An Analysis of Cash and Receivables Turnover Effect Towards Company Profitability

Titik Purwanti

Widya Dharma University, Indonesia
Corresponding email: titik@unwidha.ac.id

Abstract:
The purpose of this study was to analyze the effect of cash turnover, accounts receivable turnover on profitability. The profitability of manufacturing companies in Indonesia is influenced by various financial factors that can be measured using financial ratios. The research data was obtained from the company's annual report during 2011-2015 using a purposive sampling method which included an independent auditor's report and financial statements of manufacturing companies in the consumer goods and textile industry sectors. The sampling method used was purpose sampling and obtained 32 companies as samples. The independent variable in this study is cash turnover and accounts receivable turnover while the dependent variable is profitability. Methods of data analysis using the classic assumption test, multiple linear regression analysis, F test, and t test. The results of the analysis of this study are the cash turnover and accounts receivable simultaneously affect profitability. Partially, the two variables also affect profitability.

INTRODUCTION

The existence of a company or business organization makes competition between companies more stringent. This has triggered companies to implement precise strategies in each of their business activities so that company goals are achieved. In addition to being required to be able to coordinate the use of all company resources efficiently and effectively, it is also required to be able to make decisions that can support the achievement of a company, so that it can develop into a large and resilient company. Working capital is an investment used by companies to finance their daily operational activities. Working capital is very important because it is used as a means of supporting in carrying out company operations that always revolve within a certain period, where the investment used is expected to return in less than one year and can generate maximum profits. The size of the cash and high and low levels of cash turnover shows the efficient use of cash in the company. The more cash in the company means that more cash is less effective and this can have an impact on profitability. To obtain maximum profit, a company must maintain profitability and can continue to grow and provide a favorable return for its owner. Cash is needed by the company both to finance the company's daily operations and to make new investments in fixed assets. Cash turnover illustrates the ability of cash in generating income so that it can be seen how many times the cash revolves in a certain period. Higher cash

turnover rates the sooner the return of cash into the company. Thus, cash can be used again to finance operational activities so that it does not interfere with the company's financial condition and can increase profits for the company. Receivables are assets that arise due to credit sales.

Receivables turnover is a comparison between credit sales and average receivables. Receivables turnover shows an attempt to measure how often receivables become cash in a period. Higher the accounts receivable turnover, the faster the return of cash to the company. Thus, the cash can be used again to finance operational activities so that the company's operational activities run smoothly according to the desired target and can increase profits for the company. For the company, profitability issues become very important. Because for company leaders, profitability is used as a measure of success or failure of the company they lead. High and low cash turnover shows the efficiency of the use of cash in the company, as well as the high and low accounts receivable turnover shows the effectiveness of receivables collection. But to measure the profit level of a company used profit ratio or profitability ratio. Profitability ratios to assess a company's ability to achieve profitability also assess a company's ability to achieve a measure of the effectiveness of a company's management. This is also shown by the profits generated from the sale of loans with investment income.

LITERATURE REVIEW

Cash

Cash is an exchange tool and is also used as a measure in accounting. Included in cash in the sense of accounting is an acceptable exchange tool for paying off debts and can be accepted as a bank deposit with a nominal amount, as well as deposits in banks that can be taken at any time (Zaki Baridwan, 2004); (II, M., & Hutchison, 2003); (Maditinos, Šević, & Theriou, 2009). According to the Financial Accounting Standards (SAK) No.33 cash is paper and metal currency, both rupiah and foreign currencies which are still valid as legal tender (Guthrie, 1998); (Rasuli & Hutagalung, 2014). The cash flow statement is one of the three financial statements prepared by the company. The purpose of a cash flow statement is an analysis that explains how cash is provided and used during a period and is used to assess the company's financial performance (Sulaiman, Nazli & Alwi, 2004); (Muliyani, 2013) (Bilehsavar, Aslani, & Barandagh, 2013); (Ikechukwu, & Nwakaego, 2016). Companies in running their business always need cash. Cash expenditures for a company can be continuous, for example cash expenditures for the purchase of raw materials, payment of salaries and others, but besides that there is also a cash flow out that is not continuous such as expenses to pay interest, dividend, income tax or profit.

