year). According to Kasmir (2018), the benefits of the liquidity ratio are:

- To measure the company's ability to pay obligations that will mature when billed
- Measure the company's ability to pay off short-term obligations with all of its current assets
- Measure the company's ability to pay off short-term obligations with current assets except inventory
- Compare and measure the amount of inventory with the company's working capital
- Measure how much cash is available to pay debt
- As a forward planning tool especially for cash and debt
- To see the condition and liquidity of the company from time to time
- To see the company's weaknesses based on current assets and current liabilities
- As a trigger tool for management to improve its performance

Types of Liquidity Ratios:

1. Current Ratio = Current Assets / Current Liabilities
2. Quick Ratio = (Current Asset - Inventory) / Current Liabilities
3. Cash Ratio = Cash or Cash Equivalent / Current Liabilities
4. Cash Turn Ov er = Net Sales / (Current Assets - Current Liabilities)
5. Inventory to Net Working Capital = Inventory / (Current Assets - Current Liabilities)

b. Leverage

Ratio to measure the company's ability to fulfill obligations or pay off debt, both short and long term. In other words, the leverage ratio is a representation of the level of debt a company or business has issued. The types of leverage ratios are:

1. Debt to Asset Ratio = Total Debt / Total Asset
2. Debt to Equity Ratio = Total Debt / Total Equity
3. Long Term Debt to Equity Ratio = Long Term Debt / Total Equity
4. Times Interest Earned = EBIT / Interest
5. Fixed Charge Coverage = (EBIT + Interest + Lease) / (Interest + Lease)

c. Activity Ratio

Is a ratio used to measure the effectiveness of the company in using its assets. Or it can be said that ratio is used to measure the level of efficiency (effectiveness) of the utilization of company resources. The type of activity ratio is:

1. Receivable Turn Over = Sales / Account Receivable
   Days of Receivable = Average Account Receivable in 1 year / Sales
2. Inventory Turn Over = Sales / Inventory
3. Working Capital Turn Over = Net Sales / Working Capital
4. Fixed Asset Turn Over = Sales / Total Fixed Assets
5. Total Assets Turn Over = Sales / Total Assets

d. Profitability Ratio

Measures the ability of company executives to create profit levels in the form of company profits and economic value on sales, company net assets and shareholder equity. This type of ratio is:

1. Profit Margin = (Net Sales - Cost of Good Sold) / Sales
2. Return on Investment = Earning After Interest and Tax / Total Assets
3. Return on Equity = Earning After Interest and Tax / Equity

Earning Per Share of Common Stock = Profit Shares / Shares Outstanding.

4.2.Discussion

Errors like this will often occur and will slowly disappear if the executives in each company supervise and apply analytical methods in accordance with the applicable stages. The selection of employees and their placement are also quite important in increasing income at BPR, because there are many fraudulent frauds or irregularities that are openly carried out by creditor employees and covered up so that credit given to debtors is not 3T (Appropriate, Timely, Right Amount). Errors like this will often occur and will slowly disappear if the executives in each company carry out supervision and application of analytical methods in accordance with the applicable stages. In addition, a systematic assessment procedure, financial statement analysis of prospective debtors must also be carried out by credit officers who are capable in the field of credit analysis so that they can produce valid data that can be used as the basis for approval of lending by banks. An assessment with the 5C principle is also very important in the assessment process because it can cover all the information needed by creditors.

5. Conclusion

Before disbursing credit to debtors, credit analysis is required through the assessment of financial statements. Measurement of company performance through financial ratios can provide an overview of how the company is managed and its ability to pay its obligations. In the end, if all the stages are carried out properly starting from following the credit terms that have been set, such as the 5C method (Character, capacity, capital, collateral, conditions placing credit with the 3T method (Appropriate, amount and target), then analyze the credit needs of the debtor with aspects that are correlated with the prospective debtor and continue to follow the credit cycle in which each method and aspect of the analysis has an important role in helping creditors choose the right debtor. BPR will achieve its main goals.

