Overcoming Household Debt: Financial Ratio Analysis to Overcome Debt Problems in the Muslim Family

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Abstract

Purpose - Household debt problems are one of the main challenges in managing family finances which can have a negative impact on financial well-being and relationships between family members. This research aims to explore the role of financial ratio analysis in overcoming household debt problems and provide practical guidance for families in managing their debt.
Methodology - The research method used is a literature study which includes academic journals, textbooks and related research reports. Financial ratio analysis is carried out to assess debt levels, repayment capacity, and the effectiveness of debt management strategies.
Findings - It is hoped that the findings from this research will provide insight into the factors that cause debt, effective debt management strategies, and the implications of family financial policies for debt reduction and prevention.
Research implication - It is hoped that the results of this research can provide practical guidance and recommendations for families experiencing debt problems in overcoming their financial problems and achieving sustainable financial stability.
Originality - The paper proposes a debt strategy management through financial ratio approach.

Keywords: Household Debt, Financial Ratio, Strategic Debt Management

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1. Introduction on Debt and Family Conflict; Why Important?

Debt problems in the household are a problem that often causes financial stress and conflict within the family. In many countries, including Indonesia, household debt levels continue to increase in line with economic and social developments. Many factors can cause debt problems, including uncontrolled spending, decreased income, and a lack of understanding of good financial management. Kotze (2006) argues that excessive debt impacts not only individuals but also employers and the nation's overall economy. Individuals may face severe financial failures, including broken homes or divorce, stress, poor work performance, deteriorating financial health, and bankruptcy. In this context, financial ratio analysis can be a very useful tool to help families identify and overcome their debt problems. Financial ratios, such as the debt-to-income ratio, debt-to-asset ratio, and other financial ratios, provide an overview of the financial health of a household. By understanding their financial ratios, families can see where their debt problems are rooted and develop strategies to overcome them.

However, despite its importance, the use of financial ratios in the household context is still not widely understood in depth. Thus, in-depth research on the use of financial ratio analysis to overcome debt problems in families will provide a valuable contribution in overcoming household debt problems. Through this research, it is hoped that practical guidance will be found that can help families manage their debt more effectively, thereby increasing financial well-being and harmony in the household. Thus, the research questions are formulated such as the following: 1. What are the factors that cause debt problems in households in Indonesia? 2. Is there a relationship between the level of understanding of financial management and the severity of debt problems in the household? 3. How can financial ratios, such as the debt-to-income ratio, debt-to-asset ratio, and other financial ratios, be used to identify debt problems in the household? 4. How can household financial management be improved through financial ratio analysis to reduce debt burden? 5. How can implementing a financial ratio-based strategy in overcoming debt problems improve financial well-being and harmony in the household?

This research aims to identify financial ratios that are relevant in dealing with household debt problems, as well as analyzing the factors that cause debt problems in Indonesia. Apart from that, this research also aims to develop practical guidance for families in using financial ratio analysis to manage their debt more effectively. Another aim is to understand the relationship between the level of understanding of financial management and the severity of debt problems in the household. Finally, this research will evaluate the effectiveness of financial ratio-based strategies in improving financial well-being and harmony in the family.

This paper consists of five sections. Section Two describes definition of deb while Section Three explains qualitative research methodology adopted by this paper. The fourth section is a discussion on types of financial ratios and finally, this paper is wrapped up with a conclusion and suggestions for further research that can be made in the future.

2. Definition on Debt

The definition of debt is a loan of funds in the form of cash or securities used to purchase goods or services to fulfill needs, where the loan must be repaid within a certain period of time. People who have debts or liabilities are obliged to repay the loan, whether paid in full or in installments. The amount of debt or liabilities depends on the needs of each individual. In a household context, debt can be an instrument used to finance urgent needs such as education, a house, a vehicle, or other needs. However, while it can provide access to necessary resources, debt also carries significant financial risks and responsibilities for the individual or family. Often, debt that is not managed well can be a source of serious problems in household finances. For example, excessive debt can cause unmanageable financial burdens due to having to pay high

interest or large monthly installments. This can disrupt a family's financial stability and make it difficult for them to meet their daily needs or plan for the future financially.

