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The Effect Of Current Ratio And Debt To Equity Ratio On The Profitability Of Manufacturing Companies On The Indonesia Stock Exchange

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Abstract: The objectives in this study are: 1) To know the effect of current ratio on profitability. 2) To know the effect of debt to equity ratio on profitability. 3) To determine the effect of current ratio and debt to equity ratio on profitability.The research method used is quantitative, in this study, verifiative research method is used to test the effect of current ratio and debt to equity ratio on the profitability of manufacturing companies on the Indonesia Stock Exchange (IDX) period 2014–2018. The population in this study is a manufacturing company on the Indonesia Stock Exchange (IDX) period 2014-2018. The selection of samples is selected purposive sampling from all manufacturing companies listed on the Indonesia Stock Exchange (IDX) with the aim of obtaining a representative sample based on the specified criteria. The results of this study show that: 1) Current ratio affects and is significant to profitability. 2) Debt to equity ratio affects and is significant to profitability. 3) Current ratio and debt to equity ratio are jointly influential and significant to profitability.

Keywords: Current ratio, Debt to equity ratio, Profitability

INTRODUCTION

Manufacturing companies make a big contribution to the national economy. The growth and development of the manufacturing industry is now causing the rapid pace of the economy (Yanuar, 2018). In Indonesia the development of manufacturing industry is quite rapid, this can be seen from the development of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from year to year increasing, so it does not close the possibility of this company is needed by the public and the prospects are favorable.

All manufacturing companies in Indonesia strive to produce high quality goods at low cost in order to increase competitiveness in both domestic and global markets (Sujarwo, 2019; Sahara, 2018). The main objective of some companies is to optimize profit or profit.

The profitability of the company is the company's ability to generate net profit from activities carried out in the accounting periode (Putri, 2019). Profit is an overview of the performance achieved from the general transaction process conducted by the company during a certain period.

One way to assess the company's performance is to analyze the profit and loss report containing the profitability or profit achieved by the Company (Dyatmiko, 2019). According to Sari and Abundanti (2014) profitability is a measure of the company's performance indicated by the profit generated by the company. Profitability will reflect the overall success and effectiveness of management, where this ratio will demonstrate the balance of revenue and the company's ability to generate profit at various levels of operations (Wibowo and Wartini, 2012).

"A consistent level of profitability will be the benchmark for how the company is able to survive in its business by obtaining adequate returns compared to its risks" (Prihadi, 2009:51). In this study to look at the ability of banks to get their profits measured by profitability ratios and represented by several value ratios, namely return on assets and return on equity. The selection of ROE-bound variables because they want to see how the company develops is judged from its profitability level viewed from the holder's side (ROE).

ROE (Return on Equity) is an indicator of profitability achieved by the company by comparing net income with its own equity or capital. The value of this ROE can be used to see the level of profit generated based on the capital itself used. It is also much needed for investors to assess the company's performance after investors deposit capital against the company. For financial institutions especially banks this ratio is very important for shareholders and prospective investors to measure the ability of banks or financial institutions in obtaining net profit associated with dividends (Dendawijaya, 2009:119). Moeljadi (2006:73) profitability ratio also shows the combined influence of liquidity, assets, and debt on operating results. So in the study also analyzed the internal condition of the bank (liquidity and Solvability) in its role in influencing profitability. Because the liquidity in it assesses the company's assets, especially current assets in the relationship ....

Liquidity ratios are used to assess a company's ability to meet short-term debt. The more liquid the company, the easier it will be to run its operations so that the profit earned will increase. The Company should pay more attention to liquidity and manage the current assets owned by the company so that all its current liabilities that are due can be properly repaid. Liquidity can be calculated by Current Ratio. The current ratio is the most commonly used measure of knowing the ability to meet short-term liabilities, as it shows how far the demands of short-term creditors are met by assets that are expected to be cash in the same period as debt maturities (Brigham and Houston, 2010). The higher the current ratio means the greater the company's ability to meet short-term liabilities.