Accounts Receivable

Receivables are an element of working capital which is also always in a state of continuous rotation in the working capital turnover chain. Greater the amount of accounts receivable from a company, make a greater the risk but in line with that can also increase profitability (Michalski, 2012); (Bambang, 2001). Accounts receivable is the right of claim against another person or company, according to payment in the form of money or the transfer of other assets or services to the party with whom he owes. Receivables arising from the sale of products or delivery of services in the context of the company's normal business activities (Michalski, 2008); (Rachmat, 2003); (Eda & Mehmet, 2009). From the above definitions, it can be concluded that receivables are current assets owned by companies that arise due to

credit sales made by the company to other parties. Risk due to receivables is in the form of costs which of course will reduce the amount of profit earned by the company. With the costs incurred, the receivables must be managed properly, so that the costs incurred by the receivables can be minimized. Some of the receivables policies that need to be taken are screening customers and increasing the receivables turnover rate. Apart from being due to the sale of goods or services on credit, receivables can also arise due to loans made by internal or external parties to a company (Aicher, & Fellerhoff, 1991); (Coogan, & Gordon, 1962); (Rapson, 1999); (Bougheas, Mateut, & Mizen, 2009).

Trade receivables represent claims that will be paid off with money that is not supported by written promises arising from the sale of goods or services produced by the company. The most common transaction that creates trade receivables is credit sales. Then the receivables are recorded by debiting the accounts receivable account. Such trade receivables are normally expected to be collected in a short period of around 30-60 days after. Thus, trade receivables are bills to customers that are not supported by written promises, but are complemented by travel documents, invoices or other receipts that have been signed by the debtor. Bill of note is the amount owed to customers when the company has issued formal debt instruments. As long as the notes are expected to be collected within a year, they are usually classified in the balance sheet as current assets. Bill receivables are usually used for periods of more than 60 days. Compared to trade receivables, notes receivable are more convincing, because there is a guarantee of payment or an agreement between the consumer and the customer to pay. Other receivables are claims that do not originate from the sale of goods or services in the normal activities of the company. It usually presented separately in the balance sheet. If these receivables can be expected to be collected within one year, these receivables are classified as current assets. If the collection is more than one year, the receivables are classified as non-current assets and reported under the investment title.

Profitability

Profitability ratios are ratios to assess a company's ability to find profits. This ratio also provides a measure of the effectiveness of a company's management. Profitability is very important for the development of the company because with the profitability of all activities, operations and all other activities can run well, high levels of profitability. The high level of profitability a company can pay short-term and long-term debt in a timely manner (Tho'in, 2019); (Lesakova, 2007); (Thoin & Irawati, 2018); (Nuryanto, et al., 2014); (Sigh & Pandey, 2008).

RESEARCH METHODS

This research uses descriptive methods. The populations in this study are all manufacturing companies listed on the Indonesia Stock Exchange. The research data was obtained from the company's annual report during 2011-2015 using a purposive sampling method which included an independent auditor's report and financial statements of manufacturing companies in the consumer goods and textile industry sectors. The sample used can represent the condition of public companies in Indonesia which are listed on the Indonesia Stock Exchange. Based on the predetermined criteria the author has obtained 32 samples that meet the criteria and can be sampled means a sample of 32 companies multiplied by 5 years so the sample in this study as many as 160. Methods of data analysis using the classic assumption test, multiple linear regression analysis, F test, and t test.

RESULTS AND DISCUSSION

Classical Assumption Test

Table 1. Normality Test Results

Variable	Kolmogorov – Smirrov	*p-value*	Information
Unstandardized Residual	1,355	0,120	Normal data distribution

Source: Secondary data processed

From the Kolmogorov Smirnov test results showed that the significance value of 1.355 is greater than 0.05. This shows that the regression equation for the model in this study has a normal distribution of data.

Table 2. Multicollinearity Test Results

Variable	Tolerance	VIF	Information
Perputaran Kas	0,992	1,008	There is no multicollinearity
Perputaran Piutang	0,992	1,008	There is no multicollinearity

Source: Secondary data processed

Based on table 2 shows that the Cash Turnover with a VIF value of 1.008 is less than the VIF value of 10 and a tolerance value of 0.992 is greater than the minimum tolerance value of 0.1 then there is no multicollinearity. Accounts Receivable Turnover with a VIF value of 1.008 is less than the VIF value of 10 and a tolerance value of 0.992 is greater than the minimum tolerance value of 0.1 so there is no multicollinearity.

Table 3. Heteroscedasticity Test Results

Variable	p-value	Information
Cash Turnover	0,810	There is no multicollinearity
Receivables Turnover	0,622	There is no multicollinearity

Source: Secondary data processed

Based on the results shown in table 3 above, cash turnover shows a P-value of 0.810, greater than the significance value of 0.05, so that cash turnover is free from heteroscedasticity problems. Receivables turnover shows the P-value of 0.622 is greater than the significance value of 0.05, and then the accounts receivable turnover is free from heteroscedasticity problems.

Table 4. Autocorrelation Test Results

DW-count value	**Criteria**	Decision
2,014	1,770 < 2,014 < 2,230	There is no autocorrelation either positive or negative

Source: Secondary data processed

Based on table 4 above, using the degree of error (α) = 5%, with a predictor of 2, the upper limit (U) is 1,770 while the lower limit (L) is equal to 2, .230 Because the DW value of the regression result is 2.014 which means greater than the lower bound value, then the autocorrelation coefficient is greater than zero. Thus it can be concluded that the regression results are free from the autocorrelation problem. In other words, a hypothesis that states that there is no autocorrelation problem can be accepted, while a null hypothesis that there is an autocorrelation can be rejected.