Apart from that, uncontrolled debt can also cause conflict in relationships between family members. Differences of opinion regarding debt management or difficulties in fulfilling financial obligations can trigger arguments or tension in the household. This kind of conflict can affect the quality of relationships between husband and wife, between parents and children, or between other family members. Not only that, mounting debt can also cause significant financial stress for individuals and families. Uncertainty about the ability to repay debt or worry about the financial future can lead to tension, anxiety, and even mental health problems such as depression or anxiety. Therefore, it is important for households to understand the risks and consequences of debt and manage it wisely in order to achieve financial stability and family prosperity.

1.1. Debt Types

Tamanni & Mukhlisin (2022) and Himma (2022) divide debt types based on fund management, namely:

1. Productive Debt

   This type of debt aims to obtain financial benefits, for example for investment, working capital, business capital, buying a house to rent out, or buying a vehicle so that it can be used to help with work activities. Debt is used for business development, entrepreneurs can gain income and profits. From these profits, entrepreneurs can use them to pay installments or pay off debts.

2. Consumer Debt

   Consumer debt is a loan of funds used for consumption needs. This debt is not urgent or not very important. Therefore, this type of debt does not have a positive impact and can actually increase financial problems. Consumer goods purchased with debt will experience depreciation in value or price. If the item is resold, the price will drop drastically.

Furthermore, debts can also be grouped based on their payment terms such as short, medium and long term debts:

1. Short Term Debt

   Short-term debt is a type of loan with a shorter repayment period with a maximum repayment period of around one year. This short-term debt is often called current debt. Examples of short-term debt, namely estimated tax debt, expenses payable, trade payables, notes payable, and so on. Short-term debt can have the following characteristics:

   a. Short maturity, under 1 year;
   b. Repayment time is approximately 1 to 3 years;
   c. Debt payments can be made in full or in term payments in installments;
   d. Debts between individuals are not subject to interest, but if you owe them through a bank you will get a fairly large interest rate;
   e. Usually does not require collateral, only based on a written agreement or trust;
   f. Apart from banks or financial institutions, short-term debt providers can be made to other individuals.

2. Medium Term Debt

   Medium-term debt is a loan that has a repayment period of around 5 to 10 years. Meanwhile, the characteristics of medium-term debt include:

   a. Loan repayment time is approximately 5 to 10 years;
   b. The nominal debt is not too large but not too small;

c. There is an interest rate on the loan;
d. There are financial institutions that ask for collateral or not, this depends on the size of the debt and the applicable provisions.

3. Long Term Debt
   Long-term debt is a loan with the longest repayment period. The term of this debt is usually more than 10 years. The following are the characteristics of long-term debt, including:
   a. Debt payments are made in installments over a long period of time;
   b. There is interest in accordance with the agreement of both parties;
   c. The maturity date is approximately one year, maybe even more than that;
   d. Debt repayment period of more than 10 years.

1.2. Factors Causing Debt in the Household

First of all, to understand the factors that cause debt problems in the household, it is important to pay attention to several common conditions. In general, a lack of financial planning is often at the root of debt problems in many households. The inability to properly plan and manage a financial budget can lead to uncontrolled spending, thereby triggering the accumulation of significant debt. Apart from that, recently access to debt has become very easy due to the emergence of applications and services that provide money loans to the public. Ease of accessing money loans unwisely is also an important factor to consider. Many people tend to rely on debt loans to meet their daily needs without considering their ability to pay off the bill in full, which can ultimately worsen debt problems.

