CHAPTER I

INTRODUCTION

1.1 Background of the Study

Business is very competitive nowadays, therefore companies always try to perform the best in their operation so that they could have a good financial report. Financial report is crucial as it reveals information regarding the company's current financial conditions. While running a business, the goal which every company certainly want to achieve is to earn as much profit as possible so that the capital owned by the company can function effective and efficiently. Furthermore, profit could be used as a major measuring tool in determining the success of a company. That's why companies strive for high performance to meet their profit target so that they could survive in this competitive market. A company's ability to make profit indicates whether the company has promising future prospects or not (Mahardhika & Marbun, 2017).

One of the major purposes in running a business is to gain profits. When a business is unable to generate profits, it poses a significant problem since it will be unable to obtain additional capital to support its operations. The worst possible situation that might be happen is bankruptcy in which the company's operation must be stopped entirely. That's why businesses always give it their all in order to gain profits in their operations. Companies use variety of methods to increase their sales, including improving the quality of their products, promotions, good management in their operations, expanding their market and others. By increasing the sales and minimizing the operational costs, the company will be able to generate more profits. However, in running a business competitor in the same industry must exist, and each company must compete with one another in order to be the best in the industry. Profits could be used as the measurement for the companies to determine which are the best in their respective industry.

The performance of a company is critical since it demonstrates how well the company's operations are managed. One of the most crucial factors that might influence a company's performance is its management. When a company is unable to effectively manage its finance and operational costs, it is likely that the company will not make much profits. If a company is able to effectively manage its operations such as could manage the cost well, allocating resources effectively, and be able to achieve the company's goal then it will be highly possible that the company would perform well. Companies always try the best to achieve a good performance to attract the investors to invest in their company.

There are several aspects that need to be considered in the performance measurement, especially the expectation of the investors. By judging the company's capital gain, the performance shows whether or not the company is capable of managing the funds received from the investors. Financial ratio is one of the methods which could be used to assess a company's performance which includes the liquidity ratio, solvency ratio, activity ratio, profitability ratio and market size ratio.

Financial ratio is one of the most common methods used for analyzing a company's finances. Financial ratios are the act of comparing the numbers in the financial statements which could be done by comparing one component to other component in the same financial report or between components that can be found in different financial statements (Kasmir, 2017). Financial ratios can be used to link each account in the financial statements, allowing the correct interpretation of a company's performance and financial status.

Consumer Goods Industry is one of the industries which plays an important role in Indonesia's economic as consumer goods company is the company which produce products which could be used and consumed by the community. Consumer goods is also one of the industries which could increase the GDP of a country. As consumers play an important role in the economic system, consumer goods company could maintain its stability even though the economic growth in Indonesia decreased, which is because most of the products are primary and essential needs for life.

Since consumer goods industry is one of the most essential industry in a country's economy, the financial condition of this industry must remain stable. Therefore, financial ratio analysis needs to be done in this industry to find out the financial conditions and picture of the financial position of the companies in the consumer goods industry. This financial ratio will be very important for the users and could be taken into considerations in determining decisions.

In this research the writer are using the Current Ratio which indicates the liquidity ratio, Debt to Assets Ratio which indicates the solvency ratio, Inventory

Turnover which indicates the activity ratio and Return on Assets which indicates the profitability. The researcher would try to analyze the influence of Current Ratio, Debt to Assets Ratio and Inventory Turnover towards the Return on Assets.

The Return on Assets (ROA) is a profitability ratio that may be used to assess a company's efficiency to generate profits from its assets (Mawarsih et al., 2020). The higher the ROA, the better it is as it shows that the company has a good performance as the return is increasing. Investors use ROA as one of their standards when deciding whether or not to invest in a company. Profit plays an important role in a company as it determines the going concern of the company. When a company is unable to continue its operating, then it will lead towards bankruptcy. This is the issue that all of the management was most concerned about, as every company must have desired to earn as much profit as possible in order to become larger in the market and compete with the others. Return on Assets is one of the most essential profitability ratios because it has a significant impact on a company's earning capability.

The Current Ratio (CR) is one of the measurement used to assess a company's capacity to satisfy the short term obligations (Mahardhika & Marbun, 2017). The Current Ratio indicates a company's capacity to meet the short-term obligations. The higher the Current Ratio, the better. However, a low Current Ratio indicates that the company has a problem with its liquidation, as it was unable to meet its obligations which caused the additional charges for its obligations. Creditors would prefer to lend money to a company with a high Current Ratio because it is safer to lend money to a company with high Current Ratio. On the other hand, it is also not good for a company to have a very high Current Ratio as it indicates that the current assets are not being used efficiently.

