CHAPTER II. THEORITICAL FRAMEWORKS

2. 1. Theoretical Framework

2. 1. 1 Normative Theory

According to (Januarti, 2016) normative theory in accounting explains to information users what information should be provided and how accounting should be presented. This theory does not explain what financial information is or why it occurs. This theory describes what accounting must accomplish in presenting financial information, since its use in various environments leads to various outcomes. By analyzing the relationships between accounting variables in the actual world, this theory, which takes the shape of generally accepted accounting practice, serves as a theoretical guide for forecasting a variety of accounting events (Sihombing, 2017).

The normative theory is the basis for the preparation of accounting standards where the primary goal of accounting is to give users of the system financial data to help in decision-making. Thus, this theory considers the phenomena experienced by the company, therefore financial statements must be made into general purpose financial statements. When the business's financial results are unclear before and after COVID-19, the financial statements must comply with the norms and provisions of SAK (Financial Accounting norms), which corresponds to IFRS (International Financial Reporting Standards). According to Karim, the normative theory is predicated on the causes of an outcome, and the company's lack of disclosure contributed to the poor valuation brought on by the economic unpredictability of Covid-19.

Nelson in (1973) there are 4 assumptions about normative theory, namely accounting is a measurement system, profit and value should be measured accurately, financial accounting is useful for economic decision making, markets are inefficient, and there are some unique profit metrics.

During Covid-19, investors have difficulty making decisions due to economic instability and inefficient markets. Thus, this theory can help the decision-making process by providing accounting data that is relevant, useful, and in accordance with generally accepted standards.

The normative theory uses value judgment which contains at least a premise. The normative theory underlies the birth of various standard setters in order to formulate accounting standards. Accounting's primary goal is to give businesses financial information which can be used in making economic decisions since the resulting financial statements must be made for the public (general purpose financial statements). For this reason, an accounting standard is needed which is a set of principles that can be used as a reference (guideline), both for companies in preparing and presenting financial statements, as well as for users in interpreting or interpreting financial statements. Conceptual frameworks are a set of concepts that are integrated and interrelated, as a result of the thought process and selection of factors and concepts that are considered relevant to the field of accounting and are expected to apply in certain environments and conditions. The conceptual framework of accounting reference is expected to be a reference both for standard-setting bodies to develop new accounting standards, as well as for practitioners to assess whether a certain accounting treatment that is not regulated in the standard is acceptable or to justify accounting practices.

2. 1. 2 Financial Performance

2. 1. 2. 1. Definition

According to (Rudianto, 2013), Financial performance is the outcome or accomplishment of a company's management in carrying out its duty of efficiently managing the company's assets through time. According to (Sutrisno, 2009) Work finance is an accomplishment made by a company over a period of time that reflects the company's health. Financial performance, based on some of the aforementioned understandings, might be characterized as a study done to determine the success of management in running a business. (Irham, 2018) considers financial performance to be a review of the firm's financial management with the goal of determining the degree to which the firm's accomplishments are influenced by financial implementation principles. This means that financial performance is closely and directly related to the company's performance in general, because it is an important part of the company and the report will be presented in the income statement with net income being the main measure of performance. (Prastowo, 2015)

(Mulyadi, 2001) defines performance evaluation as the periodic assessment of how well an organization, its components, and its personnel are performing in relation to its goals, standards, and predetermined criteria. A company's accomplishment or success is generally described by the term "financial performance." A strong performance demonstrates that the business is well managed. Profit is one of the key performance indicators in the business sector, where a company's performance can be defined as the results of its activities or operations over a specific time period and evaluation of corporate performance. (Indonesia, Standar Akuntansi Keuangan, 2001)

From the above definition it can be concluded that financial performance is one of the competencies achieved in a company that is useful as an information board to monitor the health level of a company. Financial performance can also be used to gauge a company's or organization's accomplishments over a specific time period, which can indicate how successfully its activities have been carried out. It can also be utilized to decide on the company's future goals approach as foundation for choosing investment strategies for boosting business productivity and efficiency.

2. 1. 2. 2. Objectives

According to (Munawir, 2016) the objectives of assessing company performance are:

1. To determine the amount of liquidity, which refers to the company's ability to receive the funds needed to meet its financial obligations or to pay bills on time.
2. To establish the degree of solvency at which the business can continue to pay its debts even if it is liquidated both temporarily and permanently.
3. To assess the amount of profitability that demonstrates the business' capacity for profit-making over a specific time frame.
4. To assess the level of stability, consider if the business can afford to pay the interest on its loans, including timely principal repayment, and the ability to consistently distribute dividends to shareholders without encountering difficulties or financial crises.