In this context, changes in financial conditions can also play an important role. Unexpected events such as job loss or an increase in the cost of living can leave families struggling to pay monthly bills and falling into additional debt. According to Masril et al. (2021); Nugraha et al. (2021); Himma (2022), the following are factors usually cause debt problems in the household:

1. Needs exceed income
   Needs exceeding income are the main factor causing debt problems in the household. Consumers choose debt to meet their needs and also provide other conveniences for lifelong comfort.
2. Materialistic attitudes and greedy behavior
   Materialistic attitudes and greedy behavior are also factors that cause debt problems in the household. Consumers who have materialistic attitudes and greedy behavior find it easier to choose debt to fulfill unnecessary needs.
3. Weak financial management
   Weak financial management is also a factor that causes debt problems in the household. Consumers who are unable to manage their finances well find it easier to choose debt to meet their needs.
4. Low income stage
   Low income level is also a factor that causes debt problems in the household. Consumers who have low income levels find it easier to choose debt to meet their needs.
5. Other costs
   Other costs such as provision fees, interest costs, and other costs are also factors that cause debt problems in the household. Creditors will burden you with other costs such as provision fees, interest costs, and other costs.
6. Unstable income

Unstable income is also a factor that causes debt problems in the household. Consumers who have unstable incomes find it easier to choose debt to meet their needs.

7. Possible loss of job
   The possibility of losing your job is also a factor that causes debt problems in the household. Consumers who have the possibility of losing their jobs find it easier to choose debt to meet their needs.
8. Expenditures are higher than income
   Expenditures that are higher than income are also a factor that causes debt problems in the household. Consumers who have expenses that are higher than their income find it easier to choose debt to meet their needs.
9. Poor economic conditions
   Poor economic conditions are also a factor that causes debt problems in the household. Consumers who have poor economic conditions find it easier to choose debt to meet their needs.

3. Methodology

This research adopts a methodology borrowing from Chigbu, Atiku, & Dua-Plessis (2023). In which according to them, literature review strategy of is presented as a process that involves several activities including searching, identifying, reading, summarising, compiling, analysing, interpreting and referencing. In the discussion section, the steps are applied and even up to the practical level to ensure the paper has contribution to practice.

Although there is no specific reference from Al-Qur'an and Hadits regarding technical debt management, but there are verses and Prophet's sayings regarding the danger of excessive debt that is discussed in the following section. By the fact that all Muslims should be abide by the Islamic rulings on how to overcome their debt problems, thus this paper also specifically the Muslim readers to identify their debt problems and tackle them in an Islamic way.

4. Discussion on Financial Ratio Analysis

Financial ratio analysis is the process of examining and testing a company's financial performance using financial ratios. A financial ratio is a value obtained by dividing one value by another value. Financial ratio analysis is used to measure the company's financial performance, measure the company's performance in managing its financial resources, and measure the company's performance in managing its business (Indrayani, 2019). Financial ratio analysis aims to assess the company's financial performance, including financial performance, profitability ratios, liquidity ratios, activity ratios, solvency ratios, and return on investment (ROI). Financial ratio analysis can be used to assess a company's financial performance, measure a company's performance in managing its financial resources, and measure a company's performance in managing its business.

The use of financial ratio analysis aims to assess the company's financial performance, including financial performance, profitability ratios, liquidity ratios, activity ratios, solvency ratios, and return on investment (ROI). Financial ratio analysis can be used to assess a company's financial performance, measure a company's performance in managing its financial resources, and measure a company's performance in managing its business.Financial ratio analysis, which is generally used in a business context, also has significant relevance in household financial management. In the household, the application of financial ratio analysis can provide a deeper understanding of the family's financial health and the effectiveness of managing financial resources. Financial ratios such as profitability, liquidity, and solvency can be interpreted in the

household context to understand the family's ability to generate income, manage cash flow, and pay debts. Apart from that, financial ratio analysis can also help identify inefficient spending patterns, manage debt better, and plan finances in a more structured manner. By utilizing financial ratio analysis, households can take appropriate steps to improve their financial health, reduce their debt burden, and achieve long-term financial goals. Therefore, applying the concept of financial ratio analysis in the household context provides significant benefits in helping families manage their finances more effectively and achieve stronger financial stability.

