
EFFECT OF LIQUIDITY MANAGEMENT, ASSET MANAGEMENT, DEBT MANAGEMENT ON PROFIT

Dwi Urip Wardoyo¹, Nurul Melati², Mega Oktavianta³

^{1,2,3}Telkom University, Bandung

Email: dwiurip@telkomuniversity.ac.id

Abstract

Profitability Impact of Liquidity Management, Asset Management, and Debt Management. The goal of this study is to develop a multiple linear regression model for use as an earnings estimator. This study looks at mining firms that were listed on the IDX between 2017 and 2020, have audited financial statements, and generate profits throughout that time period. Current Ratio (CR), Total Assets Turnover Ratio (TATO), and Debt Ratio (DR) are used as independent variables in this study. This variable is used to denote the management of liquidity, assets, and debt. Meanwhile, the dependent variable utilized as a surrogate for profit is the Return on Assets Ratio (ROA). The findings indicate that liquidity, asset, and debt management all have a major impact on earnings.

Keywords: Current Ratio, Debt Ratio, Return on Assets, Total Asset Turnover.

A. INTRODUCTION

When it comes to profit, it appears as though there will never be an end date. Because the majority of businesses are created primarily to produce profits. Profitability increases with the amount of efficiency and effectiveness of the business's activities. As a result, a company's capacity to maintain business continuity is more important than ever. Three important aspects influencing earnings: liquidity management, asset management and earnings management, which reflects the combined influence of liquidity, asset and debt management, have been emphasized by numerous economists.

Liquidity management is addressed by the rules governing the Current Ratio and the Quick Ratio. Asset management policies are reflected in inventory turnover ratios, days sales outstanding ratios, fixed asset turnover ratios, and total asset turnover ratios. EBITDA Coverage and Debt to Equity Ratio are other metrics that can be used to assess how well a company is managing its debt. The Net Profit Margin, Basic Earnings Power, Return on Equity, and Return on Assets ratios can be used to measure profitability (or Return on Investment). It is a financial ratio that measures the ability of an organization to meet its current and future financial obligations (Munawir in Satriana, 2017:18).

This ratio assesses a company's ability to satisfy short-term financial obligations and repay short-term debts. In other words, a company's ability to pay back short-term loans is assessed using the liquidity ratio. A business is deemed to be liquid if it is able to satisfy its short-term obligations as they mature. Keown (2015:408) also suggests more specific things about the effect of debt on profits. When economic conditions decline, having large amounts of debt will cause the company to fail to pay principal and interest on loans. On the other hand, when economic conditions improve, having a large amount of debt will be beneficial for the company.

Several studies regarding the factors that affect earnings have been carried out. Various regression models were also used as a model for estimating earnings. Financial ratios are frequently employed as proxies for earnings and the factors that affect them. According to Harsi Romli et al. (2017), NPM, CR, and TATO all had a positive and statistically significant effect on ROA, but DER had a positive but statistically negligible effect on ROA. NPM, DER, CR, and TATO all have a cumulative effect of 86.92 percent on ROA, with the remainder influenced by additional variables not included in the study.

Debt Ratio, Debt to Equity Ratio, and Time Interest Earned Ratio (TIER) all have a substantial impact on Return on Equity (ROE), according to Roy Pardamean (2017). ROE is significantly impacted by the use of TIER, according to the results of this study. These findings show that ROE movement is significantly influenced by TIER. As their effects on ROE are so little, it's safe to say that the two DR and DER variables don't have much bearing on it.

Jesica et al. claim that the total asset turnover and inventory turnover all affect return on equity at the same time because of their impact on the current ratio and other factors (2019). Inventory turnover, current ratio, and working capital turnover have no influence on return on equity; nevertheless, debt to equity ratio and total asset turnover have a positive and significant impact on return on equity.

Total asset turnover and sales both have a significant positive impact on the return on assets, as does debt to equity; sales have a significant positive impact on price to book value; return on assets has a positive impact on price to book value; debt to equity has a positive impact on the price to book value. This also shows that a company's stock price can be improved in addition to its profitability being increased.

According to Radiman (2021), the debt-to-equity ratio has no impact on the Price Book Value of a company. Asset returns have a substantial impact on the Price Book Value of a company. The Debt to Equity Ratio has little effect on managerial ownership. Managerial ownership and return on assets don't seem to be connected in any way. Between 2015 and 2018, the Price Book Value of Property and Real Estate Companies Listed on the Indonesian Stock Exchange was significantly influenced by the Debt to Equity Ratio and the Return on Assets.