2. 1. 3 Covid-19

In late December 2019, a mysterious pneumonia outbreak with symptoms including fever, dry cough, exhaustion, and sporadic gastrointestinal symptoms was reported at the the wholesale seafood market in Wuhan, Hubei, China. (WHO, 2019) The first epidemic, which impacted 66% of the staff, was announced to the market in December 2019Due to the local health authority issuing an epidemiologic alert on December 31, 2019, the market was closed on January 1, 2020. In addition, Singapore, Germany, Thailand, Japan, the United States, the Republic of Korea, and Vietnam all contracted the disease. On January 21, 2019, our nation's first case was reported. As of February 6, 2020, the WHO reported a global total of 28,276 confirmed cases with 565 deaths, including at least 25 countries. (Özdemir, 2020)

Government Regulation (PP) Number 21/2020, which governs Large Scale Social Restrictions Policy implementation, governs Large Scale Social Restrictions Policy. The Large Scale Social Restrictions Policy establishes criteria such as the number of cases and/or deaths caused by the disease, which has spread rapidly across several regions or countries. The Minister of Health Regulation Number 9/2020 concerning Large Scale Social Restrictions Policy Guidelines, which goes into effect on April 3, 2020, further regulates the PP's development, which includes: restrictions on holidays at school and work, participation in religion, use of public spaces or facilities, participation in certain social activities, transportation, and other security-related activities. The Permenkes apply for the prevention and do control of Covid-19 based on World Health Organization standards and criteria. In order to implement the Large Scale Social Restrictions Policy in their region, local governments are required to submit the application to the Minister of Health. The Minister of Health in DKI Jakarta approved the first Large Scale Social Restrictions Policy, which began on April 10, 2020.

Large Scale Social Restrictions Policy is a special activity for residents in the Government regulation. Following the increasing in positive confirmed case of Covid-19, it also affects and increase the economic damage in Indonesia (Kemenkeu, 2020) The rapid weakening that spreads to various places is one of the characteristics that can affect the Indonesian economy. Declining performance and slowing business growth in various economic sectors may result in a decline in market demand.

2. 1. 4 Financial Statement

2. 1. 4. 1. Define

A formal record of a company's or other entity's financial activities is called a financial statement (or financial report), in accordance with (IPSASB, 2012), a financial statement is a summary of the important items, transactions, and events that are included in an entity's financial statements, as well as the trends and circumstances that impacted them.

According to (Murphy, 2022) financial statements are records that written to describe financial performance of a company and how it operates. In order to ensure accuracy and for tax, financing, and investment purposes, government organizations, accounting firms, and the frequently audit financial statements. The balance sheet is a formal record of an organization's assets, organization’s liabilities, and organization’s stockholders' equity.

Financial accounting standards provide understanding concerning financial statement, namely the Indonesian Institute of Accountants (Indonesia, Standar Akuntansi Keuangan, 2020) explained that "Financial statements are balance sheets and calculation of profit on the statement of changes in financial position (e.g., cash flow statement, or fund flow statement), other report notes as well as explanatory material which is an integral part of financial statements".

The Indonesian Accounting Association (Association, 2021) defines financial statements are a framework that display the company's financial health and performance. Financial statements are reportedly meant to serve the public's interests by giving consumers access to information or data that they may use to make financial decisions.

Financial statements, according to (Harnanto, 2022), is a result of accounting process which are the end result. The main reports are the balance sheet and the income statement. The statement of retained earnings on the source and use of funds, for example, is complementary.

2. 1. 4. 2. Types of Financial Statement

According to U.S Securities and Exchange Commission (Commission, 2007) there are several type of accounting statement:

1. Statement of Financial Position

   A Statement of financial position is a set of detailed information of company asset, company liabilities and company shareholders equity. Asset is a value of a company owned things. This often indicates that they may be utilized to create products or render services for sale. Manufacturing facilities, cars, machinery, and stock are examples of physical assets. Liabilities are the sums of money owed to third parties by a corporation. This might be anything from money borrowed from a bank to launch a new product to renting space in a structure, paying raw material suppliers, paying wages to employees, covering the expense of environmental cleaning, or paying back taxes..