4.1. Types of Financial Ratios

In an era of ever-changing economic dynamics, financial analysis is becoming increasingly important for companies and individuals in understanding and managing their financial health. One of the most commonly used tools in analyzing finances is financial ratios. Financial ratios are a powerful instrument for measuring the financial performance and stability of an entity by comparing various elements in their financial statements. In a business context, financial ratio analysis helps managers and investors make the right decisions. However, it is also important to note that the principles of financial ratio analysis are not only relevant to companies, but also apply in the context of personal finance. By understanding the different types of financial ratios, individuals can manage their finances more efficiently, identify areas that require special attention, and plan for a more stable financial future. How to analyze financial ratios can be determined by the type you want to see. There are 4 types of financial ratios (OCBC-NISP, 2023), namely:

1. Profitability Rasio

   Profitability ratios are used to calculate the profit of a company or business. This ratio calculation can be used in the following types:

   a. Gross Profit Margin Rasio
      This type of ratio is used to determine the comparison between gross profit and sales. The greater the ratio, the better the company's finances. Here's how to calculate it: Gross Profit Margin Ratio = Gross Profit : Sales
   b. Net Profit Margin Ratio
      This type of ratio is used to see the ability of a company or business to generate profits after deducting all costs. Here is how it is calculated: Net Profit Margin Ratio = Net Profit after Tax: Sales
   c. Operating Profit Margin Ratio
      This ratio is used to calculate the profit generated before tax and interest. Here's how to calculate it: Operating Profit Margin Ratio = Profit Before Tax and Interest: Sales
   d. Return On Investment (ROI)
      ROI is a ratio used to determine a company's ability to generate profits on total investment. The calculation method is as below: ROI Ratio = Profit After Tax: Investment
   e. Return On Assets
      ROA is a ratio that contains information about the size of a company's assets to generate profits. ROA measures how efficiently a company uses its assets to generate profits. ROA is calculated by dividing net profit by total assets. The higher the ROA, the more efficient the company is in generating profits from the assets it owns. The way to calculate this type of financial ratio is as follows: ROA Ratio = Profit Before Tax and Interest : Total Assets.

2. Liquidity Ratio

   Liquidity ratios are a type of calculation used to see the liquidity capabilities of a company. The calculation takes into account the current assets and current liabilities owned.

   a. Current Ratio

      The calculation of the current ratio is dividing current assets by current liabilities. The percentage results can provide information about the company's ability to pay current liabilities in a short period of time. This ratio measures the company's ability to meet short-term obligations using current assets. The current ratio is calculated by dividing current assets by current liabilities. The higher the current ratio, the better the company's ability to meet short-term obligations. Here's how to analyze financial ratios of this type: Current Ratio = (Current Assets : Current Liabilities) x 100%.

   b. Cash Ratio

      The way to calculate this type of financial ratio is to add up cash and cash equivalent assets, then divide the result by current liabilities. If the results are close to 100%, the better it will be for the company or business. Here is the calculation formula: Cash Ratio = ((Cash + Cash equivalent assets) : Current Liabilities) x 100%

   c. Quick Rasio

      The quick ratio is the result of the difference between current assets and inventory which is then divided by current liabilities. The percentage can show the financial health of a company or business. The closer to 100%, the better. This ratio is similar to the current ratio, but does not include inventory assets in its calculation. The quick ratio is calculated by dividing current assets minus inventory by current liabilities. The quick ratio provides a more conservative picture of a company's liquidity. Here is how to calculate financial ratios for this type: Quick Ratio = ((Current Assets - Inventory) : Current Liabilities) x 100%.

3. Activity Ratio

   The activity ratio is used to see the productivity of assets owned in a company or business. There are several types of activity ratios, namely:

   a. Inventory Turnover Ratio

      The inventory turnover ratio is used to determine the company's liquidity. The higher the resulting ratio, the better the inventory management. Here's how to calculate it: Inventory Turnover Ratio = Cost of Goods Sold : Inventory.

   b. Receivables Turnover Ratio

      The receivables turnover ratio is used to determine the amount of a company or business's receivables. The greater the receivable turnover, the better it is for the company's finances. Here is how to analyze financial ratios of this type: Receivables Turnover Ratio = Total Receivables: Average Receivables

   c. Fixed Asset Turnover Ratio

      This ratio shows the company's ability to generate sales using fixed assets. The bigger the ratio, the better company or business finances. The way to calculate financial ratios for this type is as follows: Fixed Asset Turnover Ratio = Sales : Fixed Assets.

   d. Total Asset Turnover Ratio

      The way to calculate this ratio is by comparing sales with the number or total assets of the company. Total assets consist of current assets and fixed assets. The bigger the ratio, the better. Here's how to calculate it: Total Asset Turnover Ratio = Sales : Total Assets.

