

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

Assets are an important part of a company. With the assets owned by the company, the business can continue to operate smoothly. It aims to achieve the company's goal of maximizing profit. Profit as a result of company performance must also be an important consideration in making various business decisions. However, high profits do not guarantee that the company has worked effectively, efficiently, and productively. Effectiveness and efficiency of company performance can be known in the comparison between the profit with assets or capital used by the company to obtain the profit or in other words calculate profitability. Profitability is a company's ability to generate profits with all the capital working in it. Profitability becomes one of the key measures in assessing company performance so that it can be a more relevant consideration in making business decisions.

Property & real estate companies are one of the industrial sectors listed on the Indonesia Stock Exchange (IDX). IDX is a market for the company to market securities in the capital market. The reason the author chose this industry because the Property and Real Estate companies had bright prospects in the future by looking at the potential for a growing population, more development in the housing sector, apartments, shopping centers, and office buildings that making investors interested in investing their funds so that the prospects for stock trading are expected to continue to increase. In 2012 and the first half of 2013 Indonesia's property sector grew rapidly, so the profit growth of Indonesian property developers jumped sharply (from 45 property companies listed on the Indonesia Stock Exchange in 2012, 26 companies recorded a net profit growth of more than 50%) and, obviously, Indonesian property prices

increased in line with that (in general residential property prices grew by almost 30% per year between 2011 to 2013).

One way to keep companies in a difficult economic situation is to get maximum profits or profits. By gaining maximum profits, the company can do much for the welfare of the owners, employees, and improve product quality and make new investments. Therefore, company management is required to be able to meet the set targets. This means that large profits must be expected. To measure company profits, profitability ratios are used.

Profitability ratios used in this study is Return on Assets (ROA). ROA is the profitability ratio used to measure the effectiveness of a company in generating profits by utilizing its total assets. Current Ratio is calculated by dividing current assets with current liabilities. Current Ratio is used to determine the ability to meet short-term liabilities, because the ratio shows how much current liabilities are met by current assets that are estimated to be cash in the same period as the debt maturity.

Receivable turnover is the period that will show how many times the receivables arising until the receivables can be collected back into the company's cash. The quicker the period of receivable turnout indicates the faster the credit sales can return to cash. The source and use of funds in a company's operations is usually financed with its own capital and debt, which in this case to measure how much debt usage can be measured by Debt to Equity Ratio.

According to Kasmir (2012, p. 203), explaining that:

Influencing Return on Assets (ROA) is the result of return on investment or referred to as Return on Assets (ROA) influenced by net profit margin and total assets turnover because if low ROA is caused by low profit margin caused by the low net profit margin caused by the low total assets turnover.

According to Munawir (2007, p.89), the magnitude of return on assets (ROA) is influenced by two factors:

First, Turnover of operating assets (the level of asset turnover used for operating profit). Second, Profit Margin, which is the amount of operating profit expressed as a percentage and the amount of net sales. This Profit Margin measures the level of profit that can be achieved by the company associated with the sale.

Factors that affect the return on asset ratio are several ratios, among others: cash turnover ratio, accounts receivable turnover ratio, and inventory turnover ratio.

**Cash Turnover.** By calculating the cash turnover it will be known to what extent the level of efficiency that can be achieved by the company in an effort to utilize the existing cash inventory to realize the company's goals.

According to Kasmir (2008, p.140), states that “The cash turnover ratio (cash turnover) serves to measure the level of adequacy of the company's working capital needed to pay bills and finance sales”.

This means that this ratio is used to measure the level of cash availability to pay bills (debt) and costs associated with sales.

**Receivable Turnover.** Assessing the success or failure of a company's credit sales policy can be done by looking at the rate of turnover of accounts receivable. According to Munawir (2001, p. 8), explaining that, “Receivable Turnover is used to measure how long the collection of accounts receivable for one period or how many times the funds invested in these receivables revolve in one period”.