   The term "capital" or "net worth" is used to describe the value of a company's stockholders' equity. It is the amount of money left over after a business sells all of its assets and pays off all of its debts. Owners, or shareholders, of the corporation are entitled to the remaining funds. By totaling all of its assets, liabilities, and shareholders' equity, a corporation must balance its obligations and shareholders' equity. At the conclusion of a reporting period, a company's balance sheet displays its assets, liabilities, and shareholders' equity. The total amount of money flowing into and out of the accounts over time is not displayed.

2. Income Statement

 The amount of money a business made for a given time period (often for a year or a portion of a year) is shown on an income statement, a type of financial statement. An income statement also contains the expenses incurred in order to generate that income. The real "bottom line" of the statement typically displays the company's net gains or losses. This reveals how much money the business made or lost over the year. Income statements also display EPS, or earnings per share. The sum that would be distributed to shareholders if the company chose to distribute all of the period's net profits.

3. Cash Flow Statement

 The inflows and outflows of cash are displayed in cash flow statements. This is important because a company has to have enough cash on hand to cover its expenses and buy assets. A cash flow statement, as opposed to an income statement, which can only do so, can inform you of a company's profitability. Instead of showing dollar amounts at one particular time, Changes over time are shown in a cash flow statement. Rearranged financial data from an organization's income statement and balance sheet.

 The cash flow statement's bottom line shows the net change in cash for the period. There are typically three sections in a cash flow statement. The cash flow from one of the three categories of operating, investing, and financing operations is examined in each section.

a. Operating Activities: Operation that analyzes cash flow of a company from net income or losses that occur.
b. Investing Activities: It consist all of company investing activities and shows it cash flow from it. Example: purchase or sales of property, purchase or sales of plant and equipment.
c. Financing Activities: For instance, money raised via the sale of stocks and bonds or borrowing from banks may be used to show the cash flow from financing operations.

2. 1. 4. 3. Objectives of Financial Statement

The most crucial sources of information for shareholders and other interested parties to understand a company's profitability and financial situation are its financial statements. They provide data on the financial results of a business concern over a period of time in terms of assets and liabilities, which can be used to make decisions.

According to (Fuad and Rustam, 2005) the financial statements may be accepted by certain parties, if they meet the requirements as follows:

1. Relevant, financial statements must comply with the existing data connection with these transactions,
2. Clear and understandable, the financial statements must be clear and understood by the users of financial statements,
3. Can be tested, the financial statements presented data verifiable and accountable,
4. Neutral, presented the report should be neutral means to be used by all parties,

5. On-time, presented the report should have a reporting or clear reporting period,
6. Can be compared, The financial statements and previous reports can be compared, as a foundation to keep track of the results achieved, and
7. Complete, the financial statements must be complete in accordance with the rules in order to avoid errors in receiving financial information.

2. 1. 5 Financial Ratio

According to James in (Cashmere, 2009) A financial ratio is a calculation that divides one number by the other to create a link between two accounting numbers. According to (Fahmi, Financial Performance Analysis, 2014) Financial ratios are a form of analytical tool that may be used to clarify various financial linkages and indicators in order to demonstrate changes in financial conditions or prior operational accomplishments, as well as to describe the trend of such a pattern of change and to show the risks and opportunities that the company in question entails.

2. 1. 5. 1. Financial Ratio

1. Current Ratio: Consist of long-term obligations and ratio to measure it.
2. Quick Ratio: Ratio that show company ability in paying current liabilities or debts.
3. Cash Ratio: Ratio that demonstrates a company's ability to pay its debts.

2. 1. 5. 2. Solvency Ratio

According to (Cashmere, 2009) The following ratio can be used by the company:

1. Debt to Asset Ratio: This debt ratio determines the split between total debt and total assets. To evaluate how much debt is utilized to finance a company's assets or how much debt affects asset management, to put it another way.
2. Debt to Equity Ratio: is the ratio used to assess debt.