According to Sandi Maulani Ahmad et al., financial leverage, as assessed by DER and TIER alone or in combination, has a considerable effect on profitability (2021). The three R's: ROA, ROE, and TIER. When it comes to the dependent variable ROA, independent variable DAR has a significant (negative) impact, but independent variable ROE has none at all. When it comes to ROA, ROE, and EPS, TIER has just a little (negative) impact on each of the three dependent variables.

Additionally, Insukindro's opinion, as cited by Ghozali (2018), states that the coefficient of determination is one of the parameters used to identify a good model, not one of the criteria. It's not ideal to use a linear regression model that has a high coefficient of determination, but if it's not compatible with a researcher's economic theory or fails the classical assumption test, it's not a good estimate and should be avoided.

According to Ghozali & Insukindro, the research above has not developed a regression model that can be utilized as an estimator. Profitable. In general, the coefficient of determination is minimal, and only a few independent factors have a meaningful effect on profits. This could be owing to a lack of study data to demonstrate such truths, or to an inadvertent selection of independent variables.

Based on this fact, the authors are interested in conducting a similar study. In addition to complementing existing research, the main goal is to be able to find a good estimating model of profit. Therefore, the topic chosen is "The Influence of Liquidity Management, Asset Management and Debt Management on Profits".

B. LITERATURE REVIEW

1. Financial Statements

Financial statements are basically prepared to provide information about the state of a company that will be useful for most users of the financial statements. Financial statements prepared and presented for a year are presented to meet the needs of the company's internal and external parties the definition of financial statements in Financial Accounting Standards according to the Indonesian Institute of Accountants (2015:1) is: "Financial statements are a structured presentation of the financial position and financial performance of an entity".

2. Liquidity

Liquidity measures a company's ability to meet immediate financial commitments or its ability to meet financial obligations when billed (Munawir in Satriana, 2017:18). An indicator of a company's capacity to meet short-term financial obligations is the liquidity ratio. Keown (2015:408) also suggests more specific things about the effect of debt on profits. When economic conditions decline, having large amounts of debt will cause companies to fail to pay principal and interest on loans. Conversely, when economic conditions improve, having large amounts of debt will benefit the company.

3. Asset Management

Assets In simple terms, Asset management is the effective management of assets belonging to a person or company to achieve goals. According to Gema Sugiana (2013), the art and science of managing one's financial assets are referred to as "asset management." Planned actions include purchasing assets, maintaining them, renewing them or disposing of them as well as executing legal audits and assessing their value in order to transfer them in a timely and efficient manner.

4. Debt Management

Debt management is the process of paying debts by involving third parties to help parties involved in debt. Debt is a major problem when a person or entity owes a consumptive debt so that it fails to manage finances. A better debt management strategy is to have a responsible financial attitude. Do not let the money used to pay off debts instead to buy something out of necessity.

C. METHOD

This research is classified as causality research due to its objective of determining the effect of liquidity, asset, and debt management on earnings. Multiple linear regression was used to evaluate the research data in order to determine this effect. The study's population consists of mining sector businesses that are listed on the Indonesian Stock Exchange (IDX) for the 2017-2020 timeframe, have audited financial statements, and generate profits throughout that

time period. The Indonesia Stock Exchange provided research data in the form of audited financial reports, which may be viewed via the website www.idx.co.id. Comprehensive income, total sales, total assets, total current assets, and total liabilities are all needed report components. Liquidity management, asset management, debt management, and profit management were all examined as operational variables. Profitability is referred to as Return on Assets (ROA).

Table 1 Summarizes the Components of these Variables

Variable	Variable Definition	Scale Measurement
Dependent Variable	-	-
Return on Assets (ROA)	A measure of the company's ability to generate profits	Comprehensive Profit/Total Assets
Independent Variable	-	-
Current Ratio (CR)	The size of the company in meeting current liabilities	Total current assets/Total assets
Total Asset Turnover Ratio (TATO)	A measure of the company's ability to generate income through its assets	Total Sales/Total Assets
Debt Ratio (DR)	The size of the amount of company assets funded by debt	Total Liabilities/Total Assets Ratio

D. RESULT AND DISCUSSION

Table 2. Multiple Linear Test Results

Variabel	Koefisien	Standar Error	Beta	t	Sig.
(Constant)	-37,623	5,364		-7,014	,000
TATO	,360	,041	,871	8,759	,000
DR	,112	,041	,272	2,742	,014
CR	,217	,039	,568	5,560	,000

Based on the results of linear regression testing the effect of independent variables on ROA can be determined by the following equation: $ROA = -37.623 + 0.360TATO + 0.112DR + 0.217CR$. The results of the Durbin-Watson (DW) test showed a value of 2.161. Using a significance level of 0.05 at $n = 21$ and $k = 3$, the Durbin Watson statistical table obtained the outer limit value (dL) of 1,026 and the inner limit value (dU) of 1,669. Because the test results show that $dU < DW < dL$ ($1.669 < 2.161 < 2.331$), it can be said that there is no autocorrelation in the regression model.

