

IMPROVING INFINITY HAIRCUT FINANCIAL PERFORMANCE USING FINANCIAL STATEMENT PROJECTION

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Abstract. Financial performance of a company indicates the health condition of its organization, it is possible to be able to know current financial performance of a company by analyzing using various kinds of calculation. The main objective in this research is to project financial statement of a company based on its financial performance which would be assessed using financial ratio and common-sized analysis. By using time-series analysis to compare historical data of Infinity Haircut financial statement, it enables researcher to find the root problem and propose improvements for Infinity Haircut. From the analysis, it was discovered that the profitability ratios in Infinity Haircut indicates a low financial performance. The cause of this problem is low value of profitability ratios that were caused by the low amount of total sales. The result of this analysis creates a projection which can be used as a target for Infinity Haircut in the future to have better financial performance.

Keywords: Financial Performance, Financial Ratio, Financial Statement Projection.

Introduction

Bandung is very active in developing creative industry, whether it is in fashion industry, culinary, lifestyle, and others industry. Government of Bandung is also very supportive towards creative industry, there are many of programs which helped entrepreneurs to find an easier way on creating or even developing business, such as Bandung Creative City Forum, Entrepreneurs program which helps financial problem and the most recent one is Bandung Creative Center which could help government has also increase and drive people to create a business. Infinity Haircut is a company that has been established since October 2016, the owners of this company hopes that they were able to gain benefit and profit and also provide facilities to their customers. Infinity Haircut has also seen the opportunities and momentum that entrepreneurs are having so many encouragement and support from the government, they are currently still growing and planned to be a company that would be supported by both society and also government.

Infinity Haircut is currently having two revenue streams which is service and also product. But, it has been 6 months since Infinity Haircut have no income from the service product because there has been several problem which made Infinity Haircut run their business using only their product.

The owner decides not to separate the management between the products by hoping that both of the products could support one another, the owner also plans to re-activate the service product in the future, therefore an effective and efficient financial statement projection could be very important in order for Infinity Haircut to execute and carry out both of their products based on a good financial management in the future. In developing and growing the business, Infinity Haircut noticed that financial management is one of the most important aspect in running a business. Efficiency and effectiveness of money management is very important in order to achieve an organization objective. The company's financial statements are prepared to provide information about the company toward stakeholders. The financial statements were made in order to present financial information about the assets and operational results of the company, and are used by parties interested in making economic decision (Standar Akuntansi Keuangan.2009).

Conceptual Framework

The conceptual framework used in this research is for scheming what to do and for designing approaches for the certain situation. The aim for this research is to create a financial statement projection to avoid waste of resources and targeting company sales so it would be able to optimize the business performance of Infinity Haircut in order to overcome its company problem.