2. 1. 5. 3. Profitability Ratio

According to Sudana (2011: 22) The profitability ratio is a metric used to evaluate a company's potential for profitability. Additionally, the managerial efficacy of a corporation may be evaluated using this ratio. Ratio that projected to measure company performance:

1. Net Profit Margin

   The revenue-to-sales ratio is also known as the net profit margin ratio (NPM). The net profit margin (NPM) is a ratio that measures a company's ability to generate net profit from its sales. This ratio reflects the efficiency of all aspects of the business, including production, personnel, marketing, and finance. Profit after tax is considered as net income. Some literature says that earnings after tax (EAT) is written with net profit. (Kurniawan, 2020)
2. Return On Asset

   According to (Hargrave, 2022) Return on asset, also known as return on investment, is a metric that measures how well management manages its investments. Furthermore, the return on investment (ROI) demonstrates the efficiency of all company funds, including loans and own capital. According to (Fahmi, 2015) This ratio evaluates how well an investment can deliver the expected return on investment, and the investment is the same as the assets that the organization invests or places. The lower the ratio, the worse it is, and vice versa.

3. Return on Equity

The return on equity (ROE) ratio is also referred to as the return on investment (ROI). It's also known as the total asset turnover ratio or total asset turnover in some sources. This ratio examines how much an organization uses its own resources to provide a return on equity. The higher this ratio, the more capable the company is of providing a return on equity. This means that the company's owner's position is strengthening, and vice versa. (Kurniawan, 2020)

2. 2. Previous Research

Table 2. 1 Previous Research

Title-Published Year-Author	**Dependent Variable**	**Independent Variable**	**Research Findings**	**Results**
The Effect of COVID-19 Pandemic on Financial Performance of Firms: Empirical Evidence from Vietnamese Logistics	Financial Performance - Profitability: ROA -Activity: Receivable Turnover Ratio	Covid-19 Pandemic	H1. Average ROA value has decreased, which the COVID-19 pandemic crisis has impacted the company's financial performance. H2. There were changes in the value of receivable	According to this survey, none of the 114 logistic companies listed on the Vietnam Stock Exchange have seen an improvement in their

Enterprises- (Nguyen, 2022)	-Liquidity: Current Ratio Ratio -Leverage: Debt to Equity Ratio		turnover, the COVID-19 pandemic crisis has had a negative influence on the company's financial performance. H3. The current ratio decreased, which the COVID-19 pandemic had positive effect of company financial performance. H4. Increase in average suggests that the COVID-19 pandemic had a negative impact on the company's financial performance.	financial performance. According to the data, the profitability and efficiency ratios declined as they increased during the COVID-19 epidemic. The liquidity ratio did not reveal any appreciable variations. Instead, the performance of these companies has declined in terms of returns on assets, turnover of accounts receivable, and leverage. Export activity and international transportation

				were severely affected by the COVID-19, with only a few domestic logistical businesses flourishing as a result of the worldwide influence on supply chains.
Comparative analysis of financial performance before and during the Covid-19 pandemic using profitability, liquidity, solvency, and economic value added (EVA) ratio in go public companies listed on the Indonesia	Financial Performance - Profitability -Liquidity -Solvency -Economic Value Added (EVA)	Covid-19 Pandemic	There were significant changes in the current ratio, quick ratio, cash ratio, DER, DAR, and NPM between before and after the epidemic. There was no discernible difference between ROA, ROE, and EVA before and during a pandemic.	Only the Restaurant, Hotel & Tourism sub-sector's financial performance is shown to be impacted by the Covid-19 epidemic. The findings demonstrated that there were substantial differences between before and after the pandemic in the

Stock Exchange-2019-2020-Annisa Wulandari and Dina Patrisia				current ratio, quick ratio, cash ratio, DER, DAR, and NPM. There was no discernible change between ROA, ROE, and EVA before and after a pandemic.
Analysis of the Impact of Covid-19 on the Financial Performance of Retail Companies Listed on the Indonesia Stock Exchange-2021- Enriko Haris Pratama, Winston Pontoh, and Sherly Pinatik	Monetary proportions of productivity -ROA -ROE -NPM	Covid-19 Pandemic	H1. There is a significant difference in Return on Asset before and after Covid-19, which means the company did not operate effectively. H2. There is a significant difference in Return on Equity which company couldn't effectively use their equity on gaining profit.	The research only showed a specific sector which focuses only on retail investors. The aftereffects of this examination demonstrate that: (1) There are noticeable disparities between the Return on Assets of retail companies registered on the Indonesia

			H3. There is no significant difference in Net profit Margin which selling during Covid-19 increased due to no difference in operational cost.	Stock Exchange before and after. COVID-19. The results of the crucial value, which is less than 0.05, show this; (2) The Return on Equity of retail companies listed on the Indonesia Stock Exchange before and after COVID-19 differs significantly. This is shown by the significance score, which is less than 0.05; (3) There isn't a significant difference between the Net Profit Margin of retail

				companies registered in Indonesia Stock Exchange before and after COVID-19. This is shown by an importance score greater than 0.05.

