THE ROLE OF COMPANY FINANCIAL STATEMENT DISCLOSURE TO ANTICIPATE BANKRUPTCY AND ITS IMPACT

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ABSTRACT

Bankruptcy of a company not only harms the founders, shareholders (investors), suppliers and employees. Bankruptcy of a company can have a systemic impact on the economy of a country or even the global economy. Bankruptcy of a company can be caused by management errors and can also be caused by an economic/financial crisis that has hit. In fact, bankruptcy can be detected through analysis using a bankruptcy model. The data analyzed comes from the company's financial reports. This paper aims to examine the role of company disclosure on bankruptcy anticipation and the impact it has. Disclosure of company financial information is very important in anticipating bankruptcy, because early detection can be done to overcome it.

Keyswords: Company disclosure, financial statement, bankruptcy

INTRODUCTION

Bankruptcy is an event that all company owners always want to avoid. Entrepreneurs establish companies with the aim of gaining benefits, including making a profit for the owner, being able to help meet people's living needs, create jobs, and help advance the economy. However, bankruptcy is often experienced by companies throughout the world, both in developing and developed countries.

Several factors that result in company bankruptcy are an economic crisis that hits a country or region, mismanagement and fraud committed by management. Like the case of the People's Credit Bank (BPR) which was closed by the Financial Services Authority (https://finansial.bisnis.com/read/20231207/90/1721697/sederet-bank-bangkrut-gara-gara-fraud-asosiasi-angkat-suara,, downloaded on December 7, 2023 at 16.41 WITA).

In fact, bankruptcy of a company does not appear suddenly as is often experienced by companies. Likewise, the economic crisis did not come suddenly. One way to detect a company's condition, whether it is good or whether there are problems, is to interpret or analyze the company's financial reports from year to year. Through financial report analysis, the company's financial performance will be known, good or bad. Based on the results of the financial report analysis, the company can take policies regarding the company's next strategy to improve and increase the company's financial performance. So it can avoid poor financial performance and even avoid bankruptcy (Sari et. al., 2017).

Signals about a company's performance (performing well or heading towards bankruptcy) can be read from the company's annual financial report. However, not

many companies provide complete information in their financial reports. Companies, whether they have high or low value, will not report (hide) bad news about the company. If there is bad information, companies are more likely to cover up the information. Some companies argue that if all information is disclosed it will reveal company secrets to competitors (Astalona and Siregar, 2022). More or less the same results were shown by Utami's (2018) research, especially in the Indonesian capital market. Where before the 2008 crisis, the Indonesian capital market showed a weak form of efficient market. But after the crisis, the market showed a weak form of inefficiency. This means that when an economic crisis occurs, companies listed on the Indonesian Stock Exchange tend to cover up their financial performance. So, before the crisis, the Indonesian capital market was classified as efficient, the weak form became inefficient (there was hidden information) during the crisis.

This paper aims to analyze the role of financial information disclosure through disclosure of company financial reports in anticipating bankruptcy and the impact it causes. The company information required in the study can be mandatory information (which is required under OJK regulations) and voluntary information, such as revenue estimates, sales estimates, future cash flow estimates, the company's long-term strategy, and other non-financial information.

LITERATURE REVIEW

Company Disclosure

Corporate disclosure is an effort to present and convey economic information to parties related to the financial status and performance of a company or a country. The information conveyed is in the form of financial and non-financial data that influences the financial performance of a company or a country (Cunha and Mendes, 2017). Information is conveyed through company or government annual reports. This information is analyzed, then used as a reference in making investment decisions.

Financial statements

A financial report is a report that contains the company's financial condition for a certain period, for example three months or six months for the company's internal purposes. For the wider community, financial reports are submitted once a year (Kasmir, 2013). Through financial report analysis, the company's financial performance position can be known. Several components of financial reports that can be analyzed to determine a company's financial position include: balance sheet, profit and loss report, capital changes report, cash flow report, and notes to financial reports (Fahmi, 2012). The components of the financial report can provide clues regarding the company's financial condition, if the information conveyed in the financial report is complete and nothing is hidden. Through financial report analysis, the level of profitability (profit) and risk level (health) of a company can be determined. The risk level of a company can signal the possibility that the company will experience financial distress and even go bankrupt (Hanafi and Halim, 2016).

