

CHAPTER I

INTRODUCTION

1.1 Background of the Study

In this increasingly advanced era, there are lots of young people to elderly who still want to do business. The business world needs qualified and sufficient human resources in terms of knowledge and skills because it is developing at a rapid pace and is supported by increasingly sophisticated technology. The business itself is an endeavor undertaken by individuals or organizations that engage in sales, purchases, and production activities with the goal of turning a profit. Creating a business is one of the best ways to make money. The food and beverage industry is the main source of new businesses opening up every day, making the business world nowadays extremely difficult. Managing a business is not as simple as one may think; in order to thrive in this cutthroat industry, a company must be run effectively and efficiently. There is no doubt that all businesses strive to make the most profit possible, which serves as a gauge of their success. Profit is typically used to gauge a company's success and serve as a basis for decisions about investments. It can also be used to forecast changes in future profits and how those changes will impact the decisions of current and prospective investors regarding their investments in the company. (Sutomo, 2014).

Making money is the primary goal of a business entity's operational activities. To be more precise, maximizing profits is the primary goal of all business entity decisions and actions. An enterprise that does not turn a profit will go bankrupt. Earnings can be affected by a variety of factors, including subpar service quality and an inappropriate marketing strategy. An organization's ability to compete in the market can be measured by how well its marketing plan is implemented and how well-maintained its customer relationships are.

One factor that directly relates to measuring the company's performance and is displayed in the financial report known as the statement of income is the financial performance of the business. Furthermore, net profit is commonly used as a performance indicator or a benchmark for additional indicators. Many businesses develop these kinds of systems and strategies in order to turn a profit. A company's financial activity management is one of its most crucial pillars in order to reach the community. The state of the economy and the commercial climate in which a company operates have an impact on its worth. Therefore, valuation needs to be done by looking at macroeconomic conditions and industrial conditions as well as existing market shares (Cakranegara, 2020). For investors, the study of the financial ratios could be used to see whether the company is worth enough to invest and how well the outlook is in the future by comparing the financial ratio between each entity and relevant agencies, or average rates may indicate a relative financial situation.

The financial report analysis is the most straightforward method of learning about the company's financial status. A financial report contains all the information that stakeholders may find useful in making financing decisions about the company's financial health, including its cash flow, financial position, and financial performance. Financial ratio analysis is one of the easiest methods to assess a company's financial health because the company already makes the raw data required publicly available. In order to determine the company's financial position for a specific time period, a financial ratio is typically calculated by comparing two or more variables from the financial statement.

By judging the company's capital gain, the performance shows whether or not the company is capable in 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 including the liquidity ratios, activity ratios, solvency ratios profitability ratios and market size ratio.

The process of comparing the numbers in the financial statements is known as financial ratio analysis. This can be done by contrasting one financial report component with another or between components that are present in various financial statements. The performance and financial standing of a company can be accurately interpreted by using financial ratios to connect each account in the financial statements.

The consumer goods industry is one of the sectors that is vital to Indonesia's economy. Consumer goods companies were able to stay stable even as Indonesia's

economic growth slowed down because consumers are important to the country's economy and because most of the products they purchase are necessities for survival. Given that this is the most important industry, financial stability is required. To ascertain the financial standing of the businesses in the consumer goods sector, financial ratio analysis must be performed in this sector. Given that a number of factors will be taken into account when making decisions, the financial ratio will be crucial.

In this research, the author tries to analyze using the sample of the consumer goods industry companies, with the 5 years latest research data from 2018 to 2022. Using consumer goods in this research will provide an overview of the condition of the consumer goods industry in the 2018-2022 period in terms of Return on Assets as Profitability, Working Capital Turnover, Inventory Turnover as Activity Ratio, Debt to Equity Ratio as Solvency Ratios, and Current Ratio as Liquidity Ratios.

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. The higher the ROA indicates the company has a better performance since the return is increasing and it attract investors to invest in the company. According to Harahap (2010), ROA describes asset turnover as measured by the level of sales. The bigger the ratio then it will be better and this means that assets can be faster to gain profits.

One of the factors that affects ROA is Current Ratio (CR), the reason CR is used as a liquidity ratios measurement, because CR can analyze a company's capital position because this ratio shows the comparison between the amount of current assets

and current liabilities, CR can be said to be an indication of financial strength, because shows the extent to which creditors can be met with the expected capital can be converted into cash at maturity. In general, the higher the CR, the higher the safety margin a company has to meet current liabilities. If the liquidity ratio is more than 1, it indicates that the company is in good financial conditions. On another hand, the lower the CR indicates the company is in economic trouble, especially to meet its short-term obligations.

