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The Effect of Current Ratio, Debt to Equity Ratio, Return On Assets, and Net Profit Margin on Profit Growth

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ABSTRACT

This study aims to empirically test the effect of the Current Ratio, Debt to Equity Ratio, Return On Assets, and Net Profit Margin on Profit Growth. The population used is the consumer goods sector companies listed on the IDX in 2016-2020. Sample selection using purposive sampling method. The type of data used is secondary data from the 2016-2020 annual report. The hypothesis was tested using descriptive statistical analysis, classical assumption test, multiple linear regression, hypothesis testing and coefficient of determination test using SPSS 23. The results showed that Debt to Equity Ratio and Net Profit Margin had a significant effect on Profit Growth, Current Ratio and Return On Assets did not significant effect on Profit Growth.

Keywords: Profit Growth, Current Ratio, Debt to Equity Ratio, Return On Assets, Net Profit Margin

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INTRODUCTION

The outbreak of the COVID-19 pandemic that paralyzed the world economy caused many countries to enter the brink of recession, especially throughout 2020, including in Indonesia, where the economy in the second quarter of 2020, which recorded an economic contraction, reached minus 5.32%. This situation includes the record of the economy slumping in the last 10 years which always grows positively at around 5%. One of the consumer goods sector companies that experienced a decline in profit growth was PT Ultrajaya Milk Industry & Trading Company Tbk (ULTJ), which recorded total revenue of Rp 5.96 trillion last year, down 4.11% from the same position in 2019 of Rp 6.22 trillion or reduced by Rp. 255.7 billion (www.cnbcindonesia.com).

Profit growth is the increase and decrease in profits obtained by the company compared to the previous period or year. The company definitely wants an increase in the profits earned every year. (Estininggadi, 2019) because the main purpose of the company being founded is to get the maximum profit possible. Competition in a tight business or business makes companies must have a consistent ability to achieve company goals. Predictive information about profit growth is needed because the company's profit growth in the future cannot be ascertained. One of the tools to measure profit growth is financial ratios (Fakhruddin et al., 2021) where to assess the performance of a company based on existing financial data in the company's financial statements can use financial ratios as an analytical tool.

The liquidity ratio proxied by the Current Ratio is used to measure the ability 4 the company's current assets to meet the debts that must be paid. Research conducted by Sari et al., (2017) and Lestari, (2021) shows that the Current Ratio has no effect on profit growth. While research from Ebimobowei, et al (2020), Idi, et al (2021) states that the Current Ratio has a positive and significant effect on profit growth.

Solvency Ratio which is proxied by Debt to Equity Ratio (DER) is debt to equity ratio. This ratio measures how far the company is financed by debt, according to Nugroho, et al (2017), Heikal, (2014), Estininghadi, (2019) showing that DER has a positive and significant effect on profit growth. Different research by Manalu, et al (2020) states that the Debt to Equity Ratio partially does not have a significant effect on profit growth.

The Profitability Ratio proxied by Return On Assets (ROA) and Net Profit Margin (NPM) is a ratio to assess the company's ability to seek profit or profit within a certain period (Agustina & Mulyadi, 2019). Return on Assets is one that represents the profitability ratio to measure the company's ability to generate profits or profits. Research conducted by Lestari (2021) stated that Return On Assets had an effect on profit growth, in contrast to research from Safitri & Mukaram (2018), Yanti (2017) stated that Return On Assets had no significant effect on profit growth. Net Profit Margin is a ratio to calculate how much net profit is earned on the company's total net sales. Wahyuni, Ayem, and Suyanto (2017) show that Net Profit Margin has a significant positive effect on profit growth, while research by Mahmudah and Oswari (2020) and Estininghadi (2019) shows that Net Profit Margin has no effect on profit growth.