References

1. Djaja, I (2017) All About Corporate Valuation. Jakarta PT Elex Media Komputindo.
2. Elisabeth, D.; Simanjuntak, A.; & Ginting, S. (2018). Corporate Social Responsibility, Auditor Opinion, Financial Distress Impact to Auditor Switching for Banking Companies in Indonesia Stock Exchange for Period of 2014 to 2017.In Proceedings of the 1st Unimed International Conference on Economics Education and Social Science - Volume 1: UNICEES, ISBN 978-989-758-432-9, pages 991-994. DOI: 10.5220/0009499909910994. https://www.scitepress.org/PublicationsDetail.aspx?ID=/ZQ4uUFFTPQ=&t=1
3. Erwin, K., Abubakar, E., (2018). The relationship of lending, funding, capital, human resource, asset liability management to non-financial sustainability of rural banks (BPRs) in Indonesia. Journal of Applied Economic Sciences, Volume XIII, Spring 2(56): 520-542.
4. Gill, D. R. . (2022). A Study of Framework of Behavioural Driven Development: Methodologies, Advantages, and Challenges. International Journal on Future Revolution in Computer Science &Amp; Communication Engineering, 8(2), 09–12. https://doi.org/10.17762/ijfrcsce.v8i2.2068
5. Financial Services Authority (2014). POJK Number 20/POJK.03/2014 concerning Rural Banks. Jakarta.
6. He, T., Liu, M. J., Phang, C. W., & Luo, J. (2022). Toward social enterprise sustainability: The role of digital hybridity. Technological Forecasting and Social Change, 175, 121360.
7. Hery (2015) Practically Compiling Financial Statements. Jakarta Grasindo.
8. Jumingan (2014). Financial Statement Analysis. Jakarta PT Bumi Aksara.
9. Kasmir (2008). Financial Statement Analysis Jakarta. KPSPI PT Raja Grafindo Persada.
10. MAPPI. (2018). Code E Indonesian Appraiser and Indonesian Appraisal Standards. Jakarta. Seventh Edition.
11. N. A. Farooqui, A. K. Mishra, and R. Mehra, “IOT based Automated Greenhouse Using Machine Learning Approach”, Int J Intell Syst Appl Eng, vol. 10, no. 2, pp. 226–231, May 2022.
12. Saraswati, RA (2012). The Role of Financial Statement Analysis, Assessment of the 5C Principles of Prospective Debtors and Credit Supervision on the Effectiveness of Lending at PD BPR Bank Pasar Temanggung Regency. Nominal Barometer of Accounting and Management Research. 1(1). 1-13.
13. https://journal.uny.ac.id/index.php/nominal/article/view/994/797
14. Ghazaly, N. M. . (2022). Data Catalogue Approaches, Implementation and Adoption: A Study of Purpose of Data Catalogue. International Journal on Future Revolution in Computer Science &Amp; Communication Engineering, 8(1), 01–04. https://doi.org/10.17762/ijfrcsce.v8i1.2063
15. Subramanyam. (2017). Financial Statement Analysis. Jakarta. Salemba Empat.
16. Suprapto, Siahaan, S, Muda, I (2022). Effect of Basic Ethical Principles on the Quality of Assessment (Study on Appraisers in North Sumatra and Aceh Provinces). Neuro Quantology. 20(5). 312-322.
17. https://doi.org/10.14704/nq.2022.20.5.NQ22176

18. Syamsuddin, L. (2007). Corporate Financial Management. Jakarta. PT Raja Grafindo Persada.
19. J. . Hermina, N. S. . Karpagam, P. . Deepika, D. S. . Jeslet, and D. Komarasamy, “A Novel Approach to Detect Social Distancing Among People in College Campus”, Int J Intell Syst Appl Eng, vol. 10, no. 2, pp. 153–158, May 2022.
20. Wardhani, M. M., Padang, N.N & Nedelea, A. M. (2022). Indicators of Giving Interest Rates to Customers and Debtors at PT. Bank X in Medan, Indonesia. Ecoforum Journal, 11(1). 1-6.
21. http://www.ecoforumjournal.ro/index.php/eco/article/view/1284/789.
22. P. Modiya and S. Vahora, “Brain Tumor Detection Using Transfer Learning with Dimensionality Reduction Method”, Int J Intell Syst Appl Eng, vol. 10, no. 2, pp. 201–206, May 2022.
23. P. Modiya and S. Vahora, “Brain Tumor Detection Using Transfer Learning with Dimensionality Reduction Method”, Int J Intell Syst Appl Eng, vol. 10, no. 2, pp. 201–206, May 2022.