One of the Solvency Ratios used for measurement is the Debt to Equity Ratio (DER). This ratio indicates how much of a company's funding comes from debt, which helps the company understand how burdened it is to pay off its creditors. It also shows how well the company is able to meet its obligations by using some of its capital to pay off debts. According to Kasmir (2010), "Debt to Equity Ratio is the ratio used to value debt to equity. For this ratio by compare to all debts, include the current liabilities with all equity which is useful for knowing the amount of funds provided by the creditor with the owner of the company. The higher the DER it will cause a negative impact on company performance, because a higher debt level indicates that the company's interest expense will be greater and reduce profits.

Good working capital management can be seen from the efficiency of working capital. Measurement of working capital efficiency is generally measured by looking at Working Capital Turnover (WCT) which is indicates the activity ratios. If the

turnover of working capital is higher, the faster the funds or cash invested in working capital returns to cash, it indicates that company profits can be received more quickly.

Inventory Turnover (IT) is an asset management ratio that evaluates the ability of a business to replace and sell inventory within a given time frame. Comparing this ratio to other companies in the same industry is important because it depends on the type of industry the company is in. While a low inventory turnover suggests that the company has low sales of its goods, a high inventory turnover shows how well a corporation is able to sell all of its goods quickly, indicating that there is a significant demand for the goods.

Table 1.1 The Current Ratio, Debt to Equity Ratio, Working Capital Turnover, Inventory Turnover and Return on Assets Based on Firm Size of Consumer Goods Industry Companies listed in Indonesia Stock Exchange (IDX) for period 2018-2022

COMPANY NAME	YEAR	CURRENT RATIO	DEBT TO EQUITY RATIO	WORKING CAPITAL TURNOVER	INVENTORY TURNOVER	RETURN ON ASSETS	FIRM SIZE
PT. Akasha Wira International Tbk (ADES) as Small Firm Size	2018	1,39	0,83	7,90	3,82	0,06	27,50
	2019	2,00	0,45	4,74	4,44	0,10	27,43
	2020	2,97	0,37	1,86	4,16	0,14	27,58
	2021	2,51	0,34	2,30	4,88	0,20	27,89
	2022	3,20	0,23	2,30	5,03	0,22	28,12
PT. Hanjaya Mandala Sampoerna Tbk (HMSP) as Big Firm Size	2018	4,30	0,32	3,67	4,89	0,29	31,47
	2019	3,28	0,43	3,66	5,06	0,26	31,56
	2020	2,45	0,64	3,79	4,27	0,17	31,53
	2021	1,88	0,82	5,10	4,56	0,13	31,60
	2022	1,69	0,94	6,61	5,20	0,11	31,63

Source: Prepared by the Writer (2023)

Table 1.1 above, shows the data of Current Ratio (CR), Debt to Equity Ratio (DER), Inventory Turnover (IT), and Return on Assets (ROA). Based on the table, it shows that the Return on Assets in PT. Akasha Wira International Tbk (ADES) keep increasing from year 2018 to 2022. Meanwhile PT. Hanjaya Mandala Sampoerna Tbk (HMSP) experienced decrease in the Return on Assets from year 2018-2022.

The Current Ratio in PT. Akasha Wira International Tbk (ADES) in the table shows that it keep increasing from year 2018 to 2022, which is 1,39 in year 2018 become 3,20 in year 2022. It was followed by the increasing of Return on Assets in 2018 to 2022 which is 0,060; 0,1020; 0,1416; 0,2037; 0,221 respectively. In 2021, the Current Ratio decrease become 2,51 meanwhile the Return on Assets still keep increasing with 0,2037 from 0,1416 in 2019. This phenomenon indicates that the Current Ratio might have significant negative influence towards the Return on Assets which is supported by the previous research done by Paulus & Sambo (2019). The increasing of the Current Ratio from year to year caused by the increasing in the non-trade receivable which is in the assets, the prepaid payments, and also the fixed assets that quite significant increasing, meanwhile in the liabilities it keeps decrease.