This research is important to do because for users of financial statements it is used to determine profit growth because the increase in profits obtained by the company determines the level of return to shareholders or for potential investors to make decisions in investing in the company. This study also re-examines the relationship between financial ratios and profit growth. The inconsistency of results from previous studies mak1 this issue interesting to be re-examined. This study aims to provide evidence that the variables Current Ratio, Debt to Equity Ratio, Return on Assets, Net profit margin have an effect on profit growth in consumer goods companies listed on the Indonesia Stock Exchange 2016-2020. Therefore, this research is expected to be able to contribute to the parties who invest their capital in the company as one of the considerations in making investment decisions

METHODS

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This type of research is a quantitative research using secondary data using data from the 2016-2020 consumer goods sector companies' annual financial statements listed on the IDX sourced from www.idx.co.id then for other secondary data from journals, libraries and previous research. The population in this study are all Consumer Goods Sector Companies listed on the Indonesia Stock Exchange since 2016-2020. The sampling technique in this study uses a purposive sampling technique with certain criteria the sample is taken, namely the Consumer Goods Sector Companies listed on the Indonesia Stock Exchange since 2016-2020. Sampling using the purposive sampling method, which is taking samples in a way that is carried out based on certain criteria or considerations, which are generally adapted to the objectives or research problems of Sugiyono (2016). The criteria determined to be used as samples are: 1) Consumer Goods Sector Companies listed on the Indonesia Stock Exchange for the 2016-2020 period. 2) The Company presents a complete financial report ending on December 31 which is published on the official website idx.co.id. 3) The company did not experience any losses during the research year. 4). Companies that use rupiah currency in their financial statements.

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So that it can be obtained that the companies included in the sample of this study consist of 27 companies in the consumer goods sector with a year of observation of 5 years X 27 companies = 135 observation data. So it can be concluded that the amount of data in this study is 135 observations using the independent variables Current Ratio, Debt to Equity Ratio, Return On Assets, and Net Profit Margin. While the dependent variable is Profit Growth. The following is how to calculate the dependent variable and the independent variable.

Table 1. Variable measurement

Number	Variable	Instrument	Indicator	Scale Measurement
1.	*Current Ratio*	CR	$CR=\frac{\text{Current Assets}}{\text{Current Liabilities)}}$	Ratio
2.	*Debt to Equity Ratio*	DER	$DER=\frac{\text{Total Debt}}{\text{Total Equity}}$	Ratio
3.	*Return On Assets*	ROA	$ROA=\frac{\text{Net Profit}}{\text{Total Assets}}$	Ratio
4.	*Net Profit Margin*	NPM	$NPM=\frac{\text{Net Profit}}{\text{Net Sales}}$	Ratio
5.	Profit Growth	Profit Growth	$PG=\frac{Y_t-Y_{t-1}}{Y_{t-1}}$	Ratio

Source: Data processed, 2022

The data that has been collected and processed will be tested with SPSS where the data analysis technique uses descriptive statistical analysis, classical assumption test, multiple linear regression analysis, hypothesis testing and also the coefficient of determination test (Ghozali, 2016; Paramita et al., 2021).

RESULTS AND DISCUSSION

Table 2. Descriptive data

	N	Minimum	Maximum	Mean	Std. Deviation
CR	91	,898	6,024	2,60692	1,192959
DER	91	,150	1,819	,65354	,390922
ROA	91	,001	,291	,08651	,054777
NPM	91	,002	,249	,07886	,049782
Profit Growth	91	-,570	,704	,06612	,271815
Valid N (listwise)	91				

Source: Data processed, 2022

Based on the results from table 2, it can be seen that the Curent Ratio (CR) variable has a minimum value of 0.898, a maximum value of 6.024, with a mean of 2.60692 and a standard deviation of 1.192959. The variable Debt to Equity Ratio (DER) has a minimum value of 0.150, a maximum value of 1.819 with a mean of 0.65354 and a standard deviation of 0.390922. The Return On Assets (ROA) variable has a minimum value of 0.001, a maximum value of 0.291 with a mean of 0.08651 and a standard deviation of 0.054777. The Net Profit Margin (NPM) variable has a minimum value of 0.002, a maximum value of 0.249 with a mean of 0.07886 and a standard deviation of 0.049782. Profit Growth variable has a minimum value of -0.570, a maximum value of 0.704 with a mean of 0.06612 and a standard deviation of 0.271815. The number of research data 135 data obtained outliers as many as 44 data so that in this study the data processed were 91 data (N = 91).Based on

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the Normal P-P Plot graph above, it can be seen that the data spreads around the diagonal line and follows the direction of the diagonal line, so the regression model meets the assumption of normality. The statistical normality test was also carried out using the one sample Kolmogrov-Smirnov test. And the results obtained Asymp. Sig (2-tailed) of 0.200c,d. where the value is more than 0.05. So it can be concluded that the research model has a normal distribution of residual values so that the assumption of normality is met.

