POLITEKNIK NEGERI BALI

The Effect of Cash Turnover, Receivables Turnover, Inventory Turnover On Profitability In Primary Consumer Goods Industry Companies IDX

Desak Ayu Kutha Mas Safitri [1*], I Ketut Suandi [2], and Anak Agung Putri Suardani [3]

[1] *Managerial Accounting Undergraduate Study Program, Accounting Department, Bali State Polytechnic*
[2] *Managerial Accounting Undergraduate Study Program, Accounting Department, Bali State Polytechnic*
[3] *Managerial Accounting Undergraduate Study Program, Accounting Department, Bali State Polytechnic*

*Corresponding Author: kuthasafitri1@gmail.com

Abstract: The increase in the working capital component must be balanced with an increase in company profits, but the reality shows something different. Current study was purposed to investigate the role of three working capital components namely cash turnover, account receivable turnover, and inventory turnover on profitability (ROA) partially and simultaneously in primary consumer goods industrial companies on the IDX. Through a purposive sampling technique, a sample of 77 primary consumer goods industrial companies was obtained on the IDX for the 2019-2021 period. The data used is secondary data in the form of companies' annual reports. The data was analyzed through multiple linear regression approach using the IBM SPSS Statistic 26 program. The findings of this study indicate that all three working capital elements contribute a significant influence on company's profitability both partially and simultaneosly. These three determinants affect the company's profitability by 15.3%, while 84.7% is influenced by other determinants.

Keywords: Cash Turnover, Accounts Receivable Turnover, Inventory Turnover, Profitability

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Introduction

In general, realizing profit growth is the main target of the company's achievements. In an effort to achieve this target, the company focuses on managing the management system against effective working capital. The sufficiency of a company's working capital will support the effectiveness and efficiency of the company's operational implementation. Working capital is composed of a number of elements, such as cash, accounts receivable, and inventory which have a fairly significant influence on the company's working capital.

The availability of the appropriate amount of cash also affects the determination of the company's cash turnover rate. Cash turnover can be described as the period in which the cash flow occurs starts with investing money until it returns in the form of cash in order to pay off the costs associated with the sale (Widasari & Apriyanti, 2017). The cash turnover ratio is useful for assessing the working capital that the company has sufficient to pay bills and finance costs related to sales needed (Kasmir, 2017). The higher the cash turnover indicates the better and more efficient it is in its use (Nurafika & Khairunnisa, 2018). When the company makes sales on credit, it will give rise to a receivables account. Receivables are grouped as elements of current assets (Baridwan, 2017). To review the length of time required by the company in collecting receivables to customers and other parties, an analysis of the accounts receivable turnover is carried out (Nugroho et al., 2019). Companies that have a high accounts receivable turnover, indicate that the company is getting better at managing receivables so that it can generate greater profits (Winarto & Aminah, 2021). In addition to cash and receivables, inventories are also included in the working capital component. Inventory is materials and merchandise in the company that are provided for re-trading, can be in the form of products in the processing process or ready-to-sell products (Dewi & Rahayu, 2016). The level of efficiency in the company, especially in the inventory management process can be shown through a high inventory turnover rate, which results in an increase in profits that can be obtained by the company (Werdiningtyas & Samani, 2018). The management of this component of working capital will help the company to increase the profit generated by the company. The high or low profit obtained by a company can be assessed using financial ratios, namely profitability. The profitability ratio can represent the effectiveness and efficiency of the company related to the management of its capital as a reviewer of the profit that the company can get in the future (Nuriyani & Zannati, 2017). Profitability can be illustrated by how a company uses its assets to make a profit in conjunction with a sale (Nugroho et al., 2019).

Therefore, components of working capital such as cash turnover, accounts receivable turnover, and inventory turnover will affect the company's profitability. Both cash, receivables, or inventory are the compilers of assets that will affect the return of assets (Surya et al., 2017). The current phenomenon shows that there are fluctuations in net income for most companies engaged in the primary consumer goods industry, especially in the 2019-2021 period. Furthermore, it was also followed by fluctuations in the three determinants of working capital. An increase in the working capital component should be accompanied by an increase in the company's net profit. However, in its implementation, there are still a number of companies that actually experience a decrease in net profit but some components of their working capital have increased, and vice versa.

A number of literatures reveal that the level of profitability in a company can be influenced by several determinants, especially the three components of working capital. Therefore, this study focuses on investigating the role of the three elements which include cash turnover, accounts receivable turnover, and inventory turnover on the profit level of primary consumer goods companies listed on the Indonesian Stock Exchange (IDX) in 2019-2021.

Method

This research is a quantitative research conducted at primary consumer goods industrial sector companies for six months from February to July 2022. The target population used is all companies, especially those in the primary consumer goods sector that have been listed on the IDX in 2019-2021. Through purposive sampling method obtained a number of 77 companies and in a period of three years the total data used amounted to 231 data. The data in this study is sourced from the company's annual report obtained on the official website www.idx.co.id. The profitability variable in this study is measured by ROA and the independent variables include cash turnover, accounts receivable turnover and inventory turnover. The data were then analyzed through multiple linear regression approach with the application of IBM SPSS Version 26. Interpretation of the results of hypothesis testing using t-test, F-test, and coefficient of determination (R^2).