In contrast, the Current Ratio in PT. Hanjaya Mandala Sampoerna Tbk (HMSP) keep decreasing from year 2018 to 2022. Which is from 4.30 in year 2018 and continuously decreasing become 1,69 in year 2022. The decreasing in the Current Ratio was followed by the Return on Assets which is also decreasing from year 2018 to 2022, which is from 0,290 in year 2018 become 0,115 in year 2022. This phenomenon indicates that the Current Ratio might have significant positive influence towards

Return on Assets (ROA) which is supported by the research done by Mahardhika & Marbun (2017). The decreased current ratio was caused by the large increase in current liabilities compared to current assets. One of the caused for PT. Hanjaya Mandala Sampoerna Tbk (HMSP) is the increasing of excise tax in 2020, it increased 23,05% causing the excise tax payable also increasing that affect to the current liabilities.

The Debt to Equity Ratio (DER) in PT. Akasha Wira International Tbk (ADES) keep decreasing from year 2018 to 2022 which is from 0,83 in 2018 becoming 0,23 in year 2022. It indicates a good news where the ideal DER supposed to be below 1, shows that the Equity of the company is larger than the liabilities they have. While the decreasing of the Debt to Equity Ratio, the Return on Assets keep increasing which is from the 0,060 in year 2018 to 0,2217 in the year 2022 which indicate that the companies from year to year have a larger Return on Assets means the company's financial condition is getting better each year. Tri Wartono (2018) and Dede Hertina, et al. (2019) which states that the debt to equity ratio has a negative effect on return on assets. The decreasing of DER is caused by the slightly decrease in liabilities and significantly increase in the retained earnings which is in the equity.

On another hand, the Debt to Equity Ratio (DER) in PT. Hanjaya Mandala Sampoerna Tbk (HMSP) keep increasing from year to year, in year 2018 which is 0,32 become 0,94 in year 2022. Meanwhile the Return on Assets keep decreasing from 0,2905 in 2018 become 0,1154 in 2022. It shows that Debt to Equity Ratio has a negative effect on Return On Assets, which means that the higher the Debt To Equity Ratio, the lower the Return On Assets and vice versa. Mahardika and Marbun (2016),

Khidmat (2014), and Rahmah, et al (2016) prove that the debt to equity ratio (DER) has a significant negative effect on return on assets (ROA). The decreasing in the Debt to equity Ratio is caused by the increasing in the taxes in liabilities that have to pay , meanwhile the retained earnings in the equity keep decreasing.

The Working Capital Turnover (WCT) in PT. Akasha Wira International Tbk (ADES) keep decreasing in the 2018 to 2020 from 7,905 to 1,861 and slightly increase in 2021 with 2,308, but then it decrease become 2,302 in 2022. Meanwhile the Return on Assets keep increasing from 2018 to 2022. Research conducted by Wijaya and Isnani (2016) which states that working capital turnover has no effect on profitability (ROA). The decreasing of the Working capital turnover 2020 is caused by the increase in cash and cash equivalents, but decrease in sales. Lower working capital turnover is an indicator that operations are not running effectively.

In contrast, The Working Capital Turnover (WCT) in PT. Hanjaya Mandala Sampoerna Tbk (HMSP) from year 2018 to 2022 keep increasing which is 3,676 in year 2018 become 6,612 in year 2022, on another hand the Return on Assets keep decreasing from 0,290 in year 2018 to 0,115 in year 2022. With a higher working capital turnover ratio are more efficient in running operations and generating sales.

The Inventory Turnover in PT. Akasha Wira International Tbk (ADES) keep increasing from year 2018 to 2022 which is from 3,824 in year 2018 become 5,033 in year 2022. The increasing in Inventory Turnover was followed by the increasing in the Return on Assets which is from 0,060 in year 2018 to 0,2217 in the year 2022. This phenomenon indicates that the Inventory Turnover might have significance positive influence

towards Return on Assets which is supported by Saragih (2018). If the turnover is said to be high then the sales are good it means that the outflow of products is quite fast which is good for the company. In 2020 the Inventory Turnover slightly decline with 4,164 due to the impact of Covid-19 Pandemic that affect the sales is decreasing.

Inventory Turnover in PT. Hanjaya Mandala Sampoerna Tbk (HMSP) keep increasing from 2018 to 2022 with 4,893; 5,065; 4,273; 4,568 ; 5,202 respectively, except in 2020 it got decline with only 4,273 due to declining in the sales which caused by the Pandemic in that year and the changes in the tax rate that keep increasing. Lower inventory turnover makes the company's condition not good, this is due to the increase in losses received by the company affect to reduced prices, additional inventory storage and costs. On another hand, the Return on Assets just keep decreasing from year to year that indicates that the Inventory Turnover might have significant negative influence towards Return on Assets which is supported by the previous research that conducted by Paulus & Sambo (2019).