Payment of the company debts could be determined by analyzing the solvency ratio. Debt to Assets Ratio (DAR) is the total amount of debts used by the company to finance its assets (Zulkarnaen, 2018). A high Debt to Assets Ratio implies that the corporation may be putting itself at danger of defaulting its loan if the interest rates rise. Solvability issues in the corporation have a significant impact on the company's ability to make profit. However, in the other hand, debt could be a source of finance for a company in order to improve its performance.

Inventories turnover (IT) is an asset management ratio that assesses a company's capacity to sell and replace inventory over a specified time period (Erika, 2019). This ratio is depending on the company's industry type. As a result, it's crucial to compare this ratio to other companies in the same industry. The Inventory Turnover ratio indicates how well a corporation in managing its inventory. High Inventory Turnover indicates that the company is able to sell all of its goods quickly which means that the demand of its goods is considerable while a low Inventory Turnover indicates that the company has a low sale of its goods which could be caused by the low demand of the products.

Table 1.1 The Current Ratio, Debt to Assets Ratio, Inventory Turnover and Return on Assets of Consumer Goods Companies Listed on Indonesia Stock Exchange (IDX) for period 2017-2020

COMPANY	YEAR	CURRENT RATIO	DEBT TO ASSETS RATIO	INVENTORY TURNOVER	RETURN ON ASSETS
	2017	3.19	0.20	2.92648	0.06221
	2018	2.71	0.21	2.31389	0.02758

PT. Chitose International Tbk. (CINT)	2019	2.38	0.25	2.11920	0.01385
	2020	2.49	0.23	1.59438	0.00050
PT. Hanjaya Mandala Sampoerna Tbk. (HMSP)	2017	5.27	0.21	3.99707	0.29370
	2018	4.30	0.24	4.89370	0.29051
	2019	3.28	0.30	5.06550	0.26956
	2020	2.45	0.39	4.27352	0.17275
PT. Kalbe Farma Tbk. (KLBF)	2017	4.51	0.16	3.00492	0.14764
	2018	4.66	0.16	3.19290	0.13762
	2019	4.35	0.18	3.43567	0.12522
	2020	4.12	0.19	3.50690	0.12407
PT. Industri Jamu dan Farmasi Sido Muncul Tbk. (SIDO)	2017	7.81	0.08	4.74922	0.16902
	2018	4.20	0.13	4.62401	0.19890
	2019	4.20	0.13	4.54386	0.22884
	2020	3.66	0.16	4.91728	0.24263

Source: Prepared by the Writer (2021)

Based on the table above, it shows that the Return on Assets in PT Chitose International Tbk (CINT), PT Hanjaya Mandala Sampoerna Tbk (HMSP) and PT Kalbe Farma Tbk (KLBF) keep decreasing from year 2017 to 2020. However, PT Industri Jamu dan Farmasi Sido Muncul Tbk (SIDO) experienced increase in the Return on Assets from year 2017 to 2020.

The Current Ratio in PT Hanjaya Manda Sampoerna Tbk (HMSP) keep decreasing from year 2017 to 2020. Which is from 5.27 in year 2017 and keep decreasing to 2.45 in year 2020. The decreasing in the Current Ratio was followed by the Return on Assets which is also keep decreasing from year 2017 to 2020 which is from 0.293 in year 2017 to 0.172 in year 2020. This phenomenon indicates that the Current Ratio positively influenced the Return on Assets which is supported by the research done by Mahardhika & Marbun (2017). In contrast, the Current Ratio in PT Industri Jamu dan Farmasi Sido Muncul Tbk (SIDO) keep decreasing from year 2017 to 2020 which is from 7.81 in year 2017 become 3.66 in year 2020.

However, the Return on Assets keep increasing from year 2017 to 2020 which is from 0.169 in year 2017 to 0.242 in year 2020. This shows that Current Ratio negatively influenced the Return on Assets which is supported by the previous research done by Paulus & Sambo (2019).

The Debt to Assets Ratio (DAR) in PT Industri Jamu dan Farmasi Sido Muncul Tbk (SIDO) keep increasing from year 2017 to 2020 which is from 0.08 in year 2017 to 0.16 in year 2020. The increasing in Debt to Assets Ratio was followed by the increasing in Return on Assets which is from 0.169 in year 2017 to 0.242 in year 2020. This phenomenon indicates that the Debt to Assets Ratio positively influenced the Return on Assets which is supported by the research done by Lumbantobing et al. (2020). In contrast, the Debt to Assets Ratio in PT Hanjaya Mandala Sampoerna Tbk. (HMSP) keep increasing from year 2017 to 2020 which is from 0.21 in year 2017 to 0.39 in year 2020. However, the Return on Assets keep decreasing from year 2017 to 2020 which is from 0.293 in year 2017 to 0.172 in year 2020. This shows that Debt to Assets Ratio negatively influenced the Return on Assets which is supported by the previous research done by Mawarsih et al. (2020).

