

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

In general the establishment of a company that aims to maximize profits so that the survival of the business is guaranteed and can develop its business.

Profitability is one of the factors to assess the good and bad of a company's performance. In addition, a business that is often carried out by companies so that the development of their business goes well is by increasing sales and being able to control the working capital turnover and inventory turnover so that it can increase profitability. In this study, profitability is measured using the Return on Assets (ROA) ratio.

Working capital is the funds contained in current assets relating to daily operations. Working capital has a very important meaning for industrial companies and service industries. For the sake of the smooth running of the company, working capital really needs with the availability of sufficient working capital. It is expected that the company's performance can run smoothly, the bigger a company is in achieving its goals the higher the need for working capital is. Given the importance of working capital in the company, financial managers must be able to plan well the amount of working capital that is appropriate and in accordance with company needs, because if there is an excess or lack of funds this will affect the level of profitability of the company. If the company has excess working capital, it will cause a lot of funds to be idle so that it can minimize profitability. Whereas if there is a lack of working capital, it will hamper the company's operational activities.

Inventory turnover measured by comparing the cost of goods sold by the average inventory where the higher inventory turnover shows that the higher costs can be suppressed by the company and the company is also faster in selling merchandise. The profit generated by the company will also be greater due to the

burden that can be reduced. With the management of good inventory turnover and increased sales the company can increase profits.

In this study, food and beverages sector companies were selected due to several reasons, including the food and beverages company. Which is part form the IDX-listed manufacturing company with sixteen companies ,compared to other categories of companies including the manufacturing sector. Food Companies Beverages are most resistant to crises compared to other sectors, because in a crisis or not, products in food and beverages companies are still needed. The food and beverages sector is the sector that has the most attractive prospects on the stock exchange, because this sector is the most resilient sector when facing a crisis compared to other business sectors. The food and beverages sector will always be needed by many people. As long as good management-managed companies are diligent in debt and spend company money on the consumption sector there is a great opportunity to always grow. In a crisis situation consumers will limit their consumption by meeting basic needs and reducing secondary goods needs, besides the raw materials used to make products at food and beverages companies are easy to obtain.

According to Hery (2015) low capital turnover means the company has excess working capital. This might be due to the low turnover of merchandise inventory or trade accounts receivable or it could be because of the large cash balance. Conversely the high working capital turnover may be due to the high turnover of merchandise inventory or trade accounts receivable or it could be because of too little cash balance.

According to Raharjaputra (2011) that the higher the level of inventory turnover, the more likely the company is likely to make a profit.

In assessing the company's financial performance a certain size or benchmark can be used. Analysis of profitability can used as a benchmark to assess the company's financial performance. Return on Assets (ROA) is one of the profitability ratios used to assess the utilization of company resources and financial strength, where the greater the profit the goal will be achieved company that is shareholder prosperity. ROA is used to measure the overall effectiveness of

generating profits through available assets. Increasing ROA shows that the company's performance is getting better because of the level that is getting bigger in returns.

Based on the background above. The researcher is interested in choosing the title **“The Influence of Working Capital Turnover and Inventory Turnover Towards Profitability on Foods and Beverages Companies Listed in Indonesia Stock Exchange”**

1.2 Problem Limitation

The research is conducted at Foods and Beverages Companies Listed in Indonesia. This study emphasized on independent variable Working Capital Turn Over And Inventory Turnover and dependent variable the Profitability. This study was conducted to examine the effect of Working Capital Turnover And Inventory Turnover on Profitability. The required target population for the research is available in the study area. The research focuses on financial statements of the company. In all 11 companies were used for the research in 5 periods, so the total observations are 55. This research uses statistics to evaluate the results of research.

1.3 Problem Formulation

Based on the description above, below are some of problems that occur in the company which writer needs to analyze:

1. Does working capital turn over partially influence profitability on Foods and Beverages Companies Listed in Indonesia Stock Exchange?
2. Does inventory turn over partially influence profitability on Foods and Beverages Companies Listed in Indonesia Stock Exchange?
3. Do working capital turn over and inventory turn over simultaneously influence profitability on Foods and Beverages Companies Listed in Indonesia Stock Exchange?

1.4 Objective of the Research

The study will achieve the following objectives:

1. To analyze the effect of working capital turnover on return on assets in Foods And Beverages Companies Registered on the Indonesia Stock Exchange.
2. To analyze the effect of inventory turnover on return on assets in Foods And Beverages Companies Registered on the Indonesia Stock Exchange.
3. To analyze the effect of working capital turnover and inventory turnover on return on assets in Foods And Beverages Companies Registered on the Indonesia Stock Exchange.

1.5 Benefit of the Research

The benefits of this study are divided into two. That are theoretical and practical benefits.

1.5.1 Theoretical Benefit

Theoretically, to writer and reader. the result of this research is expected to be a reference or input for increasing the study of accounting. Especially to determine the effect of Working Capital Turnover And Inventory Turnover Towards Profitability.

1.5.2 Practical Benefit

Practically, to the company. The results of this study are expected to be input for Foods And Beverages Companies on the Indonesia Stock Exchange especially in decision making to determine company policy, helping Consumer Goods Companies on the Indonesia Stock Exchange solve its problems, increase sales and profit and for others this research is also expected to assist other parties in presenting information to conduct similar research.

1.6 System of Writing

The systems of writing in this final paper will be as follows :

Chapter I : Introduction

This chapter will explain background of the study, problem formulation, research formulation, research objective, benefit of the research and systems of writing. The background of the study describes the influence of working capital turnover and inventory turnover towards profitability on food and beverages companies listed in Indonesia.

Chapter II : Literature Review

This chapter will explain theoretical background, previous research and framework of thinking. The theoretical background consists of some theories in related with the research topic such as definition of working capital turnover, importance of working capital turnover, factor effecting working capital turnover, benefits and indicator of working capital turnover, definition of inventory turnover, importance of inventory turnover, factors that affect inventory turnover, benefit and indicator of inventory turnover, definition of profitability ratio, importance of profitability ratio, factor that effect profitability ratio, benefit of profitability ratio, definition of return on asset , importance of return on asset, factor that effect return on asset, benefit and indicator of return on asset, the effect of working capital turnover on profitability, the effect of inventory turnover on profitability, the effect of working capital turnover and inventory turnover on profitability.

Chapter III : Research Methodology

This chapters explains the way of conducting the research such as research design, population and sample, data collection method and data analysis method. This chapter describes descriptive and quantitative research which is uesd in this research.

Chapter IV : Data Analysis and Discussion

This chapters describes general view of company data analysis and discussion of the influence of working capital turnover and inventory turnover towards profitability on food and beverages companies listed in indonesia.

Chapter V : Conclusion

This chapter explains the conclusion, implications and recommendation of this research.