Firm Size in PT. Akasha Wira International Tbk (ADES) as small firm size shown from 2018 to 2022 keep increasing which is 27,504 in 2018 become 28,129 in 2022 and the average is 138,55. The increasing of the firm size caused by increase in the trade receivables, advanced payment and some adding to fixed assets that affect the firm size become larger due to the assets. The increasing also followed by the increasing of Return on Assets in the 2018 to 2022 with 0,060 in year 2018 to 0,2217

in the year 2022. According to Sartono (2010) regarding firm size in research Previous shows that firm size has a significant positive effect on profitability (ROA)

The Firm Size in PT. Hanjaya Mandala Sampoerna Tbk (HMSP) as big firm size also increasing from 2018 to 2022 with 31,472; 31,560; 31,536; 31,603; 31,634 respectively and the average is 157,81. In the 2020 it declines slightly with 31,536 it caused by decreased in cash and cash equivalents, inventories, and the receivables that affect the assets decreased in that year. The increasing of firm size indicates a good thing since companies with a large size are considered more able to increase value company, because management has discretion in using assets company to increase productivity. Meanwhile the Return on Assets keep decreasing from 0,290 in year 2018 to 0,115 in year 2022.

Based on the background of that has been written above, the writer believes that it could give further information. The writer analyze about the Influence of Current Ratio, Debt to Equity Ratio, Working Capital Turnover, and Inventory Turnover towards Return on Assets based on Firm Size due to some adding independent variable from the previous research. Therefore, the writer decides to make research with the title: **“THE INFLUENCE OF CURRENT RATIO, DEBT TO EQUITY RATIO, WORKING CAPITAL TURNOVER, AND INVENTORY TURNOVER TOWARDS RETURN ON ASSETS BASED ON FIRM SIZE OF CONSUMER GOODS INDUSTRY COMPANIES LISTED IN INDONESIA STOCK EXCHANGE PERIOD 2018 -2022”**

1.2 Problem Limitation

To keep the scope of the research, 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 Equity Ratio, Working Capital Turnover, and Inventory Turnover.
2. The research object of this research is the Consumer Goods Industry Companies listed in Indonesia Stock Exchange.
3. The period of the data used in this research will be limited from year 2018-2022.

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 have influence toward Return on Assets based on Big Firm Size in Consumer Goods Industry companies listed on Indonesia Stock Exchange in year 2018 – 2022?
2. Does the Current Ratio have influence toward Return on Assets based on Small Firm Size in Consumer Goods Industry companies listed on Indonesia Stock Exchange in year 2018 – 2022?
3. Does the Debt to Equity Ratio have influence toward Return on Big Firm Size in Consumer Goods Industry companies listed on Indonesia Stock Exchange in year 2018-2022?

4. Does the Debt to Equity Ratio have influence toward Return on Assets based on Small Firm Size in Consumer Goods Industry companies listed on Indonesia Stock Exchange in year 2018-2022?
5. Does the Working Capital Turnover have influence toward Return on Assets based on Big Firm Size in Consumer Goods Industry companies listed on Indonesia Stock Exchange in year 2018-2022?
6. Does the Working Capital Turnover have influence toward Return on Assets based on Small Firm Size in Consumer Goods Industry companies listed on Indonesia Stock Exchange in year 2018-2022?
7. Does the Inventory Turnover have influence toward Return on Assets based on Big Firm Size in Consumer Goods Industry companies listed on Indonesia Stock Exchange in year 2018-2022?
8. Does the Inventory Turnover have influence toward Return on Assets based on Small Firm size in Consumer Goods Industry companies listed on Indonesia Stock Exchange in year 2018-2022?
9. Do the Current Ratio, Debt to Equity Ratio, Working Capital Turnover, and Inventory Turnover have influence toward Return on Assets based on Big Firm Size in Consumer Goods Industry companies listed on Indonesia Stock Exchange in year 2018-2022 simultaneously?
10. Do the Current Ratio, Debt to Equity Ratio, Working Capital Turnover, and Inventory Turnover have influence toward Return on Assets based on

Small Firm Size in Consumer Goods Industry companies listed on Indonesia Stock Exchange in year 2018-2022 simultaneously?