Result and Discussion

- Multiple Linear Regression Analysis

  The requirements for multiple linear regression analysis have been fulfilled, namely the classical assumption test so that the multiple linear regression analysis can be carried out. The resulting multiple linear regression model is ROA = $-0{,}015816 + 0{,}000464X_1 + 0{,}001154X_2 + 0{,}002581X_3 + e$.

- t-Test Result

Table 1. t-Test Result

Coefficients[a]

Model	*Unstandardized Coefficients* **B**	*Std. Error*	*Standardized Coefficients* *Beta*	**t**	**Sig.**
(Constant)	-0,015816	0,013211		-1,197	0,232
Cash Turnover	0,000464	0,000171	0,172172	2,718	0,007
Accounts Receivable Turnover	0,001154	0,000278	0,271113	4,146	0,000
Inventory Turnover	0,002581	0,001108	0,156659	2,329	0,021

Source: Data processed, 2022.

The findings of the t-test show that the t-count value for each variable has exceeded the t-table value of 1.970 with a significance level below 0.05. This implies that there is a partially significant effect of each variable on the company's profitability so that hypotheses H1, H2, and H3 can be accepted.

- F-Test Result

Table 2. F-Test Result

ANOVA[a]						
Model		***Sum of Squares***	**df**	***Mean Square***	**F**	**Sig.**
1	Regression	0,713	3	0,238	14,841	0,000[b]
	Residual	3,637	227	0,016		
	Total	4,351	230			

Source: Data processed, 2022.

The calculation on the F test shows that the f-count value is above the f-table value of 2.644 with a significance below 0.05. This implies that there is a simultaneous significant effect on the three elements of working capital on the level of company profitability so that the H4 hypothesis can be accepted.

- Test of the Coefficient of Determination (R^2)

Table 3. Test of the Coefficient of Determination (R^2)

Model Summary				
Model	**R**	**R Square**	***Adjusted R Square***	***Std. Error of the Estimate***
1	0,405[a]	0,164	0,153	0,12658

Source: Data processed, 2022.

According to the R^2 test, the value of Adjusted R^2 is 0.153 which explains that all three working capital determinants affected the company's profitability by 15.3%. Meanwhile 84.7% were influenced by other external determinants.

- Discussion
  - The Effect of Cash Turnover on Profitability

    Cash turnover (X_1) significantly influence company's profitability (Y) which can be seen that the company's capabilities are already effective and efficient in managing its cash. This phenomenon shows an increase in the value of the company's profitability which can be influenced by an increase in cash turnover, which indicates that the company has good ability in cash management, especially in funding all forms of operational activities (Kasmir, 2017). The findings of this study are in line with research conducted by (Nurafika & Khairunnisa, 2018), (Arifin, 2018), (Hek et al., 2020) and (Winarto & Aminah, 2021) which explained that cash turnover partially affects the company's profitability significantly.

  - The Effect of Accounts Receivable Turnover on Profitability

    Accounts receivable turnover (X_2) significantly affect company's profitability (Y) which indicates that if the accounts receivable turnover increases, the quality of the accounts receivable also increases because the period needed to convert accounts receivable into cash is not too long and can be directly recognized as income by the company, so that it can increase the profitability of the company. High accounts receivable turnover indicates that the working capital invested in receivables is low so that this working capital can be used to support other company operations and show good conditions for the company (Kasmir, 2017). This finding is in accordance with research conducted by (Dewi & Rahayu, 2016), (Arifin, 2018), (Setiyono & Manaf, 2020) and (Rondonuwu et al., 2021) which explained that accounts receivable turnover partially affects the company's profitability significantly.

  - The Effect of Inventory Turnover on Profitability

    Inventory turnover (X_3) significantly affect company's profitability (Y). The high level of inventory turnover indicates that the company's inventory control has been effective, because it determines that the inventory is successfully sold to consumers so that it does not accumulate in the company's warehouse (Kasmir, 2017). With the success of those inventory quickly sold to consumers, indicating that the high inventory turnover will also increase the profitability of the company. The results of this study are in line with research conducted by (Nurafika & Khairunnisa, 2018), (Hek et al., 2020), (Setiyono & Manaf, 2020) and (Winarto & Aminah, 2021) which explained that inventory turnover partially affects the company's profitability significantly.

- The Effect of Cash Turnover, Accounts Receivable Turnover and Inventory Turnover on Profitability
  Cash turnover (X_1), accounts receivable turnover (X_2), and inventory turnover (X_3) significantly affect company's profitability (Y) simultaneously. This finding is in accordance with research conducted by (Nurafika & Khairunnisa, 2018), (Arifin, 2018), (Hek et al., 2020), (Setiyono & Manaf, 2020), (Rondonuwu et al., 2021) and (Winarto & Aminah, 2021) which stated that there is a simultaneous effect on company's profitability. This indicates an increase in the three aspects of working capital followed by an increase in company profits. These three factors affect the company's profitability by 15.3%.

Conclusion

This study is able to prove that the finding of a significant role in the three elements of working capital which includes cash turnover, receivables turnover, and inventory turnover in the profitability level obtained by the company both partially and simultaneously. The findings explains that the three determinants are able to contribute 15.3% to the company's profitability, where there are still 84.7% which are influenced by other external determinants.

There are the implications of this research, such as theoretical implications and practical implications. The theoretical implication of this research is the results of this research can be used as an understanding to find out the variables that can affect the company's profitability. Meanwhile, the practical implications are for students, they can provide additional knowledge in the field of financial accounting and for the company can be used as a consideration for the company's management and other parties interested in decision-making policies in the future.

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