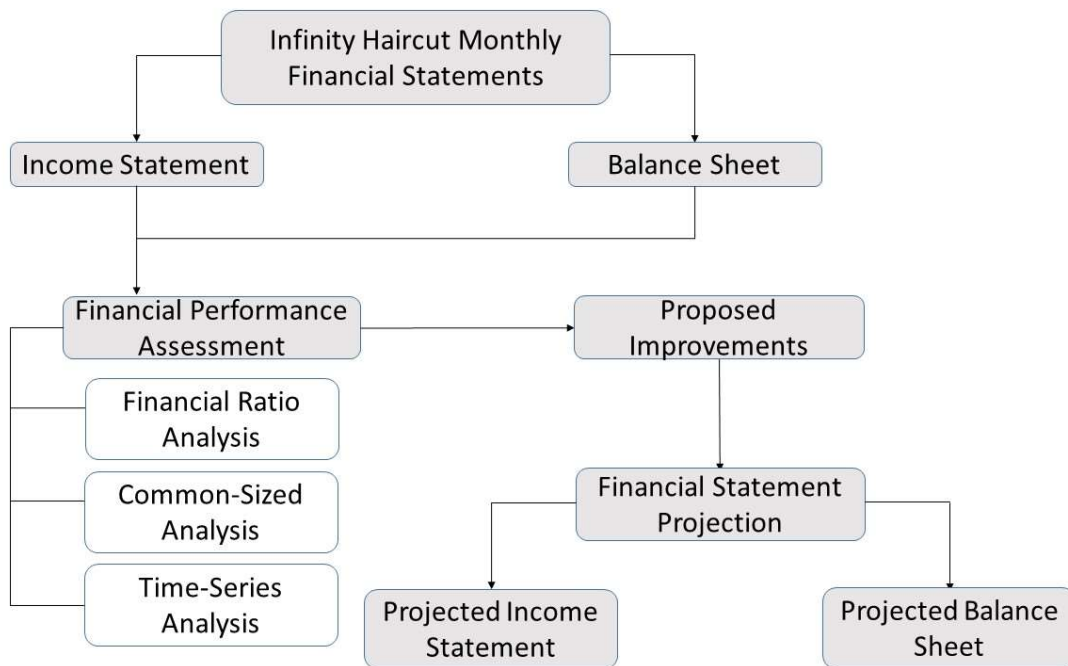


Figure 1. Conceptual Framework

Financial Performance

Analyst frequently wish to take an overall look at the firm's financial performance and status (Gitman & Zutter. 2012). It enables researcher to assess the company performance using ratio analysis based on the company financial statement. According to Lawrence J. Gitman and Chad J. Zutter (2012), there are two popular approaches to a complete ratio analysis, which is summarizing all ratios and the DuPont system of analysis. The summary analysis tends to view all aspects of the firm's financial activities to isolate key areas of responsibility.

Financial Ratio Analysis

To evaluate a firm's financial condition and performance, the financial analyst needs to perform "checkups" on various aspect of a firm's financial health. A tool frequently used during these checkups is a financial ratio, or index, which relates two pieces of financial data by dividing one quantity by another (Horne & Wachowicz. 2008).

The financial ratios are used to predict the amount, timing, and uncertainty of both cash flows and price appreciation (Mautz & Angell, 2006). In general, financial ratio is a tool to measure the quantitative relation between one numbers to another in financial statements. The analysis using financial ratio can help the investor, creditor, and the management to determine and monitor the company's performance in the past and how to improve or maintain it in the future.

Common-Size Analysis

Another method of analysis that could be used to help financial ratio analysis is common-sized analysis, this analysis works by expressing items consisted in income statement and also balance sheet into percentages. In income statement net sales is used as the base for the percentage while in balance sheet it uses total assets as the base.

Evaluation of levels and trends in financial statements percentage over time affords the analyst insight into the underlying improvement or deterioration in financial condition and performance, these types of analysis are very helpful in comparing firms whose data differ significantly in size, because every item on the financial statements gets placed on a relative, or standardized, basis (Horne & Wachowicz. 2008).

Time-Series Analysis

According to Gitman & Zutter (2012), Time-Series analysis evaluates the performance of company over time. Comparison between current performance and past performance using ratios enables researcher to assess the company progress.

Time-Series analysis is quite useful to evaluate on how variables changes over time and also to analyze the relationships between those variables over a period of time. Time-Series is a series or chain of well-defined data that are measured in a consistent time intervals. The purpose of this analysis in this research is to find out the differences and changes of a company data on its financial statement, and also the reason why the data may change. There are several possibilities of why the data change, it could be that the nature or characteristics of the company has changed, or the company might have been using their assets more efficient and better than before. The researcher hopes to find out those factors by investigating using the Time-Series Analysis.

Financial Statement

According to IFRSs (2009), financial statements are a structured representation of the financial position and financial performance of an entities. The financial statements in general are a part of financial reporting. And on the research "The Use of Financial Statements by Small Firms When Making Decision", Shawn and Howard (2011), stated that financial statements have an important role to stakeholders and the financial impact of decision on firm sustainability over time. It was also stated on the result that financial statement may be useful for owners of SME's and provider of services for SME's.

Financial Statements provide important information that could be used by both external evaluators and also internally to help guide decisions. Both owners and service providers can use the

information to understand better about the factors that are affecting their use of financial statements. Understanding what factors that impact the use of financial statements may lead to improving the process through which financial statements are incorporated into decisions.