1.4 Objective of the Research

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

1. To test and analyze the Current Ratio towards Return on Assets based on Big Firm Size in Consumer Goods Companies Industry listed on Indonesia Stock Exchange in year 2018-2022.
2. To test and analyze the Current Ratio towards Return on Assets based on Small Firm Size in Consumer Goods Companies Industry listed on Indonesia Stock Exchange in year 2018-2022.
3. To test and analyze the Debt to Equity Ratio towards Return on Assets based on Big Firm Size in Consumer Goods Companies Industry listed on Indonesia Stock Exchange in year 2018-2022.
4. To test and analyze the Debt to Equity Ratio towards Return on Assets based on Small Firm Size in Consumer Gasoods Companies Industry listed on Indonesia Stock Exchange in year 2018-2022.
5. To test and analyze the Working Capital Turnover towards Return on Assets based on Big Firm Size in Consumer Goods Companies Industry listed on Indonesia Stock Exchange in year 2018-2022.

6. To test and analyze the Working Capital Turnover towards Return on Assets based on Small Firm Size in Consumer Goods Companies Industry listed on Indonesia Stock Exchange in year 2018-2022.
7. To test and analyze the Inventory Turnover towards Return on Assets based on Big Firm Size in Consumer Goods Companies Industry listed on Indonesia Stock Exchange in year 2018-2022.
8. To test and analyze the Inventory Turnover towards Return on Assets based on Small Firm Size in Consumer Goods Companies Industry listed on Indonesia Stock Exchange in year 2018-2022.
9. To test and analyze whether Current Ratio, Debt to Equity Ratio, Working Capital Turnover, and Inventory Turnover have influence towards Return on Assets based on Big Firm Size in Consumer Goods Companies Industry listed on Indonesia Stock Exchange in year 2018-2022 simultaneously.
10. To test and analyze whether Current Ratio, Debt to Equity Ratio, Working Capital Turnover, and Inventory Turnover have influence towards Return on Assets based on Small Firm Size in Consumer Goods Companies Industry listed on Indonesia Stock Exchange in year 2018-2022 simultaneously.

1.5 Benefit of the Research

This benefit of the research can be separated into two kinds of benefit, which are:

1.5.1 Theoretical Benefit

Theoretically, the research is expected to add understanding and knowledge for various parties related to the influence Current Ratio, Debt to Equity Ratio, Working Capital Turnover, and Inventory Turnover have influence towards Return on Assets based on Firm Size in Consumer Goods Companies Industry listed on Indonesia Stock Exchange in year 2018-2022.

1.5.2 Practical Benefit

Based on the research objective, the research is expected to generate practical benefits as follows:

1. For company

The results of this study are expected to be used as input and consideration for the company and contribute ideas to the consumer goods industry company, to solve the problem they faced in order to gain profit in the company.

2. For investors

This research can be used as material for consideration investors and potential investors before making an investment, so there will be no wrong in investing.

3. For academic

This research is expected to be adding source of information for future research, in the areas of Current Ratio, Debt to Equity Ratio, Working Capital Turnover, and Inventory Turnover towards the Return on Assets.

1.6 Writing Systematics

The writing structure is based on the aim of making things easier for readers in understanding and studying more about this research. The research consists of 3 chapters which in general can be explained as follows:

CHAPTER I: INTRODUCTION

Chapter one provides an overview of the research, encompassing the background, problem statement, research questions, research objectives, significance of the study, and the research framework.

CHAPTER II: LITERATURE REVIEW

In the second chapter, theories pertinent to the research are discussed, forming the basis for the study. This includes the development of hypotheses, research models, and the logical flow of the study.

CHAPTER III: RESEARCH METHODOLOGY

Chapter three delves into the research methodology, covering the type of research, population, sample, data collection methods, definitions, operationalization, variable measurements, and data analysis methods.

CHAPTER IV: COMPANY DATA & RESEARCH ANALYSIS

Chapter four provides an overview of the research object, detailing data analysis that includes descriptive statistical results, testing of data quality, hypothesis testing results, and a discussion of the data analysis.

CHAPTER V: CONCLUSION

Chapter five contains the conclusion and a brief summary of the analysis and research conducted. It also includes implications and recommendations that can be useful for future improvements in this research.