Bankruptcy

According to Prihanthini and Sari (2013), quoted by Masdiantini and Warasniasih (2020), bankruptcy is a situation where a company experiences very severe financial distress, so that it is no longer able to operate its business. Such as fulfilling the company's obligations to related parties, including creditors, suppliers and employees.

Financial difficulties can be caused by the amount of liabilities being greater than the value of current assets or the value of current liabilities exceeding the fair value of assets. Based on these conditions, bankruptcy can be defined as a condition where a company experiences insufficient funds to run its business. Bankruptcy due to financial difficulties experienced by most companies has had a negative impact on the world economy (Masdiantini and Warasniasih, 2020). Bankruptcy experienced by a company often results in other companies experiencing the same difficulties (systemic) and even leads to an economic crisis.

METHODS

The method used in this article is study library research, namely method collecting data by understanding and study concepts and theories from various literature related to research studies. There are four stages of literature study in research namely preparing the equipment necessary, prepare a bibliography, organizing time and reading or record research materials (Adlini et. al., 2022). This data collection uses methods search for sources and construct from various sources, such as books, journals and research that has been carried out. Material literature obtained from various references these are analyzed critically and must be depth in order to support the proposition and his idea.

DISCUSSION

Bankruptcy experienced by a company will have an impact primarily on related parties. Such as creditors, suppliers, employees, and of course shareholders. Creditors and suppliers will have difficulty collecting when their business partner company goes bankrupt. Employees will lose their jobs and income when the company they work for goes bankrupt. Shareholders will lose their invested capital when the company they founded or whose shares they hold goes bankrupt.

In large companies, company bankruptcy will have an impact on other companies (systemic impact). The creditors (banks and finance companies) who provide financing will also experience bankruptcy, because the company's large financing will stall due to bankruptcy. People and companies that place their funds in bankrupt banks will also experience financial distress because their savings cannot be withdrawn and cannot be used. Suppliers will also go bankrupt, because they cannot collect collections from large companies that are going bankrupt. Thus, the bankruptcy of large and strategic companies, such as finance companies, will have a systemic impact and cause an economic crisis in a country, region or even globally, as occurred in 2008-2009 due to the financial crisis known as the subprime mortgage case (low quality housing credit crisis). in the United States (Sugema, 2012; Santoso, 2018).

Therefore, company bankruptcy cases need to be avoided as early as possible. Because it has a huge impact on the economy of a country, regionally and even globally. The impact of bankruptcy of a company as described above is not only on related parties such as creditors, suppliers, employees and shareholders. But it also has an impact on other companies, the economy of a country and even the global economy.

Financial distress which causes bankruptcy can be detected through analysis using a formula or model called the financial distress model. The financial distress model is used as a model to predict bankruptcy, providing trends and behavior of certain ratios. These ratio characteristics can be used to identify possible financial difficulties in the future (Masdiantini and Warasniasih, 2020). These financial distress

models are the models proposed by Grover (2001), Zavgren (1985), Zmijewski (1984), Ohlson (1980), Springate (1978), and Altman (1968). Several results of research conducted by researchers show that the use of the Springate, Zmijewski, and Grover models has a high level of accuracy (100%) and the Ohlson model (80%). The Grover model is the most appropriate method for predicting banking company bankruptcy (Anwar et. al., 2022).

To predict bankruptcy, the Altman model uses the Z-Score value which has quite good predictive value. The Springate model uses four ratios from 19 financial ratios from various literature. The Zmijewski model uses financial ratios to conduct bankruptcy analysis. The Taffler model bases bankruptcy analysis on the Altman model and discriminant analysis methods. Meanwhile, the Fulmer model uses the step-wise Multiple Discriminate Analysis (MDA) method to evaluate 40 financial ratios from 60 sample companies to predict bankruptcy (Masdiantini and Warasniasih, 2020).