Root Cause of Problem

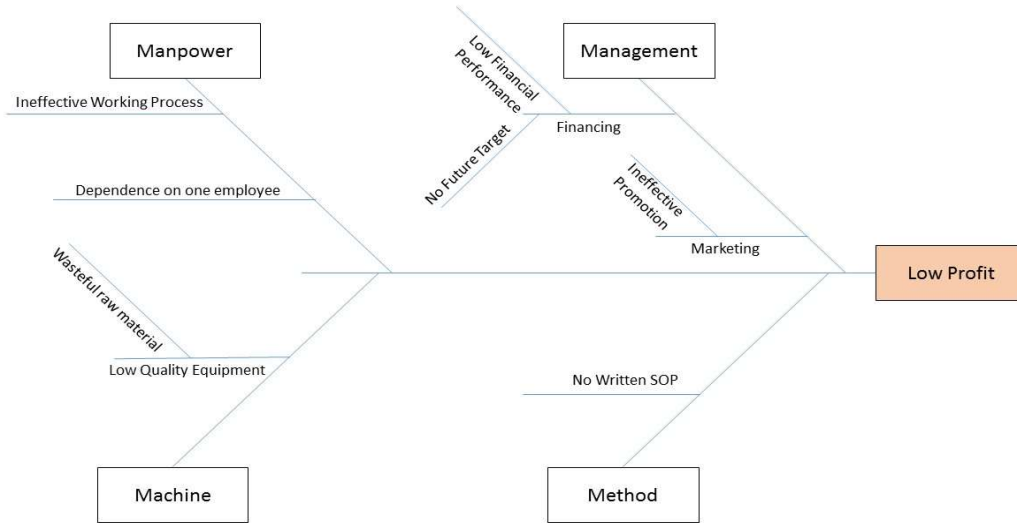


Figure 2. Infinity Haircut Problems Fishbone analysis

Based on the fishbone analysis above, there four classification of problem that assumed to made Infinity Haircut have low profit, the problems include; manpower, management, machine, and method. Manpower problems is ineffective working process, this problem was caused by the employee which sometimes operate in selling the products not in accordance with the company operational hours. Another problem inside manpower type of problem is dependence on one employee, this was caused by company dependence to employee which is currently Infinity Haircut has only one employee. Therefore, unavailable of employee to works will give a very big impact towards company performance.

Another type of problem is management, which consist of low financial performance, no future target, and ineffective promotion. Low financial performance is caused by ineffective usage of assets to generate profit and also unstructured budget allocation. No future target problem is also connected to financial planning, owners of Infinity Haircut has not created any plans for the future, and the last problem of management type is ineffective promotion, this was shown by low sales with high outcome for marketing expense, this might be caused by wrong method to approach the customers.

Method type of problems consist of only one problem which is no written sop, actually this problem did not have a really big impact to the company performance, because the employee has already been trained before and usually works according to the right step, but a written SOP could also give a better working process inside the company. Last type of problem is machine, usage of raw material in Infinity Haircut, condition of equipment such as scissors and haircut machine which has low quality caused the usage of raw material to be more wasteful and inefficient. Based on the problems listed above, researcher decided to create a Pareto chart to clarify and value each of the problems

Ratio Calculation

Table 1. Financial Ratio Calculation

INFINITY HAIRCUT FINANCIAL RATIO									
Liquidity	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Current Ratio =	0.43	0.17	0.73	0.70	0.86	1.08	1.53	1.87	2.28
Quick Ratio =	0.43	0.17	0.69	0.64	0.77	0.99	1.49	1.80	2.09
Profitability									
Gross Profit Margin =	0.81	0.83	0.71	0.71	0.59	0.60	0.60	0.59	0.58
Operating Profit Margin =	-1.53	-1.00	-0.20	-0.09	0.42	0.36	0.36	0.23	0.21
Net Profit Margin =	-1.53	-1.00	-0.20	-0.09	0.42	0.36	0.36	0.23	0.21
ROA =	-0.20	-0.21	-0.05	-0.03	0.08	0.08	0.10	0.04	0.03
ROE =	-0.50	-0.74	-0.11	-0.06	0.15	0.13	0.14	0.06	0.04
Activity									
Inventory Turnover =	-	-	2.33	1.89	1.76	2.59	10.40	4.00	1.72
Total Asset Turnover =	0.13	0.20	0.26	0.30	0.20	0.23	0.28	0.19	0.17

Financial Performance Assessment Result

From both of financial ratio and common size analysis, researcher has listed some problems that might be the cause of Infinity Haircut low financial performance. Here the problems and also the cause will be listed below,

Table 2. Problems in Financial Performance Assessment

List of Problems	Cause of Problems
Big loss in October and November 2016 that exceeds 100% from its total sales	High amount of rent expenses and employee wages that did not give returns equally to its sales.
Gross Profit Margin (GPM) Kept on Decreasing each month from 81% to 58%	Cost of Goods Sold needed for product is quite high
Unstable Operating Profit Margin (OPM) and Net Profit Margin (NPM) Decreasing from February to June 2017	Ineffective marketing expenses, cost of expenses did not paid off by the sales obtained.
Most of Profitability ratios decreased slowly from April to June 2017	Low amount of sales received in those times and increased amount of marketing expenses

