

CHAPTER I

INTRODUCTION

1.1 Background of Study

Profit is one of the company's main goals in every business sector. Companies will keep finding ways to increase their profits sustainably. Companies that are unable to gain profit might suffer from business failure. Every business that cannot earn profit in a significant amount of time might not survive in the industry. In accounting, profit means that the income/revenue earned by a company exceeds the expenses cost of the company. In other words, profit is equal to revenue minus expenses. A company's performance could be shown by how much profit it made. The performance of a good company will make it simple for them to attract investors and expand their business. Profits are listed under the income statement, which will help calculate the profitability ratio. The company's financial condition could be analyze using profitability ratio.

The capacity of a business to profit from sales, total assets, and capital is called profitability. (Sartono, 2011:41). The higher profitability ratio indicates that the company is doing well. ROA (Return on Assets), ROE (return on equity), and profit margin are utilized to measure profitability.

A property & real estate business is a company that depends on its assets to gain profit. The more the companies' assets are sold, the higher profitability. Since 2020, property & real estate companies have faced problems gaining profitability due to the pandemic. Since the pandemic, the property & real estate business has had unstable financial performance due to the declining demand in this sector. Investors have delayed investing in real estate and property companies as a result of the pandemic. As stated in www.cnbcindonesia.com, the housing market is experiencing a decline due to the need for the developers and consumer confidence in purchasing property. No certainty of the direction of the Covid-19 pandemic caused the decline. However, in quarter two of 2021, property sales slightly boosted. This occurs due to the Government Borne Value Added Tax Facility (PPN DTP) that gives customers an exception in paying 10% of VAT when purchasing the property. This approach is made to maintain the purchasing power in the housing sector and encourage national economic growth. The policy has been extended until September 2022. Still, property growth has not yet recover fully because the government's policy doesn't cause the growing sales of property & real estate sectors to increase significantly. According to IDX, Property & real estate sectors were declining up to 4.85% year to date, the deepest decline on the IDX stock exchange. Besides the external factors that cause the sales of the property and real-estate companies to decline, there are internal factors that could be affecting, such as the company's liquidity, solvability, and activity ratio.

According to Kasmir (2012:110), the Liquidity Ratio is a ratio that describes the company's ability to meet short-term obligations (debt). A higher liquidity ratio means the company can pay its debt using its assets. Liquidity could be measured by current, quick, and cash ratios. Like liquidity, solvability is the company's capability to pay the both short-term and long-term debt (Sugiarso 2006). The greater the solvability ratio, the more debts are used to pay for the company's assets. The solvability ratio is the debt-to-asset ratio and debt-to-equity ratio.

Moreover, debts aren't the only indicators that could affect profitability. Factors like activity ratio hold a major part too. The activity ratio shows the company's turnover by reviewing the receivables or inventory of the company. The high activity ratio could indicate whether the companies own or use a few assets efficiently. The measurement of activity ratio is by receivables turnover ratio, inventory turnover ratio, fixed assets turnover ratio, and payables turnover ratio.

However, the company's financial performance is not guaranteed by the high or low sales of property and real estate assets. The high ability to pay off its long-term or short-term liabilities of a company doesn't ensure that companies are gaining profit to pay off their debts. At the same time, how companies manage their inventory doesn't prove that companies can gain profit. This inconsistency leads to the table of phenomena in this research. Based on the sample of real estate and property companies listed on the IDX for the period 2018-2021 found that there was a phenomenon

regarding the return on assets ratio (ROA), inventory turnover ratio (ITR), debt to assets ratio (DAR), and current ratio (CR), which can be seen as follows:

Table 1.1 Table of Phenomenon

Company	Year	Liquidity (CR)	Solvability (DAR)	Activity (ITR)	Profitability (ROA)
PT. Jaya Property Real Tbk	2018	1.13	0.37	0.35	0.10
	2019	1.15	0.34	0.36	0.09
	2020	1.29	0.31	0.36	0.09
	2021	1.03	0.31	0.36	0.07
PT. Bumi Serpong Damai Tbk	2018	3.36	0.42	0.21	0.033
	2019	3.94	0.38	0.20	0.057
	2020	2.37	0.43	0.18	0.008
	2021	2.59	0.42	0.25	0.03

Source: Prepared by writer (2023)

Table 1.1 shows an impact between the ITR (inventory turnover ratio), DAR (debt-to-assets ratio), and CR (current ratio) on the ROA (return on assets) ratio during 2018 – 2021. During 2018 – 2019, PT. Jaya Property Real Tbk had an increase in the CR, which caused the ROA to decrease. However, in the same period, the current ratio of PT. Bumi Serpong Damai Tbk also increased, but their Return on Assets ratio (ROA) is rising. The increase in the ROA is not following the existing theory, which states that the company's profitability decreases when the liquidity ratio increase.

Moreover, there is a phenomenon in 2018 – 2019, the decreasing ratio of debts to assets and the inventory turnover ratio of PT. Bumi Serpong Damai Tbk didn't cause the return on assets ratio to drop but grew significantly. While in PT. Jaya Property Real Tbk, the decrease in the debt-to-assets ratio caused the return on assets to decrease. These differences will be why the research is conducted, which is to find what factors impact the company's profitability.

Based on the background description, the writer wants to conduct the research with the title "**The Impact of Liquidity, Solvability and Activity toward Profitability of Property and Real Estate Industry Listed on The Indonesia Stock Exchange**".

1.2 Problem Limitation

This research contains some limitations. Therefore, to keep this research more focused, it is necessary to limit the problem. One of the research's limitations is that it uses financial statements for real estate and property companies from 2018 to 2021. Moreover, the liquidity ratio will be calculated using the current ratio; the debt-to-asset ratio is used to calculate the solvability ratio, the inventory turnover ratio calculate the activity ratio, and return on assets (ROA) calculate profitability.

1.3 Problem Formulation

The writer can take the problem identification based on the background study above, which is stated as follows:

1. Does the liquidity ratio have any significant impact on the profitability ratio in Property and Real-estate companies?
2. Does the solvability ratio have any significant impact on the profitability ratio in Property and Real-estate companies?

3. Does the activity ratio have any significant impact on the profitability ratio in Property and Real-estate companies?
4. Does the liquidity, solvability, and activity ratio have any significant impact on profitability ratio in the Property and Real-estate companies?

1.4 Objective of The Research

The purpose of this research is

1. To examine whether the liquidity ratio has a significant impact on the profitability ratio.
2. To examine whether the solvability ratio has a significant impact on the profitability ratio.
3. To examine whether the activity ratio has a significant impact on the profitability ratio.
4. To examine whether there is any significant impact of the liquidity, solvability, and activity ratio on the profitability ratio.

1.5 Benefit of The Research

The related parties, who require both theoretical and practical benefits, are anticipated to benefit from this research, including:

1.5.1 Theoretical Benefit

The purpose of this study is to gain a better understanding of how the profitability ratio of Property and Real-Estate companies listed on the Indonesian Stock Exchange is affected by the liquidity, solvability, and activity ratios.

1.5.2 Practical Benefit

The benefits of this study are:

1. For the writer, this research can increase the writer's understanding of accounting.
2. For the company, this research can be used to make related investment decisions.
3. This study can serve as a source of information and a reference for other researchers researching the same subject.