The Inventory Turnover in PT Chitose International Tbk. (CINT) keep decreasing from year 2017 to 2020 which is from 2.92 in year 2017 become 1.59 in year 2020. The decreasing in the Inventory Turnover was followed by the decreasing in the Return on Assets which is from 0.0622 in year 2017 to 0.0005 in year 2020. This phenomenon indicates that the Inventory Turnover positively influenced the Return on Assets which is supported by the previous research done by Saragih & Saragih (2018). In contrast, the Inventory Turnover in PT Kalbe Farma Tbk. (KLBF) keep increasing from year 2017 to 2020 which is from 3.00 in year 2017 to 3.50 in year 2020. However, the Return on Assets keep decreasing from year 2017 to 2020 which is from 0.147 in year 2017 become 0.124 in year 2020. This shows that the Inventory Turnover negatively influenced the Return on Assets which is supported by the previous research done by Paulus & Sambo (2019).

Based on the background of analysis that has been explained above, the writer believes that this research could give additional and further information to the readers. The writer tries to analyze the influence of the Current Ratio, Debt to Assets Ratio and Inventory Turnover towards Return on Assets as there are inconsistencies in the previous research. Therefore, the writer decides to make research with the title: "**THE INFLUENCE OF CURRENT RATIO, DEBT TO ASSETS RATIO AND INVENTORY TURNOVER TOWARD RETURN ON ASSETS OF CONSUMER GOODS COMPANIES LISTED ON INDONESIA STOCK EXCHANGE**"

1.2 Problem Limitation

To keep the scope of the research from becoming too broad, the writer will do several limitations such as:

1. The dependent variable used in this research is Return on Assets with the independent variable of Current Ratio, Debt to Assets Ratio and Inventory Turnover.

2. The research object of this research is the Consumer Goods Companies listed on Indonesia Stock Exchange.
3. The period of the data used in this research will be limited from year 2017 to 2020.

1.3 Problem Formulation

Based on the background of the study mentioned above, the formulation of the research will be as follows:

1. Does the Current Ratio partially have significant influence towards Return on Assets in Consumer Goods Companies listed on Indonesia Stock Exchange in year 2017-2020?
2. Does the Debt to Assets Ratio partially have significant influence towards Return on Assets in Consumer Goods Companies listed on Indonesia Stock Exchange in year 2017-2020?
3. Does the Inventory Turnover partially have significant influence towards Return on Assets in Consumer Goods Companies listed on Indonesia Stock Exchange in year 2017-2020?
4. Do the Current Ratio, Debt to Assets Ratio and Inventory Turnover simultaneously have significant influence toward Return on Assets in Consumer Goods Companies listed on Indonesia Stock Exchange in year 2017-2020?

1.4 Objective of the Research

The objective of the research to solve the problem formulation are as follows:

1. To find out the influence of Current Ratio towards Return on Assets in Consumer Goods Companies listed on Indonesia Stock Exchange in year 2017-2020 partially.
2. To find out the influence of Debt to Assets Ratio towards Return on Assets in Consumer Goods Companies listed on Indonesia Stock Exchange in year 2017-2020 partially.
3. To find out the influence of Inventory Turnover towards Return on Assets in Consumer Goods Companies listed on Indonesia Stock Exchange in year 2017-2020 partially.
4. To find out whether Current Ratio, Debt to Assets Ratio and Inventory Turnover have significant influence toward Return on Assets in Consumer Goods Companies listed on Indonesia Stock Exchange in year 2017-2020 simultaneously.

1.5 Benefit of the Research

This research will generate two kinds of benefits which are:

1.5.1 Theoretical Benefit

This research is expected to help readers to get an additional and further information regarding the influence of Current Ratio, Debt to Assets Ratio, and

Inventory Turnover towards Return on Assets in Consumer Goods Companies listed on Indonesia Stock Exchange in year 2017-2020.

1.5.2 Practical Benefit

1. For company

   This research is expected to provide additional information and insight to the company, allowing them to evaluate it for company development and to set strategies in order to increase gain/profit in the company.

2. For investors

   This research is expected to provide additional information to investors about the financial condition of the companies so that they can learn more about the companies before deciding whether or not to invest in the related companies, thereby reducing the risk associated with investing.

3. For academic

   This research is expected to be a source of information and references for future research, particularly in the areas of Current Ratios, Debt to Assets Ratio, and Inventory Turnover towards the Return on Assets.