Projected Financial Statements

Table 3. Income Statement Projection

INFINITY HAIRCUT INCOME STATEMENT 2017								
Revenue	June	July	August	September	October	November	December	
Service Sales	Rp -	Rp 1.800.000	Rp 1.980.000	Rp 2.178.000	Rp 2.395.800	Rp 2.635.380	Rp 2.898.918	
Product Sales	Rp 1.550.000	Rp 1.700.000	Rp 1.870.000	Rp 2.057.000	Rp 2.262.700	Rp 2.488.970	Rp 2.737.867	
TOTAL SALES	Rp 1.550.000	Rp 3.500.000	Rp 3.850.000	Rp 4.235.000	Rp 4.658.500	Rp 5.124.350	Rp 5.636.785	
Service Variable cost	Rp -	Rp (172.500)	Rp (189.750)	Rp (208.725)	Rp (229.598)	Rp (252.557)	Rp (277.813)	
Service Fixed Cost (Depreciation)	Rp (91.542)	Rp (90.017)	Rp (88.516)	Rp (87.041)	Rp (85.590)	Rp (84.164)	Rp (82.761)	
TOTAL SERVICE COST	Rp (91.542)	Rp (262.517)	Rp (278.266)	Rp (295.766)	Rp (315.188)	Rp (336.721)	Rp (360.574)	
Product Variable cost	Rp (558.000)	Rp (612.000)	Rp (673.200)	Rp (740.520)	Rp (814.572)	Rp (896.029)	Rp (985.632)	
TOTAL COGS	Rp (558.000)	Rp (612.000)	Rp (673.200)	Rp (740.520)	Rp (814.572)	Rp (896.029)	Rp (985.632)	
Gross Profit	Rp 900.458	Rp 2.625.483	Rp 2.898.534	Rp 3.198.714	Rp 3.528.740	Rp 3.891.600	Rp 4.290.579	
Expenses	June	July	August	September	October	November	December	
Rent	Rp -	Rp (500.000)	Rp (500.000)	Rp (500.000)	Rp (500.000)	Rp (500.000)	Rp (500.000)	
Employee Wages	Rp -	Rp (1.500.000)	Rp (1.500.000)	Rp (1.500.000)	Rp (1.500.000)	Rp (1.500.000)	Rp (1.500.000)	
Maintenance Fee	Rp -	Rp (150.000)	Rp (150.000)	Rp (150.000)	Rp (150.000)	Rp (150.000)	Rp (150.000)	
Office Equipment	-	Rp -	Rp -	Rp -	Rp -	Rp -	Rp -	
Marketing expense	Rp (525.000)	Rp (350.000)	Rp (350.000)	Rp (350.000)	Rp (350.000)	Rp (350.000)	Rp (350.000)	
Other Expense	Rp (50.000)	Rp (50.000)	Rp (50.000)	Rp (50.000)	Rp (50.000)	Rp (50.000)	Rp (50.000)	
Total Expense	Rp (575.000)	Rp (2.550.000)	Rp (2.550.000)	Rp (2.550.000)	Rp (2.550.000)	Rp (2.550.000)	Rp (2.550.000)	
Net Income	Rp 325.458	Rp 75.483	Rp 348.534	Rp 648.714	Rp 978.740	Rp 1.341.600	Rp 1.740.579	