From this definition, it can be seen that the high accounts receivable turnover ratio reflects the quality of receivables that are getting better. The high and low turnover of accounts receivable depends on the size of the capital invested in the receivables. The faster the accounts receivable turnover means the faster the capital returns.

Inventory Turnover. Inventory is an element of current assets which is an active element in the operations of a company that is continuously acquired, changed and then sold to consumers. To speed up cash returns through sales, a good inventory turnover is needed.

The phenomenon that occurs is Current Ratio, Receivable Turnover and Debt to Equity Ratio in Real Estate and Property companies listed on the Indonesia Stock Exchange for the period 2013 to 2017 can be seen in Table 1.1 below:

**Table 1.1**  
**Current Ratio, Receivable Turnover, Debt to Equity Ratio and Return on Assets Financial Statement on Two Real Estate Company and Property Listed on Indonesia Stock Exchange**

Code	Year	CR	RT	DER	ROA
DILD	2013	7,91	12,25	0,838	0,044
	2014	1,371	16,028	1,014	0,048
	2015	0,89	9,346	1,157	0,041
	2016	0,922	13,724	1,341	0,025
	2017	0,879	12,817	1,075	0,207
RDTX	2013	0,241	9,935	0,351	0,128
	2014	0,903	6,155	0,216	0,142
	2015	2,061	7,994	0,178	0,138
	2016	3,253	8,361	0,149	0,124
	2017	4,617	40,327	0,11	0,108

DILD = PT. Intiland Development, Tbk, RDTX = PT. Roda Vivatex, Tbk  
 Source: Prepared by the writer (2019)

From table above, it can be known there is fluctuation of Return on Assets of PT. Intiland Development, Tbk and PT. Roda Vivatex, Tbk in year 2013 to 2017. The decreasing of Return on Assets ratio means that the company used more debt than their own capital, because with the addition of debt can result the greater risk because the use of debt is too much to cause greater interest burden that will cause the decline profits. The fluctuation and unstable from the company can indicates from Return on Assets.

In PT. Intiland Development, Tbk, there is fluctuation of Current Ratio in year 2013 to 2017. In PT. Roda Vivatex, Tbk , there is increasing of Current Ratio in year 2013 to 2017. The inconsistent moving of Current Ratio can result in unstable company profitability. Decreasing in amount of current assets will result in increasing profitability of the company measured by the Return on Assets, which means the higher the liquidity, the lower the Return on Asset. But from the table above, can be seen that the Return on Assets decreasing, it indicates that the company decreasing the availability of fund in paying the short-term liability.

There is fluctuation of Receivable Turnover in year 2013 to 2017, that it can shows how many times the receivables arising until the receivable be collected back into the company's cash. The quicker the period of receivable turnover indicates the faster the credit sales can return to cash. The softer or longer the payment terms, the longer the capital is tied to the receivables, which means that the rate of rotation over a given period is lower. Receivables are important working capital elements to achieve maximum profitability.

The increasing of Debt to Equity Ratio in year 2013 to 2017, that the company used more debt than their own capital, because with the addition of debt can result the greater risk because the use of debt is too much to cause greater interest burden that will cause the decline profits. From the table above, it can be seen that the increasing in Debt to Equity Ratio, and the Return on Assets increasing, it show the company has unstable performance.

Based on the above background of study that has been there to encourage researchers to discuss more in-depth about the "*The Effect of Current Ratio, Receivable Turnover and Debt to Equity Ratio Towards Return on Assets in Real Estate and Property Companies Listed in the Indonesia Stock Exchange.*"

## **1.2 PROBLEM LIMITATION**

Due to the limited of time, the writer limits the variables of the study, the independent variable such as Current Ratio, Receivable Turnover, Debt to Equity Ratio and dependent variable is Return on Assets used in this research. All data used in this research is listed on Indonesia Stock Exchange (IDX) in the real estate and property industry as the object of research. The data is taken from Indonesia Stock Exchange starting from year 2013 to 2017. The reason the writer choose this company is because the Real Estate Companies dan Property have promising prospects in the future by looking at the potential for a growing population, more development in the housing sector, apartments, shopping centers, and office buildings that making investors interested in investing their funds so that the prospects for stock trading are expected to continue to increase.