4. Solvency Ratio

   The solvency ratio is used to determine the company's effectiveness in using its assets or wealth. The way to analyze financial ratios with this type is as follow:

   a. Debt Ratio

      The way to calculate the debt ratio is to divide the amount of debt by the total assets of the company or business. This calculation can provide information about the size of the assets of a company or business to see how much of the assets are financed by debt. The lower the percentage, the better. Here is the formula: Debt Ratio = (Total Debt : Total Assets) x 100%.

   b. Debt Ratio with Capital Approach

      The way to analyze financial ratios in this type is to divide the amount of debt by the amount of capital. The smaller the percentage generated, the healthier the finances of a company or business. This means that the debt owned does not exceed the capital. Here is the calculation formula: Debt Ratio = (Amount of Debt : Amount of Capital) x 100%.

In similar vein, Mukhlisin & Tamanni (2020) explains the following financial ratios that are required to audit personal or family finance:

a. Emergency Savings Ratio = 6 – 12 months of Total Salary.
b. Liquidity Ratio = Total Current Assets/Total Expenditures. This ratio can be an indicator of how long it will take us to meet our living needs if we no longer have regular income. The liquidity ratio is almost the same as the Emergency Savings Ratio.
c. Savings and Investment Ratio = Savings and Investments/Gross Income. This ratio shows how much we have set aside for saving and investing. 10 times gross income set aside in savings is a good standard for this ratio and the greater the ratio, the better because the family can easily achieve their financial dreams.
d. Debt and Credit Ratio = Total Debt and Credit/Total Assets. This ratio shows our financial ability to pay debts and credit. The maximum standard for this ratio is 50%, if it is greater, it will have a negative impact on the ability to pay debts.
e. Expense Ratio = Total Expenditures Each Month/Total Income Each Month. The ratio should be less than 1, which means that our total expenses, especially consumptive ones, are much smaller than the total income received.
f. Ratio of Current Assets to Net Worth = Current Assets/Total Net Worth. This ratio shows how easily the assets owned can be sold or exchanged for cash. A good standard for this ratio is 15%.
g. Debt Repayment Ability Ratio = Total Debt Installments/Monthly Income. This ratio can be a signal for us whether we are able to pay our debts every month. The maximum standard for this ratio is 35% consisting of productive debt installments of 20% and consumer debt of 15%.
h. Ratio of Net Value of Savings and Investments to Net Worth = Total Savings and Investments/Net Worth Value. This ratio shows how someone can set aside net assets.
i. Passive Income Ratio = Total Passive Income/Total Income. This can show how much passive income from savings and investments, whether invested in financial institutions or in real businesses, can help personal or family financial needs.

4.2. Application of Financial Ratios to Manage Debt and Financial Health

Financial ratio analysis can be a very useful tool in overcoming household debt problems. By using financial ratios, families can gain deeper insight into their financial condition and identify areas that require special attention. For example, by looking at liquidity ratios such as the current ratio, families can evaluate how easily they can meet short-term financial obligations, such as monthly bills or sudden expenses without having to rely on additional debt. If the current ratio indicates that the family has low liquidity, they may need to review their spending habits and make changes to improve their ability to manage day-to-day finances. In addition, profitability ratios such as return on investment (ROI) or return on equity (ROE) can provide an idea of how efficient a family is in using their financial resources to generate income or profits. If profitability ratios indicate low financial performance, families may consider adopting more efficient financial management strategies, such as cutting unnecessary expenses or seeking more profitable investment opportunities. Additionally, through financial ratio analysis, families can also identify inefficient spending patterns or areas where they may be overly dependent on debt. For example, if a solvency ratio such as the debt-to-income ratio shows that a family has a high level of debt compared to their income, this may be a warning sign that they need to reduce non-essential spending or look for ways to increase their income to reduce their debt burden. Thus, financial ratio analysis can provide a clearer view of a family's financial situation and help them take appropriate steps to overcome debt problems. By utilizing financial ratios wisely, families can manage their finances more efficiently, reduce debt burdens, and achieve long-term financial stability. The following are the steps on how to apply household debt management:

1. Identification and Data Collection
   The first step is to identify relevant data sources related to household finances, including personal financial statements, billing information, and expense records. Data can also be obtained through surveys or interviews with family members.
2. Preparation of Financial Reports
   Next, prepare a simple financial report that includes information about household income, expenses, assets and debts. Make sure to keep detailed records of all financial transactions and record them regularly.
3. Calculation of Financial Ratios
   Use the data you have collected to calculate various types of relevant financial ratios, such as liquidity, solvency, profitability and activity ratios. Examples of ratios that can be calculated include the current ratio, cash ratio, and quick ratio.
4. Financial Ratio Analysis
   Once the financial ratios are calculated, analyze the results to gain a better understanding of the household's financial condition. Identify trends, patterns or anomalies that may occur in these financial ratios.
5. Identify Debt Problems
   Use the results of financial ratio analysis to identify debt problems that a household may be facing, such as high debt levels, low liquidity, or poor financial performance.
6. Development of Completion Strategy
   Based on the results of the analysis, develop an appropriate resolution strategy to overcome the debt problems that have been identified. These strategies may include reducing expenses, increasing income, restructuring debt, or creating a better budget plan.
7. Implementation and Evaluation

Finally, implement the resolution strategies that have been developed and evaluate their effectiveness periodically. Monitor changes in household financial conditions and adjust strategies as necessary to achieve set financial goals.

Of the many ratios, there are at least four ratios that can be used to measure our financial health, namely:

1. Emergency Savings Ratio

   Let's say someone has emergency fund savings in the range of six months of total salary (Rp. 60,000,000) assuming the family's main salary (gross income) is Rp. 10,000,000 per month. This is very healthy, even the Liquidity Ratio in Illustration A also shows more than six months because there is cash on hand = Rp. 62,000,000/Rp. 60,000,000 = 6.2 months.

2. Savings and Investment Ratio

   Let's say someone has quite good savings and investments, i.e. the husband has set aside some of his income to be saved in a deposit. Likewise, his wife has saved it in the form of gold. From the formula, it shows that the Savings and Investment Ratio = Savings and Investments/Gross Income = Rp. 100,000,000/Rp. 10,000,000 = 10 times.

3. Debt and Credit Ratio

   Let's say A has a small debt ratio as opposed to B who even turns out to have minus wealth, meaning B has liabilities greater than his existing assets. In terms of ratios, it can be seen that A finansial position shows a ratio of 30%, for instance from Rp. 436,500,000/1,490,200,000. Meanwhile, the ratio in Illustration for B is 1.75 from Rp. 452,000,000/257,700,000. This exercise shows that families who have the same case as Illustration B will definetely experience difficulties in paying their debts and credit.