Hypothesis testing

Table 5. Multiple Analysis Test Results

Variable	Coefficient	t count	Sig.
Constants	1937,397	1,831	0,069
Cash Turnover	0,926	2,489	0,003
Receivables Turnover	6,321	2,665	0,000
F count	5,290	F sig = 0,004	
Adj R^2	0,312		

Source: Secondary data processed

Based on the results of the analysis of table 4.7, the multiple linear regression equation model can be arranged as follows: Y = 1937,397 + 0,926PK + 6,321PP + e From the results of the hypothesis test shows the value of the profitability variable constant with a positive parameter of 1937,397. This shows that if the variable cash turnover and accounts receivable turnover are assumed to be zero, then the profitability of companies on the Indonesia Stock Exchange will be 1937,397. From the regression equation above shows the regression coefficient of cash turnover with a positive parameter of 0.926. Every increase in cash turnover (PK) once will increase profitability by 0.926. From the regression equation above shows the receivable turnover regression coefficient with a negative parameter of 6.321. Every increase in receivable turnover (PP) 1 time will increase profitability by 6.321.

Table 6. T test Results

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1937.397	1057.973		1.831	.069
	Cash Turnover	.926	.372	.006	2,489	.003
	Receivables Turnover	6,321	2,372	.025	2,665	.001

Source: Secondary data processed

From the results of the table above, we can find out the results of the t test for the variable cash turnover and accounts receivable turnover towards profitability. From the regression results it is known that the value of the t-count variable cash turnover is 3.489 greater than t table 2,000. With a significance value of 0.003 smaller than α = 0.05. This shows that the cash turnover variable has a significant effect on profitability. From the regression results it is known that the magnitude of the t-count of accounts receivable turnover variable is 2.665 greater than t table 2,000, with a significance value of 0.001 smaller than α = 0.05. This shows that the accounts receivable turnover variable has a significant effect on profitability.

Table 7. F Test Results

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.796	2	8977837.031	5.290	.004[a]
	Residual	2.662	157	1.696		
	Total	2.664	159			

Source: Secondary data processed

Based on the data generated from the calculation of table 7 obtained F count of 5.290 is greater than Ftable 2.53 with 0.004 significance less than the significant value α = 0.05 so that it can be concluded that simultaneously or together the variable cash turnover and accounts receivable turnover are factors affecting profitability variables. From the F test results it can be seen that The regression model used in this study shows the goodness of fit model.

Table 8. Determination Coefficient Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.426[a]	.351	.312	13021,98695

Source: Secondary data processed

The calculation results for the R2 value obtained by the coefficient of determination with adjusted-R2 of 0.312. This means that 31.2% of the profitability variable variation can be explained by the variable cash turnover and accounts receivable turnover while the remaining 68.8% is explained by other factors outside the model studied.

Discussion

Regression results are known that the value of the t-count variable cash turnover of 2.489 is greater than t table 2,000 with a significance value of 0.003 smaller than α = 0.05. This shows that the cash turnover variable has a significant effect on profitability. This is because companies in running their business always need cash. Cash expenditures for a company can be continuous, for example cash expenditures for the purchase of raw materials, payment of salaries and others, but besides that there is also a cash flow out that is not continuous such as expenses to pay interest, dividend, income tax or profit. Regression results are known that the value of the t-count of accounts receivable turnover variable is 2.665 greater than t table 2,000 with a significance value of 0.001 smaller than α = 0.05. This shows that the accounts receivable turnover variable has a significant effect on profitability. This is because accounts receivable is an element of working capital which is also always in a state of continuous rotation in the working capital turnover chain. The greater the amount of accounts receivable from a company, the greater the risk but in line with that also can increase profitability.

Based on the test results simultaneously obtained the coefficient of determination with adjusted-R2 of 0.312. This means that 31.2% of the profitability variable variation can be explained by the variable cash turnover and accounts receivable turnover while the remaining 68.8% is explained by other factors outside the model studied. With the maximum cash turnover, the need for cash in the company's operations becomes less. The remainder of this cash amount can be invested by companies in various forms of activities that can maximize company profitability. And the increase in the number of credit sales from net sales made by the company, it will also increase the amount of company investment in the form of receivables so as to increase profits for the company.

CONCLUSION

Partially for cash turnover has a positive and significant effect on profitability (ROA), this shows that if cash turnover increases, profitability will also increase, likewise partially accounts receivable turnover has a positive and significant effect on profitability (ROA). This

shows that if the accounts receivable turnover increases, profitability will also increase. Simultaneously the variable cash turnover and accounts receivable turnover has a positive and significant effect on profitability.