## **1.3 PROBLEM FORMULATION**

Based on the background of study, the problem identified by the writer in this research is:

1. Does the Current Ratio significantly affect on Return on Assets in Real Estate Company and Property Listed on the Indonesia Stock Exchange?
2. Does the Receivable Turnover significantly affect on Return on Assets in Real Estate Company and Property Listed on the Indonesia Stock Exchange?
3. Does the Debt To Equity Ratio significantly affect on Return on Assets in Real Estate Company and Property Listed on the Indonesia Stock Exchange?
4. Do the Current Ratio, Receivable Turnover and Debt to Equity Ratio simultaneously affect the Return on Assets in Real Estate Company and Property Listed on the Indonesia Stock Exchange?

## **1.4 OBJECTIVE OF RESEARCH**

The objectives of doing this research are:

1. To analyze whether Current Ratio has effect on Return on Assets partially in Real Estate Company and Property Listed on the Indonesia Stock Exchange.
2. To analyze whether Receivable Turnover affect on Return on Assets partially in Real Estate Company and Property Listed on the Indonesia Stock Exchange.
3. To analyze whether Debt To Equity Ratio affect partially on Return on Assets in Real Estate Company and Property Listed on the Indonesia Stock Exchange.
4. To analyze whether Current Ratio, Receivable Turnover and Debt to Equity Ratio affect the Return on Assets simultaneously in Real Estate Company and Property Listed on the Indonesia Stock Exchange.

## **1.5 BENEFITS OF THE RESEARCH**

### **1.5.1 THEORETICAL BENEFITS**

Theoretical significance of this research are as follows:

1. Next researcher  
As an information and reference material for future researchers and for interested parties to discuss the same issues in the future.
2. Students  
As reference material and additional data for students and lecturers who are conducting research related to financial management and financial accounting.

### 1.5.2 PRACTICAL BENEFITS

Practical significance of this research are as follows:

1. For the Company

As input for assessing the credibility of Real Estate and Property firms listed on Indonesia Stock Exchange and can be used as input to make decision to maximize shareholder value.

2. For the Investors

As an input to assess the credibility of a Real Estate and Property company listed on the Indonesia Stock Exchange and can be used as input to make investment decisions and policies, especially equity participation in common stock.

### 1.6 SYSTEMS OF WRITING

The systems of writing in this research will be as follows:

**CHAPTER I: INTRODUCTION**

This chapter is introduction of this research. The writer explains of the background of study, problem limitation, problem formulation, objective of research, benefit of the research and systems of writing.

**CHAPTER II: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

This chapter consists of theories that is needed to support this research such as definition of current ratio, the importance of current ratio, the factors affecting current ratio, objective and benefits current ratio, current ratio indicator, definition of receivable turnover, the importance of receivable turnover, the factor affecting receivable turnover, objective and benefits receivable turnover, receivable turnover indicator, definition of



debt to equity ratio, the importance of debt to equity ratio, the factor affecting debt to equity ratio, objective and benefits debt to equity ratio, debt to equity ratio indicator, definition of return on asset, the importance of return on asset, the factors affecting return on asset, objective and benefits of return on asset, return on asset indicator, previous research, the effect of current ratio, receivable turnover, debt to equity ratio to return on asset, conceptual framework and hypothesis.

**CHAPTER III: RESEARCH METHODOLOGY**

This chapter consists of the research design, population and sample, data collection method, operation variable definition and variable measurement and data analysis method.

**CHAPTER IV: DATA ANALYSIS AND DISCUSSION**

This chapter consists of general description of research object and data analysis and discussion.

**CHAPTER V: CONCLUSION**

This chapter is conclusion in doing this research. The writer will presents conclusion after conducting the research, implication of this research and recommendation for this industry.