Mukhlisin, Tamanni, & Amanda (2024) argue that a Muslim should be aware of an excessive debt. Debt in any form is still obligatory to be paid even in a hadith the practice of a human being will be suspended until he pays his debts. *"The spirit of a dead believer hangs around because until his debt is paid off."* (HR. At Tirmidhi no. 1079, he said, "(Hadith) hasan", validated by Al Albani in Sahih At Tirmidhi). Here are the tips on how to tidy up debt administration and how to solve them: make intention to solve it immediately by reciting or vowing together with family members, spouse, and children; reduce lifestyle from excessive to simple and frugal; transferring usury debt to shariah contract transactions, can be done with individuals, cooperatives, or Islamic banks (takeover); requesting to write off the usury portion of the existing debt; propose a longer time (restructuring) for debt repayment so that it will not be burdensome; selling existing assets and looking for halal job or businesses to pay off the existing debts; and making more *ṣadaqah* and prayers. One of the best prayers to be recited every morning and evening is: *"O Allah, I seek refuge in You from confusion and sadness. I seek refuge in You from weakness and laziness. I seek refuge in You from cowardice and miserliness. I seek refuge in You from debt bondage and human tyranny"* (Narrated by Abu Dawud). In addition to presenting the reality of debt life, this series also shows how some people who have excess of wealth are confused about how to spend it. As did the creator of the Squid Game, and he just realized the mistake of his life until he was close to death. Even though there are many ways that can be done with someone's property, do not let us be called as Allah SWT says in QS At-Takatsur (102): 1-2 which means*: "Competition in [worldly] increase diverts you, Until you visit the graveyards. .."* and QS An nisā (4): 29 which means: *"O you who have believed, do not consume one another's wealth unjustly1 but only [in lawful] business by mutual consent. And do not kill yourselves [or one another]. Indeed, Allah is to you ever Merciful."* Everybody will be accounted for in the hereafter by having to answer four

questions, and in the wealth section there are two sub-questions: where does our wealth come from and how do we spend it: *"The soles of a servant's feet will not move on the Day of Resurrection until he is asked (asked for accountability) about his life and how he use it, about his knowledge and how he used it, about his wealth; where did he get it and where did he spend it, and what about his body he uses it for."* (HR. Tirmidhi).

5. Conclusion and Recommendation

Financial education is essential for making informed decisions in both personal and social contexts. Throughout life, it enhances personal financial management right from the age of 0-6 years, 7-12 years, 13-15 years, 16-18 years, 19-23 years, 24-35 years, 36-55 years, and above 56 years (KNEKS, 2019) as described in the following figure:

Figure 1. Phases of Financial Education
Source: KNEKS (2019, translated); Mukhlisin et al. (2024)

From youth to retirement and even after, fundamental economic and financial skills, including pension literacy, aid in future planning and better decision-making, thereby reducing the likelihood of financial instability such as suffering from high debt especially in old age, and fostering economic independence, particularly for women. The research has shown that financial ratios play important role to inform individuals about their decision in relevant to debt, either to create a debt, reduce a debt, or add more debt.

This paper attempts to respond to the outlined research questions such as on factors that cause debt problems in households in Indonesia; relationship between the level of understanding of financial management and the severity of debt problems in the household; how to identify debt problems from financial ratios i.e. debt-to-income ratio, debt-to-asset ratio, and other financial ratios; how household financial management be improved through financial ratio analysis to reduce debt burden; how a financial ratio-based strategy overcome debt problems and improve financial well-being and harmony in the household. After conducting a literature review, the summary of the findings are as follows:

1. Financial Ratio Analysis
   Financial ratio analysis is a very useful tool in evaluating the financial health of an entity, be it a company or a household. Financial ratios provide insight into various aspects of finance, including liquidity, profitability, solvency, and efficiency.

2. Relevance for Households
   The principles of financial ratio analysis are not only relevant for companies, but can also be applied in the context of personal finance, including in overcoming household debt problems.
3. Application in Overcoming Debt Problems
   By using financial ratio analysis, households can identify inefficient spending patterns, manage debt better, and plan finances in a more targeted manner. Through identifying debt problems and developing appropriate resolution strategies, it is hoped that households can overcome debt problems and achieve long-term financial stability.
4. Implementation Steps
   The methodological steps that have been explained can help in analyzing and overcoming household debt problems. Starting from data identification, calculating financial ratios, analyzing results, to developing settlement strategies and evaluating their effectiveness.

It can be concluded that financial ratio analysis can be an invaluable tool in managing household finances and overcoming debt problems that may arise. With a good understanding of financial conditions and implementing appropriate strategies, it is hoped that households can achieve greater financial stability and achieve their financial goals more successfully. The paper should be further enhanced through an applied study for instance an ethnography research in a community, can be a comparative study between two different communities in different places and countries. The study should be held during certain period of time to evaluate if the financial ratios are really useful for their debt management strategy.

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