REFERENCES

Aicher, R. D., & Fellerhoff, W. J. (1991). Characterization of a Transfer of Receivables as a Sale or a Secured Loan Upon Bankruptcy of the Transferor. *Am. Bankr. LJ*, *65*, 181.

Bambang, R. (2001). Dasar-dasar pembelanjaan perusahaan. *Edisi Keempat, Cetakan Ketujuh, BPFE Yogyakarta, Yogyakarta*, *59*.

Bilehsavar, F. N., Aslani, A., & Barandagh, M. I. (2013). The Study of Relationship between Performance Metrics and Cash Conversion Cycle Of Companies Listed in Tehran Stock Exchange. *International Journal of Accounting Research*, *42*(829), 1-22.

Bougheas, S., Mateut, S., & Mizen, P. (2009). Corporate trade credit and inventories: New evidence of a trade-off from accounts payable and receivable. *Journal of Banking & Finance*, *33*(2), 300-307.

Coogan, P. F., & Gordon, N. L. (1962). Effect of the Uniform Commercial Code upon Receivables Financing--Some Answers and Some Unresolved Problems. *Harv. L. Rev.*, *76*, 1529.

Eda, O., & Mehmet, S. (2009). Relationship between efficiency level of working capital management and return on total assets in ISE. *International journal of Business and Management*, *4*(10).

Guthrie, J. (1998). Application of accrual accounting in the Australian public sector–rhetoric or reality. *Financial accountability & management*, *14*(1), 1-19.

II, M., & Hutchison, P. D. (2003). Measuring cash-to-cash performance. *The International Journal of Logistics Management*, *14*(2), 83-92.

Ikechukwu, O. I., & Nwakaego, D. A. (2016). Cash conversion cycle management on the financial performance of building materials/chemical and paint manufacturing companies in Nigeria. *Journal of Humanities and Social Science*, *21*(7), 62-69.

Lesakova, L. (2007). Uses and limitations of profitability ratio analysis in managerial practice. In *International Conference on Management, Enterprise and Benchmarking* (pp. 1-2).

Maditinos, D. I., Šević, Ž., & Theriou, N. G. (2009). Modelling traditional accounting and modern value-based performance measures to explain stock market returns in the Athens Stock Exchange (ASE). *Journal of Modelling in Management*, *4*(3), 182-201.

Michalski, G. (2008). A Portfolio management approach in accounts receivable management. *South East European Journal of Economics and Business*, *3*(2), 89-96.

Michalski, G. (2012). Accounts receivable management in nonprofit organizations. *Zeszyty Teoretyczne Rachunkowości*, (68), 83-96.

Mulyani, S. (2013). Analisis Rasio Arus Kas Sebagai Alat Pengukur Kinerja Keuangan Perusahaan. *Jurnal dinamika ekonomi & bisnis*, *10*(1).

Nuryanto, R., Tho'in, M., & Wardani, H. K. (2014). Rasio Likuiditas, Rasio Solvabilitas, Rasio Rentabilitas Koperasi Jasa Keuangan Syariah Di Jawa Tengah. *Jurnal Akuntansi dan Pajak*, *15*(01).

Rachmat, B. (2003). *Anjak piutang: solusi cash flow problem*. Gramedia Pustaka Utama.

Rapson, D. J. (1999). Receivables Financing under Revised Article 9. *Am. Bankr. LJ*, *73*, 133.

43

Rasuli, M., & Hutagalung, D. K. K. (2014). Perlakuan Akuntansi Industri Migas Pasca Konvergensi PSAK No. 29 terhadap International Financial Report Standar (PSAK No. 33) Studi Kasus pada PT. Chevron Pasific Indonesia. *Jurnal Online Mahasiswa Fakultas Ekonomi Universitas Riau*, *1*(1).

Singh, J. P., & Pandey, S. (2008). Impact of Working Capital Management in the Profitability of Hindalco Industries Limited. *ICFAI journal of financial Economics*, *6*(4).

Sulaiman, M. B., Nazli Nik Ahmad, N., & Alwi, N. (2004). Management accounting practices in selected Asian countries: a review of the literature. *Managerial Auditing Journal*, *19*(4), 493-508.

Tho'in, M., & Irawati, T. (2018). Risk and Financial Health Level of Shariabanking. *Journal Research and Analysis: Economy*, *1*(1), 19-26.

Tho'in, M. (2019). The Comparison of Islamic Banking Financial Performance In Indonesia. *International Journal of Scientific Research And Education*, *7*(5).

Zaki, B. (2004). Intermediate Accounting, Edisi Kedelapan. *BPFE Yogyakarta*.