Table 4. Balance Sheet Projection

INFINITY HAIRCUT 2017								
Asset	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	
Current Asset								
Cash & Bank	Rp 3.654.742	Rp 4.020.217	Rp 4.422.238	Rp 4.864.462	Rp 5.350.908	Rp 5.885.999	Rp 6.474.599	
Inventory	Rp 324.000	Rp 612.000	Rp 838.800	Rp 998.280	Rp 1.083.708	Rp 1.087.679	Rp 1.002.047	
Total Current Asset	Rp 3.978.742	Rp 4.632.217	Rp 5.261.038	Rp 5.862.742	Rp 6.434.616	Rp 6.973.678	Rp 7.476.646	
Non current asset								
Equipment	Rp 5.492.539	Rp 5.400.997	Rp 5.310.980	Rp 5.222.464	Rp 5.135.423	Rp 5.049.832	Rp 4.965.668	
Less : Equipment Depreciation	Rp (91.542)	Rp (90.017)	Rp (88.516)	Rp (87.041)	Rp (85.590)	Rp (84.164)	Rp (82.761)	
Total Non Current Asset	Rp 5.400.997	Rp 5.310.980	Rp 5.222.464	Rp 5.135.423	Rp 5.049.832	Rp 4.965.668	Rp 4.882.907	
Total Asset	Rp 9.379.739	Rp 9.943.197	Rp 10.483.502	Rp 10.998.165	Rp 11.484.449	Rp 11.939.346	Rp 12.359.553	
Liabilities & Equities								
Current Liabilities								
Investor Funding	Rp 1.748.492	Rp 1.673.009	Rp 1.324.475	Rp 675.761	Rp -	Rp -	Rp -	
Total Liabilities	Rp 1.748.492	Rp 1.673.009	Rp 1.324.475	Rp 675.761	Rp -	Rp -	Rp -	
Equities								
Owners Equity	Rp 7.631.247	Rp 8.270.188	Rp 9.159.027	Rp 10.322.403	Rp 11.181.470	Rp 10.597.747	Rp 10.618.974	
Retained Earnings	Rp -	Rp -	Rp -	Rp -	Rp 302.979	Rp 1.341.600	Rp 1.740.579	
Total Equities	Rp 7.631.247	Rp 8.270.188	Rp 9.159.027	Rp 10.322.403	Rp 11.484.449	Rp 11.939.347	Rp 12.359.553	
Total Liabilities and Equities	Rp 9.379.739	Rp 9.943.197	Rp 10.483.502	Rp 10.998.164	Rp 11.484.449	Rp 11.939.347	Rp 12.359.553	

Ratios after Improvements

Here are the ratios that has been targeted to improve, and the time taken for Infinity Haircut to achieve the target,

Table 5. Values of Ratio after Improvements

Ratios	July	August	September	October	November	December
Gross Profit Margin	75%	75%	76%	76%	76%	76%
Operating Profit Margin	2%	9%	15%	21%	26%	31%
Net Profit Margin	2%	9%	15%	21%	26%	31%

From the table above, the target and goals to achieve a gross profit margin of more than or equal to 70% can be achieved in the next month, while the target to achieve the operating profit margin and net profit margin to more than or equal to 30% can be achieved 6 months of projection, and also responding to management wish to restart their service product, the service sales, and fixed cost accounts such as rent and wages has been reactivated.

This projection could be achieved in 6 months with following requirements, which are, assuming Infinity Haircut would performed 100 of service sales in the first month of restarting the services which is in June 2017, and increase its services price to Rp 18.000/service. Both services and product sales are assumed to increase 10% each month. By using this method, with the current number of sales, it is possible to increase both of the revenue streams up to 10% and it might be feasible for Infinity Haircut to be able to realize this improvements.

Conclusion

From this research, researcher concluded that the cause of low financial performance in Infinity Haircut is profitability ratios. The value of profitability ratios is unstable and can be considered quite low, the ratios show that the most important factors that caused low profitability of Infinity Haircut is total sales.

The total sales received by Infinity Haircut was very low and were unable to cover excessive operating cost especially rent expense and wage expense. To overcome this problem, Infinity Haircut needs to increase its sales if they still wanted to run their services products or even press down the amount of cost. The high amount of fixed cost and low amount of sales caused Infinity Haircut to suffered loss every time.

Another way to overcome this problem is to deactivate their services product and focus only to their products which is the hairstyling pomade. Currently, Infinity Haircut could gain a benefit only if they were not running their services.

Recommendation

- *Increasing Total Sales*

As explained in chapter four that the most beneficial improvement that has to be done is to increase the amount of total sales. By increasing the total sales, it would also affect most of all profitability ratios that are being assessed. Therefore, improving total sales is the most priority that are also recommended by the researcher.

- *Pressing Down Amount of Cost*

Another method recommended by researcher is to press down the amount of fixed cost that need to be paid, in every losses of profit in Infinity Haircut, it was all caused by the big amount of cost that could not be covered with the total revenue received. Therefore, reducing the amount of cost is also beneficial for Infinity Haircut

- *Get Rid of Service Product*

The last method that recommended by the researcher is to eliminate the service product which cause the great amount of fixed cost, by focusing only to their product, it might be possible to improve and enhance the product to be able to compete in the market.

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