Another study by Aminu (2013) found that liquidity shows a different role when dealing with ROA and ROE (profitability), that liquidity has a significant effect on bank ROA in Nigeria, but has no significant effect on bank ROE in Nigeria. This inconsistency is the basis for the selection of this liquidity ratio to be variable-free in this study. The Solvability ratio is a measure of the bank's ability to find a source of funds to finance its activities. It could also be a measuring tool to look at the bank's wealth to see efficiencies for its bank management (Cashmere, 2012:322).

Dendawijaya (2009:120) defines Solvability ratio as follows. The analysis is used to measure the bank's ability to meet its long-term obligations or the bank's ability to meet obligations in the event of a bank liquidation. In addition, this ratio is also used to determine the ratio of the volume (amount) of funds obtained from long-term and short-term debt as well as other sources outside the bank's own capital with the volume of its investment in various types of assets owned by the bank. From the explanation above Solvability ratio measures the ability of banks to find sources of funds to finance their activities, in addition this ratio can also be used to measure the bank's ability to meet long-term obligations or meet obligations in the event of bank liquidity.

These obligations arise from bank funding from a variety of sources, especially external sources such as long-term loans. In this study the Solvability ratio is calculated by primary ratio and debt to equity ratio. Primary ratio is a ratio to measure whether the capital owned is adequate or the extent to which the decrease in total assets entered can be covered by capital equity (cashmere, 2012:322).

From the above understanding this ratio is used to see how the company's ability to cover risky assets with its own capital. Because the company's assets will then run out and must be re-fulfilled immediately. This ratio is also called the bank capital ratio. The bank's capital ratio is the fund invested by the owner in the framework of the establishment of a business entity intended to finance the bank's business activities in addition to meeting the regulations set by the monetary authority (Taswan, 2006:71). The bank's capital ratio is calculated by comparing its own capital with its total assets (capital adequacy ratio).

The higher the value of this ratio means the greater the ability of the bank to cover the risks that can arise resulting from the company's assets, so that the bank's operations continue to run and will improve the profitability of the company. Sufian & Habibullah (2011:384) the higher this ratio indicates the bank's funding of its own capital is greater, because the capital itself is funding with a low capital cost then this can increase the profitability of the bank. Sufian & Habibullah (2011) examined the Solvability ratio represented by EQASS which compares shareholder equity with total assets. And the results show that EQASS has a significant positive effect on the profitability (ROA) of banks in China. The same results are also shown. Sastrosuwito & Suzuki (2011) that the Solvability ratio represented by Capitalization (Equity/assets) has a significant positive effect on the profitability (ROA) of banks in Indonesia. The formulation of the problem is: Is there any influence of current ratio on profitability. Is there any effect of debt to equitity ratio on profitability. Is there any influence of current ratio and debt to equitity ratio on profitability. The purpose of this study is: To know the effect of current ratio on profitability. To find out how debt to equitity ratio affects profitability. To find out how current ratio and debt to equitity ratio affect profitability.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Profitability Ratio

Profit in the company's operational activities is an important element to ensure the company's future survival. The company's success can be seen from the company's ability to compete in the market. According to Sutrisno (2009:16) "profitability is the company's ability to make a profit with all the capital that works in it. Profitability according to sofyan Syafri Harahap (2009:304) is "Describing the company's ability to make a profit through all existing capabilities and resources such as sales activities, cash, capital, number of employees, number of company branches, and so on". Whereas according to Brigham and Houston (2009:109) "Profitability is the end result of a number of policies and decisions made by the company.

The ultimate goal that a company wants to achieve is to make maximum profit or profit. To measure the profit level of a company is used the ratio of profitabiitas. According to Cashmere (2011:196) "The Profitability Ratio is a ratio to assess the company's ability to make a profit”.

The profitability ratio of J. Fred Weston and Thomas E.copeland (2010:237) is a measure of management effectiveness based on the return resulting from sales and investment. Profitability ratio according to Sutrisno (2009:222) is the ratio to measure how much profit the company can get.

Based on the opinion of the above experts, the conclusion can be drawn is the company's ability to make a profit by using the resources contained within the company itself

Liquidity Ratio

Liquidity is one of the important financial aspects to analyze. This is because liquidity is one of the tools that can be used to measure the success of a company based on the company's ability to meet its current obligations. According to Cashmere (2012:110) Liquidity demonstrates the company's ability to pay its maturing short-term debts (liabilities) or ratios to determine the company's ability to finance and meet obligations (debts) at the time of billation.