The data used in conducting the analysis, using bankruptcy models (Springate, Ohlson, Zmijewski, Altman models, etc.) is the data presented in the company's annual report. The company's annual financial report contains financial and non-financial data, consisting of a balance sheet (containing the company's assets, debts and capital for a certain period), a profit and loss report (containing total income, total costs and profit/(loss)), cash flow report (contains information regarding the sources and use of company cash in a certain period) (Hidayat, 2018). The annual financial report also contains notes to the financial report, containing information regarding an explanation or detailed list or analysis of the value of an item which is presented in the context of adequate disclosure. So the notes to the financial report are an inseparable part of the financial report which presents information about explanations of financial report items in the context of adequate disclosure (https://bappeda.jatengprov.go.id/anggaran/catatan-atas-laporan-keuangan -calk/).

So that the results of bankruptcy analysis (financial distress) provide accurate signals, the data source used (financial reports) provides complete information as is. The data presented (financial and non-financial data) is data that is as it is without anything hidden. In this case, company disclosure is very necessary.

As is generally known, companies will provide more information when the company is performing well (big profits). On the other hand, companies will hide a lot of information when the company is not doing well. either due to the economic crisis or mismanagement (Utami, 2018; Hastalona and Siregar, 2022). Utami's research results (2018) state that the Indonesian capital market was classified as a weak form efficient market before the 2008 crisis. Then it became a weak form inefficient market when the 2008 crisis occurred. This means that before the crisis the company was running normally and performing well, so that the information disclosed by the company very complete, the Indonesian capital market is called efficient. When the economic/financial crisis hit the world in 2008, company operations were disrupted and the company's financial performance became poor. However, much of the company's financial information is not disclosed. So that during the crisis, the capital market in Indonesia was classified as a weak form of inefficient market.

The company's behavior of covering up its financial facts when it is not performing well, may be intended to prevent investors and suppliers from leaving the company. With the hope that it can immediately improve the company's financial performance.

However, the behavior of company management can mislead investors and policy makers in formulating investment strategies and decisions. By not revealing actual company data, analysis using bankruptcy models does not provide true signals about a company's future. Interested parties such as investors/shareholders, suppliers and the government have not implemented anticipation and strategies to minimize the impact. If the company discloses the condition of the company with correct information as widely as possible, the potential for bankruptcy will be known through bankruptcy model analysis and can be overcome with various strategies from all stakeholders.

The information that companies can provide through annual financial reports to the public is divided into mandatory information based on PERATURAN OJK No. 29/POJK04/2016 in accordance with applicable accounting standards and voluntary (optional) information that is not regulated in regulations. Voluntary information is expected in company disclosures, such as estimates of revenue, sales and cash flow for the coming year, the company's long-term strategy, as well as other non-financial information (Hastalona and Siregar, 2022).

Due to its voluntary nature, this information is often not widely disclosed to the public. As stated by Hastalona and Siregar (2022), companies with high or low value will not disclose bad data regarding their financial estimates for the coming year. In fact, if you pay attention, this information can provide an indication that the company's finances will perform well or are likely to experience financial distress and even lead to potential bankruptcy.

To avoid bankruptcy and its impacts, companies must disclose as much information as possible regarding the condition of the company, both in terms of financial and non-financial data. Both disclosure of company information to the internal supervisory committee and to the public who need this information, including the government. The internal supervisory committee requires disclosure of company information to prepare the company's future strategic steps, both for rescue and development. Disclosure of company data is important for the government, in preparing policy packages to save the economy. Meanwhile, the public requires disclosure of company information to make investment decisions, to minimize risks.

CONCLUSION

Based on the description above, it can be concluded that company disclosure is very important to avoid company bankruptcy and the impacts it causes. Through company disclosure, potential financial distress and even company bankruptcy can be identified through bankruptcy analysis. Company disclosure can also prepare company rescue steps and prepare economic rescue policy packages, so that the impact can be minimized.

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