2. 3. Hypotheses Development

Financial performance refers to a company's capacity to carry out typical business operations in such a way as to generate profits and fulfill all of its commitments in a timely and appropriate manner. Based on the conditions that occurred during the Covid-19 pandemic. The government issued a policy of Large-Scale Social Restrictions. This policy causes the community to reduce the effectiveness of the community and companies in buying and selling activities. This certainly has a negative impact where the economic growth of food and beverage corporate sectors decreases followed with the other sectors. Due to challenges in buying and selling operations to maintain and enhance their financial performance, food and beverage firms are less effective in optimizing their resources to make profits as a result of the fall in people's purchasing power and may even risk incurring losses.

During covid-19 investors have difficulty in making investment decision due to economic instability and inefficient market. Normative theory can help the decision-making process by providing data that is relevant, useful and in accordance with generally accepted standard. Normative theory describe what accounting must accomplish in presenting financial information that leads to various outcome. Where financial performance in financial statement must meet the standard and provision of SAK (Standar Akuntansi Keuangan) which refers to IFRS where financial performance is uncertain before and during covid-19.

Based on research results from (Hartini, 2023) found that there is no different in ROA, ROE and NPM. There is no difference in long-term growth, it is assumed that the company is ready to face a pandemic and the decline is not too significant so that changes in profit before and during the pandemic are not a significant problem, because consumer goods are goods that are always needed by the community, so profit from sales still shows a positive value. On the other hand, according to research from (Esomar JF, 2021), Based on the outcomes of data processing utilizing a Paired Sample T-Test on the ratio of NPM, ROA, and ROE, we find that there are substantial changes in financial performance in the finance company industry before and after the Covid-19 pandemic. According to (Ediningsih & Satmoko, 2022) ROE values before and after the Covid-19 epidemic were different because of the decline in consumer buying power at food and beverage companies listed on the Indonesia Stock Exchange.

As well as research from (Rizqi & Handri, 2022) found that the development of the profitability of food and beverage sub-sector companies as seen from the ratios of ROA,ROE, and NPM for the period before the COVID-19 pandemic during the period July 2018 - December 2019 tended to be stable. According to (Amelya, 2021), before and throughout the Covid-19 epidemic, NPM's performance did not change. Based on research by (Rahmad & Rudianto, 2023) This study conclude that the return on assets (ROA) ratio, and return on equity (ROE) ratio experienced a significant decrease, while net profit margin (NPM) ratio did not experience a significant decrease in the Covid-19 period against the period before Covid-19.

Research that proves that Covid-19 affects a significant in ROA, namely, research by (Herdiyana, 2021), (Junaidi & Salim, 2021), and (Kumala, 2021). Meanwhile, studies that prove that covid-19 does not significantly affect the ROA are (Lim, 2022) and (Saputro & Hapsari, 2022). Research that proves that covid-19 does significantly affect the ROE are (Rahmad & Rudianto, 2023) and (Riwayati, 2022) . Meanwhile, studies that proves that Covid-19 does not significantly affect the ROE are (Lim, 2022) and (Listiarti, 2022). Research that proves that covid-19 affects a significant in NPM namely (Agustina, 2022), and (Rahmani, 2020). Meanwhile studies that prove that covid-19 19 does not significantly affect the NPM are (Ardi, 2022), and (Riwayati, 2022)

NPM show company efficiency on gaining profit, if calculated NPM >5%, It is stated as good. Using ROA because it shows how well a business uses its assets to generate net profit, this calculation intended to compare the financial performance related with total asset and performance of each company before and during Covid-19, ROA >5.98% concluded as good. Using ROE due to it's a measure of profitability from the point of view of shareholders. One of the reasons why operating a company is to generate profit that will benefit shareholders. Therefore, the hypothesis that will tested in this study are:

Ha: There's difference on financial performance of food and beverage company listed in Indonesia stock exchange before and during Covid-19