According to Munawir (2007:31) Liquidity demonstrates a company's ability to meet its financial obligations that must be met immediately or the company's ability to meet financial obligations at the time of being billed. A company that is able to fulfill its financial obligations in time means that the company is in liquid condition, and the company is said to be able to meet its financial obligations in time if the company has payment tools or current assets that are greater than current debt or short-term debt. Conversely, if the company is unable to immediately meet its financial obligations at the time of being billed, then the state of the company is in a state of discons..

Based on several opinions on liquidity, the authors concluded that liquidity is an ability to pay off short-term and long-term financial obligations due in the relevant year that must be met immediately. The definition of liquidity ratio by Cashmere (2012:130) is as follows: Liquidity ratio is the ratio used to measure how liquid the company is. The way is to compare the components on the balance sheet, namely total current assets with total current pasiva (short-term debt).

Solvability Ratio

Solvability ratio or leverage ratio is the ratio used to measure the extent to which assets are financed with debt. In other words, Solvability ratio is the ratio used to measure how much debt load the company must bear in order to fulfill assets (Hery, 2015). According to Natan and Setiana (2010) this ratio measures the company's ability to pay off all short-term debt as well as long-term debt using capital or assets held by the company.

The definition of Solvability according to Mamduh M. Hanafi and Abdul Halim (2009:81) is: "This ratio measures the ability of the company to meet its long-term obligations. This ratio also measures the long-term liquidity of the company and thus focuses on the right side of the balance sheet”.

According to Irham Fahmi (2014:59) that the Solvability ratio is a ratio that shows how the company is able to manage its debt in order to make a profit and also be able to pay back its debts. In principle this ratio provides an idea of the level of adequacy of the company's debt. That is, how much of the debt is in the company when compared to the existing capital or assets. Companies that do not have leverage (Solvability) means using their own capital 100% (Agus Sartono, 2010:120).

METHODS

The research method used is quantitative research. Quantitative research is one type of research whose specifications are systematic, planned, and clearly structured from the beginning to the design of the research. Another definition mentions quantitative research is research that demands a lot of use of numbers, ranging from data collection, interpretation of the data, and the appearance of the results. Similarly at the conclusion stage of the study it would be better when accompanied by images, tables, graphics, or other views. This method is referred to as a positivistic method because it is based on the philosophy of positivism. This method is referred to as a scientific method because it has fulfilled the scientific rules of concrete, empirical, objective, measurable, rational and systematic. This method is also called the discovery method because with this method can be found and developed various new science. This method is called quantitative method because research data in the form of numbers and analysis using statistics. According to Sugiyono (2009:8) quantitative research methods are as follows: Quantitative research methods can be interpreted as research methods based on positivism philosophy, used to research in specific populations or samples, data collection using research instruments, quantitative/statistical data analysis, with the aim of testing established hypotheses.

Population and Samples

Populations are a collection of all measurements, objects, or individuals under review. Thus, the understanding of the population in statistics is not limited to groups/groups of people, but refers to the entire size, count, or quality that is the focus of a study's attention.

An observation/survey of all members of the population is called a census. Populations are often also called universes or groups of individuals or objects that have the same characteristics, such as the same social status, or other objects that have the same characteristics as the blood type.

The population in this study is a manufacturing company on the Indonesia Stock Exchange (IDX). The selection of samples is selected purposive sampling from all manufacturing companies listed on the Indonesia Stock Exchange (IDX) with the aim of obtaining a representative sample based on the specified criteria. Purposive sampling technique is one of the non-probability sampling techniques in which non-random selection techniques whose information is obtained based on certain considerations and generally adapted to research objectives or problems (Indriantoro and Supomo, 2002:131. There are 6 Manufacturing Companies listed on the Indonesia Stock Exchange that have submitted financial statements and records on financial statements as of December 31 on a regular basis for five years in accordance with the required research period, namely 2014, 2015, 2016, 2017 and 2018.