This study also produces a coefficient value of adjusted R square (R²) of 0.815. This means that 81.5% ROA is influenced by the TATO, DR and CR variables, the rest is influenced by other variables not included in this test. Based on the results of the F test, the calculated F value is 30.284 and the significance level is 0.000.

To determine the effect of each independent variable on profit, it is done by comparing between t count and t table. The calculated t value can be seen in table 4. Meanwhile, the t table value with a significance level of $0.05/2 = 0.025$ (2-sided test), at the degrees of freedom $df = 17$, the t table value is -2.080/2.080.

The results of testing the effect of CR on earnings show that the t-count CR > t-table CR ($5.560 > 2.080$) and the significance level of the t-count CR is less than 0.05, so the hypothesis H1 is accepted. This means that liquidity management has a significant effect on

earnings. The results of this study agree with Ismail (2019). However, there are different opinions with Jesicca et al. (2019), Radiman, et al. (2021), Sandi Maulani (2021). The results of this study indicate that the number of current assets owned by the company is able to meet its current flows) liabilities. This condition can maintain the smooth operation of the company so that it has a significant effect on profits.

The results of testing the effect of TATO on earnings show that the t-count of TATO > t-table of TATO (8.759 > 2.080) and the significance level of t-count of TATO is less than 0.05, so hypothesis H2 is accepted. That is, asset management has a significant effect on earnings.

E. CONCLUSION

The regression model generated from this study, can provide the expected conclusions and is in line with the opinion of economists who state that earnings are influenced by liquidity management (CR), asset management (TATO) and debt management (DR). From the results of tests that have been carried out partially or simultaneously, CR, TATO and DR greatly affect the level of ROA. With the level of influence of CR, TATO and DR on ROA However, this model can only be applied to predict the earnings of mining companies listed on the Indonesia Stock Exchange.

REFERENCES

- Arshandy, E., Lie, D., Jubi, J., & Ervina, N. (2018). The Effect of Asset Management and Capital Structure on Profitability in Ceramic, Porcelain and Glass Sub-Sector Companies Listed on the Indonesia Stock Exchange. *SULTANIST: Journal of Management and Finance*, 6(1), 70–75.
- Heliani, R. Y. (2020). Factors Affecting Profitability in Manufacturing Companies in the Pharmaceutical Sector Listed on the IDX for the 2017-2018 period. *Journal of Assets: Accounting and Financial Research*, 2(1), 8–15.
- Jessica, J., Lilia, W., Leonardy, C., Kartika, M., & Panggabean, N. (2020). The Influence of ITO, CR, DER, TATO and WCTO on ROE in Various Industrial Companies Listed on the IDX. *Indonesian Accounting and Finance Periodic*, 4(2), 43.
- Pratama, S. (2019). Chapter II Theoretical Foundation. *Journal of Chemical Information and Modeling*, 53(9), 1689–1699.
- Romli, H., Munandar, A., Yamin, A., & Susanto, Y. (2018). Factors Affecting Return on Assets of Plantation Sector Companies listed on the Indonesia Stock Exchange in 2011-2016. *Sriwijaya Journal of Management and Business*, 15(4), 208–220.
- Stawati, V. (2020). Pengaruh Profitabilitas, Leverage dan Ukuran Perusahaan terhadap Penghindaran Pajak. *Jurnal Akuntansi dan Bisnis: Jurnal Program studi Akuntansi*, 6(2), 147-157.
- Suryahadi, A. (2019). *Throughout 2019 the mining sector fell drastically*. Retrieved from <https://investasi.kontan.co.id/news/selong-2019-sector-pertambangan-turun-drastis-begini-prospeknya-di-2020>
- Syaiful, M., Haanurat, I., & Aarsal, M. (2020). Pengaruh Leverage, Efektivitas Asset dan Sales Terhadap Profitabilitas dan Pengaruhnya pada Nilai Perusahaan Sektor Industri Komsumsi di Bursa Efek Indonesia Periode Tahun 2014-2018. *Competitiveness*, 9(2), 233-248.

Wijaksono, A. (2011). *Effect of Fixed Asset Management on Profitability of Food and Beverage Companies Listed on the Indonesia Stock Exchange 2009-2011.*