

Financial Statement Analysis as a Basis for Strategic Decision Making in MSMEs: A Case Study of Liquidity, Profitability, and Cash Flow Management

Jusuf Nurdin¹, Nuniek Dewi Pramanik²

^{1,2} Politeknik Piksi Ganesha, Indonesia

* Correspondence e-mail; djusuf.n@gmail.com,

* WhatsApp Number

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Abstract

Financial reports play a crucial role in supporting strategic decision-making for micro, small, and medium enterprises (MSMEs). However, in practice, many MSMEs have not maximized the use of financial reports as a foundation for business evaluation and management decision-making. This article aims to examine the function of financial reports in business decision-making through a descriptive-analytical method, using a case study of an MSME in the culinary sector. The analysis focuses on the elements of financial reports, liquidity ratios, solvency, profitability, and cash flow, along with their implications for business strategy. Key findings reveal that high profits do not always reflect a healthy business if they are not accompanied by consistent operational cash flow. The case study of the MSME "Kopi Nusantara" shows that the root cause of the problem is not low sales or profitability, but rather weak working capital management, particularly inventory control and delays in cash receipts from digital channels. This article emphasizes that financial reports should be used as a managerial instrument, not merely an administrative tool. Practical implications of this research include strengthening MSME financial literacy, implementing simple, standards-based record-keeping, and utilizing financial report analysis to inform operational and strategic decisions.

Keywords

Financial Reports, Msmes, Cash Flow, Profitability



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INTRODUCTION

MSMEs are a key pillar of the Indonesian economy, yet many of them still grapple with fundamental challenges in managing their business finances. A common problem is the lack of preparation and optimization of financial reports as a basis for evaluation and decision-making. Normatively, financial reports provide data on the

financial position, operational performance, and cash flow, which are essential for users to formulate economic decisions. For MSMEs, these reports are even more vital given the vulnerability of small businesses to liquidity issues, weak cost controls, and indiscipline in recording transactions (Kieso et al., 2020; Indonesian Institute of Accountants, 2018).

Various studies confirm that the quality of financial reports and the effectiveness of decision-making positively influence MSME performance. For example, a study in Medan City showed a positive and significant influence of both on business performance, with a strong combined contribution in explaining variations in business performance. Furthermore, effective cash flow management has been proven to support the sustainability of MSMEs, as evidenced by research in Greater Jakarta (Jabodetabek), which found that efficient management of cash receipts and expenditures maintains financial stability and business resilience amidst economic turmoil. Meanwhile, accounts receivable management also contributes significantly to MSME profitability, as in the case of Askha Jaya MSME, where it had a significant positive impact. Although cash management is not always significant in isolation, it remains crucial for stability (Sari & Putra, 2021; Prasetyo, 2022; Hidayat, 2020).

Referring to this background, this article aims to outline how to analyze and interpret financial statements as a foundation for strategic decisions for MSMEs, with an emphasis on the types and components of financial statements, financial ratio analysis, liquidity, solvency, profitability, and cash flow, as well as their application through a case study in the culinary sector (Brigham & Houston, 2019; Harahap, 2015)

METHODS

This article employs a descriptive-analytical method based on a literature review and illustrative case studies. Data are sourced from various scientific journals, academic literature, and research findings related to MSME financial reporting, cash flow management, and the impact of financial report quality on business performance. The descriptive-analytical method is used to outline the relationship between financial report elements and managerial decision-making, while the case studies serve to illustrate the analysis of MSME financial issues in a contextual and practical manner.

FINDINGS AND DISCUSSION

Essentially, MSME financial reports consist of a statement of financial position, an income statement, and notes to the financial statements as minimum elements according to the Indonesian Financial Accounting Standards (SAK) for MSMEs.

Several references also highlight the importance of cash flow statements and changes in equity for a comprehensive understanding of business conditions. The statement of financial position describes the composition of assets, liabilities, and equity; the income statement reflects the operating results for a specific period; while the cash flow statement illustrates actual cash dynamics. For MSMEs, the cash flow statement often takes precedence over the income statement because small businesses are vulnerable to short-term cash crises.

Financial Ratio Analysis as an Evaluation Instrument

Financial ratio analysis makes it easier for business owners to quickly and systematically understand their financial condition. Liquidity ratios measure short-term debt repayment capacity, solvency ratios evaluate debt composition, and profitability ratios measure profit generation efficiency. In the MSME sector, liquidity ratios are crucial because they directly impact operational continuity; inability to pay short-term liabilities can trigger production disruptions, loss of supplier confidence, and service disruptions. Profitability ratios are also essential for verifying whether increased sales are generating economic value; if margins decline despite increased volume, pricing, promotion, or cost strategies need to be reviewed.

Cash Flow as a Determinant of Business Sustainability

Cash flow plays a central role in the survival of MSMEs. A study of cash flow management for MSMEs in Indonesia reveals that effective cash flow management practices significantly impact business sustainability, particularly in maintaining liquidity and weathering economic turmoil. Practically, cash flow imbalances often arise when expenses outpace receipts, such as cash purchases of raw materials and routine employee salaries, but delayed payments from customers or digital platforms.