Multiple Regression Analysis

Sugiyono (2013) suggests multiple linear regression analyses are used to predict how dependent variable values change when independent variable values are raised or lowered in value. This analysis is used by involving two or more free variables between dependent variables (Y) and independent variables (X1 and X2), this way is used to determine the strong influence between multiple free variables simultaneously against bound variables.

RESULTS AND DISCUSSIONS

Table 1. Normality Test

One-Sample Kolmogorov-Smirnov Test

		CR (X1)	DER (X2)	ROE(Y)
N		30	30	30
Normal Parameters[a,b]	Mean	1,9503	,6490	,1490
	Std. Deviation	,51160	,36541	,06697
Most Extreme Differences	Absolute	,115	,070	,122
	Positive	,115	,056	,122
	Negative	-,059	-,070	-,086
Kolmogorov-Smirnov Z		,631	,382	,667
Asymp. Sig. (2-tailed)		,821	,999	,766

Source: Research data, 2020

Based on the table above, the significance (2-tailed) of the Current Ratio variable (X1) is 0.821, the Variable Debt to Equitity Ratio (X2) is 0.999, while for the Return On Equity (Y) variable is 0.766. All three significance values (2-tailed) measuring instruments are above 0.05 so the data is said to be distributed normally. While the Test Statistic variable Current Ratio (X1) is 0.631, the Variable Debt to Equitity Ratio (X2) is 0.382, while for the Return On Equity (Y) variable of 0.667, it means normal distributed residual data.

Table 2. Hypothesis Test results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,142	,049		-2,909	,007
	CR (X1)	,105	,019	,806	5,542	,000
	DER (X2)	,132	,027	,721	4,958	,000

Source: Research data, 2020

The table above describe:

1. Effect of Current Ratio (X1) on Return On Equity (Y)
   Based on the table of coefficients above, the current ratio variable (X1) is 5,542 while the ttabel value for N = 30 is 2,042. So 5,542 > 2,042 and probability value of 0.00 < 0.05 then H0 is rejected and Ha is accepted, it can be stated that the Current Ratio (X1) has a significant influence on Return On Equity (Y)).
2. Effect of Debt to Equitity Ratio (X2) on Return On Equity (Y)
   Based on the table of coefficients above, the thitung value for the Variable Debt to Equitity Ratio (X2) is 4,958 while the value for N = 30 is 2,042. So 4,958 > 2,042 and probability value of 0.00 < 0.05 then H0 is rejected and Ha is accepted, it can be stated that debt to equitity ratio (X2) has a significant influence on Return On Equity (Y).

F Test

From the results of the analysis in the table above, the ANOVA test obtained a value of Fhitung of 18,434. While Ftabel (0.05) for N = 30 by 2.92. So Ftung > of Ftabel (0.05) or 18,434 > 2.92 with a significant rate of 0.00 due to 0.00 < 0.05, it can be said that current ratio (X1) and Debt to Equitity Ratio (X2), have a joint influence on Return On Equity (Y) in Metal Industry Sector Companies.

Determination Test

Based on the table above, model summary which produces a value of R Square of 0.577, means that current ratio (X1) and Debt to Equitity Ratio (X2), has an influence of 57.7% on Return On Equity (Y) while the remaining 42.3% influences other factors not studied by the authors in this study.

CONCLUSIONS

After explaining the "Effect of Current Ratio and Debt To Equitity Ratio on The Profitability of Manufacturing Companies on the Indonesia Stock Exchange (IDX) Period 2014 – 2018", the authors will draw a conclusion from the results of this discussion as follows

1. Current ratio has an effect and significant on profitability.
2. Debt to equitity ratio affects and is significant to profitability..
3. Current ratio and debt to equitity ratio are jointly influential and significant to profitability

In the closing chapter, the author tries to provide suggestions that may be useful. The suggestions are as follows:

1. For the company is expected to increase the ownership structure by attracting investors to invest, as well as the company can conduct a policy of sharing the percentage of ownership according to the conditions required of the company.
2. For prospective investors in investing should be able to pay attention and consider the accounting information of existing companies so as to help in increasing profits.
3. For further researchers with similar topics it is recommended to conduct further studies by including other independent variables such as size, growth, and free cash flow, as well as increasing the number of samples more so as to strengthen the results of previous studies.

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