

CHAPTER I

INTRODUCTION

1.1 Background of The Study

A healthy company's financial performance will help improve the economic standard of living of the people in a country. Achieving healthy financial performance requires company managers to be able to analyze financial statements for each period in order to know whether the company's financial performance is in good health or not. Companies with a healthy financial performance or experiencing growth are companies that are able to manage the level of company profitability well, so that it can increase from year to year.

One of the tools used to determine the level of profitability of a company is the financial statements prepared at the end of each year-end period. Financial statements are the result of an accounting process that can be used as the communication tool between financial data or activities of a company and other interested parties. Financial data that is reflected in financial statements is able to provide an overview of the financial condition of a company, which can consist of a balance sheet report, income statement and other financial statements. By analyzing the balance sheet items in the financial statements, an overview of the company's financial condition can be obtained, while an analysis of the income statement will provide an overview of the results or business developments of the company concerned. Several ways that can be used to measure the company's

financial performance is by using financial ratio analysis in the form of liquidity ratio, solvency ratio and profitability ratio.

Liquidity is the ability of a company to meet its obligations that are due in the near future. In other words, liquidity indicates the company's ability to settle its short-term obligations. The number of means of payment owned by the company at a certain time is the paying power of the company. A company that has the power to pay does not necessarily have the ability to pay. The ability to pay will be seen if the company has great paying power so that it can fulfill all its financial obligations that must be fulfilled immediately (Kariyoto, 2017).

The statement of cash flows shows cash receipts and disbursements in the company's activities during a certain period and is classified according to operating, investing and financing activities. Cash flow statements can also reflect what is really happening to the company. Even though the company is losing money, the company can still live as long as the cash flow is positive. In addition, it can also be seen from the free cash flow (operating cash flow subtracted by capital expenditure), companies with free cash flow growing have good prospects because they have the money to expand (Hantono, 2018).

Companies with high solvency ratios (having large debts) can have an impact on the emergence of large financial risks, but also have great opportunities to generate high profits. This great financial risk arises because the company must bear or be burdened with large interest payments. However, if the loan proceeds are used efficiently and effectively by purchasing certain productive assets (such

as machinery and equipment) or as to finance the company's business expansion, this will provide a great opportunity for the company to increase its business results. On the other hand, companies with low solvency ratios have little financial risk, but may also have small opportunities to generate large profits (Hery, 2021).

One of the most common ways that companies use to assess and measure the effectiveness of assets used to earn profits is through analysis of Return on Assets (ROA) ratio. ROA shows the company's ability to utilize its assets to earn profit.

Table 1. 1 Phenomena Table

Company	Year	Liquidity	Cash Flow	Solvability	Profitability
PT. Astra International, Tbk	2017	0.3198	16.9632	0.8902	0.0782
	2018	0.2163	17.13665	0.9770	0.0794
	2019	0.2434	16.76912	0.8845	0.0756
PT. Gudang Garam, Tbk	2017	0.1030	15.9202	0.5825	0.1162
	2018	0.0924	16.23363	0.5130	0.1128
	2019	0.1414	16.22914	0.5442	0.1383
PT. Indofood Sukses Makmur, Tbk	2017	0.6327	15.68851	0.8768	0.0577
	2018	0.2823	15.59652	0.9340	0.0514
	2019	0.5568	16.40661	0.7748	0.0614

Source: Prepared by the writer (2021)

The researcher uses each dependent and independent variable to complete the table of phenomena. Whereas the liquidity use cash ratio as the indicator, operating cash flow for cash flow, debt to equity ratio for solvability, dividend payout ratio for dividend policy and return on asset as for the profitability. From current research, it is supposed to be the more liquidity a company has, the bigger profit a company can gain. But, then turns out some research as shown on the

table above are contrary from the theory. As seen on the table above, PT. Indofood Sukses Makmur, Tbk as the most liquid company from the three companies used for this study. But, company with the highest profit goes to PT. Gudang Garam, Tbk instead. The same goes to Cash Flow, the better cashflow a company has, the higher profitability a company gain. But, we can see that the company with the best cashflow out of the three companies listed in the table above is PT. Astra International, Tbk. Meanwhile, the highest profit still goes to PT. Gudang Garam, Tbk instead. Lastly, the lower solvability means the better capital a company is, whereas the better capital the company have, the better profitability is. For this case, the research results do match with its theory where PT. Gudang Garam, Tbk has the lowest solvability and highest profitability. Thus, the researcher intended to conduct further research due to the inconsistency between theory and research result on the phenomenon table above.

The Indonesia Stock Exchange has several indices that can be used as a consideration in making investment decisions. IDX30 is one of the indices owned by the IDX which can be one of the considerations for investors in choosing stocks to invest. This index shows that companies that perform well and have high liquidity and market capitalization will be included in the IDX30. The IDX30 index represents 30 companies with the best liquidation rate among the 45 companies listed in the LQ45 index.

Based on the description above, the researcher is interested to conduct a research entitled **“The Impact of Liquidity, Cash Flows, and Solvability**

Toward Profitability on Companies Listed in IDX30 in Indonesia Stock Exchange for the Year 2017-2019”.

1.2 Problem Limitation

The researcher limits this study on how liquidity, cash flow and solvability impact the profitability of companies that are listed in IDX30 indices in Indonesia Stock Exchange from year 2017-2019. To do so, the researcher calculated using SPSS.

1.3 Problem Formulation

Based on the background outlined before, the formulation of the research problems are as follows:

1. Does liquidity have significant impact towards profitability on companies listed in IDX30 indices in Indonesia Stock Exchange from the year 2017-2019?
2. Does cash flow have significant impact towards profitability of companies listed in IDX30 indices in Indonesia Stock Exchange from the year 2017-2019?
3. Does solvability have significant impact towards profitability of companies listed in IDX30 indices in Indonesia Stock Exchange from the year 2017-2019?

4. Do liquidity, cash flow, and solvability have simultaneously impact profitability of companies listed in IDX30 indices in Indonesia Stock Exchange from the year 2017-2019?

1.4 Objective of Research

Based on research formulation stated above, the research objective in this study are as follows:

1. To find out whether liquidity have significant impact toward profitability on companies listed in IDX30 indices in Indonesia Stock Exchange from the year 2017-2019.
2. To find out whether cash flow have significant impact toward profitability on companies listed in IDX30 indices in Indonesia Stock Exchange from the year 2017-2019.
3. To find out whether solvability have significant impact toward profitability on companies listed in IDX30 indices in Indonesia Stock Exchange from the year 2017-2019.
4. To find out whether liquidity, cash flow, and solvability have significant impact toward profitability on companies listed in IDX30 indices in Indonesia Stock Exchange from the year 2017-2019.

1.5 Benefit of The Research

This study are expected to be useful to strengthen the theory in about accounting, and can be useful for investors, future author especially about the impact of liquidity, cash flows, solvability toward profitability in a company.

1.5.1 Theoretical Benefit

1. For author

The research is expected to be useful for other future author in understanding knowledge about Liquidity, Cash Flow, Solvability, and the impact towards profitability.

2. For reader

The research is expected to be used as reference or even guidance with empirical evidence that guide further research, to add understanding about the impact of liquidity, cash flows, solvability toward profitability in a company.

1.5.2 Practical Benefit

For company, this research is expected to be used as a suggestion to give more attention about liquidity, cash flows, solvability in order to increase profitability of a company in the future.