Case Study: MSME "Kopi Nusantara"

To illustrate, this article utilizes a case study of MSME "Kopi Nusantara," a culinary business with one main store and two supporting outlets. Over the past three years, sales have surged from IDR 900,000,000 to IDR 1,200,000,000, accompanied by a net profit increase from IDR 90,000,000 to IDR 150,000,000, which on the surface indicates positive progress. However, a closer examination reveals working capital issues

Table 1. Summary Financial Data for 2025

Component	Amount
Revenue	IDR 1,200,000,000
Cost of Goods Sold	IDR 600,000,000
Gross Profit	IDR 600,000,000
Operating Expenses	IDR 450,000,000
Net Profit	IDR 150,000,000
Current Assets	IDR 500,000,000
Fixed Assets	IDR 700,000,000
Total Assets	IDR 1,200,000,000
Liabilities	IDR 600,000,000
Equity	IDR 600,000,000

Financial Ratio Analysis

Current Ratio (CR) is calculated as:

$$\text{CR} = 500,000,000 / 300,000,000 = \mathbf{1.67}$$

In general, this ratio indicates a fairly good ability to cover short-term liabilities. However, if most current assets consist of unsold inventory, this liquidity may not accurately reflect the actual cash available.

Debt to Equity Ratio (DER) is calculated as:

$$\text{DER} = 600,000,000 / 600,000,000 = \mathbf{1.0}$$

This value indicates a relatively balanced capital structure. For MSMEs, this level is still considered safe as long as operating cash flow remains stable.

Net Profit Margin (NPM)

$$\text{NPM} = (150,000,000 / 1,200,000,000) \times 100\% = \mathbf{12.5\%}$$

This profit margin is relatively good for a culinary business. However, a strong margin does not automatically guarantee healthy cash flow.

Return on Assets (ROA):

$$\text{ROA} = (150,000,000 / 1,200,000,000) \times 100\% = \mathbf{12.5\%}$$

This indicates that the company's assets are capable of generating profit with a reasonably good level of efficiency.

In 2025, current assets amounted to IDR 500,000,000 out of total assets of IDR 1,200,000,000, with liabilities of IDR 600,000,000 and equity of IDR 600,000,000. The current ratio of 1.67 and debt-to-equity ratio of 1.0, along with a net profit margin and ROA both at 12.5%, reflect adequate profitability and capital structure.

DuPont Analysis

DuPont analysis helps explain how Return on Equity (ROE) is derived from profit margin, asset turnover, and financial leverage.

Basic formula:

$$\text{ROE} = \text{Net Profit} / \text{Equity}$$

$$\text{ROE} = 150,000,000 / 600,000,000 \times 100\% = \mathbf{25\%}$$

Alternatively:

$$\text{ROE} = \text{Net Profit Margin} \times \text{Total Asset Turnover} \times \text{Equity Multiplier}$$

$$\text{ROE} = 12.5\% \times (1,200,000,000 / 1,200,000,000) \times (1,200,000,000 / 600,000,000) = \mathbf{25\%}$$

This figure indicates that the business owner earns a relatively high return on invested capital. However, it should be noted that part of this return is supported by leverage or the use of debt.

Cash Flow Reality

Despite the strong financial ratios, the business experiences cash shortages **באמציד** month. This is caused by excessive raw material purchases, stock accumulation, and delays in digital payments—not weak sales. As a result, a prolonged cash conversion cycle becomes the root problem, demonstrating that high profits do not guarantee business health without strong operating cash flow.

Managerial Implications

This case highlights that financial statement interpretation must be translated into concrete actions. First, operationally, the business must optimize inventory control and align raw material purchases with actual sales data. Second, in marketing, the business should balance platform-based transactions with direct sales that generate faster cash inflows. Third, financially, the business needs to implement daily and weekly cash flow recording to prevent liquidity shortages. More broadly, this analysis emphasizes that accurate financial statement analysis can serve as a strategic decision-making tool. For MSMEs, financial analysis does not need to be complex but must be conducted consistently, remain relevant, and be directly linked to daily operational challenges.

CONCLUSION

Financial reports play a crucial role as the foundation for strategic decisions for MSMEs. Preparing high-quality reports allows business owners to objectively assess their financial position, business performance, and cash flow dynamics. Analysis of liquidity, solvency, profitability, and cash flow ratios reveals that business health cannot be measured solely by profit.

Previous studies and the case studies in this article demonstrate that the root of MSME problems often lies in working capital management, particularly cash, receivables, and inventory. Therefore, strengthening financial literacy, maintaining simple, standardized record-keeping practices, and utilizing financial reports as a managerial tool must be continuously improved. For MSMEs, financial report analysis should become a strategic routine that ensures business continuity while encouraging healthier and more sustainable growth.

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