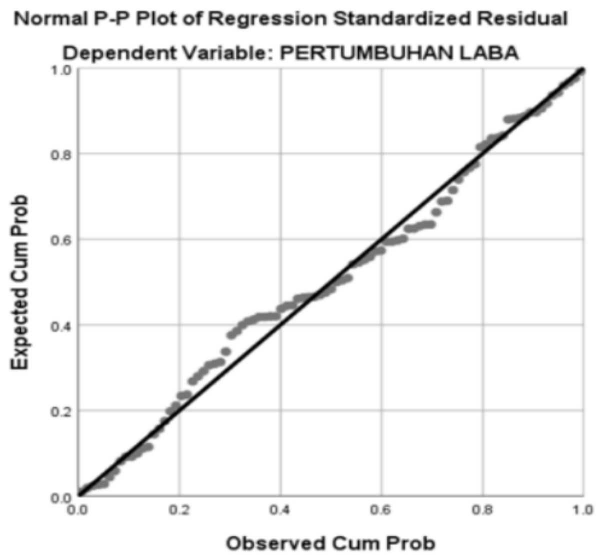

Figure 1. Normal P-P Plot Plot
Source: Data processed, 2022

Table 3. Normality Test Results

Variable	**Nilai signifikan Asymp. Sig (2-tailed)**	**Conclusion**
Dependent variable: Profit Growth Independent Variable : CR, DER, ROA,NPM	0,200c,d	Normal distribution

Source: Data processed, 2022

Multicollinearity can be seen from the value of tolerance and variance inflation factor (VIF). A low tolerance value equals a high VIF value because VIF=1/Tolerance. A regression model that has a tolerance value greater than 0.10 and a VIF less than 10, it can be said that the regression model is free from multicollinearity problems.

Table 4.
Multicollinearity Test Results

Model	Collinearity Statistics		Conclusion
	Tolerance	VIF	
CR	,426	2,347	There is no multicollinearity
DER	,427	2,339	There is no multicollinearity
ROA	,340	2,943	There is no multicollinearity
NPM	,376	2,659	There is no multicollinearity

Source: Data processed, 2022

The heteroscedasticity test of this study uses a scatterplot graph where the results of the heteroscedasticity test in Figure 2 show that there is no clear pattern and the points on the Y-axis spread randomly, both above and below the number 0. So it can be concluded that there is no heteroscedasticity in the regression model.

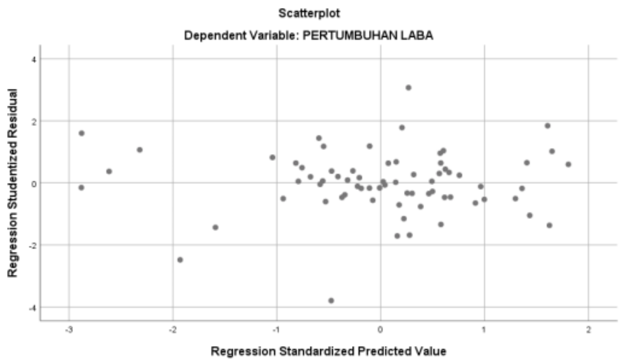

Figure 2. Grafik *Scatterplot*
Source: Data processed, 2022

Table 5. Autocorrelation Test Results

Durbin_Watson (DW)	Lower Limit Value (dL)	Upper Limit Value (dU)	N = 91 K = 4
1,904	1,5685	1,7516	

Source: Data processed, 2022

Based on the autocorrelation test, the results obtained that the DW value of 1.904 is greater than the upper limit (dU) 1.7516 and the DW is 1.904 which is also greater than the lower limit (dL) 1.5685. With one of the free terms autocorrelation dU < d < 4-dU, it can be concluded that in this regression model there is no positive or negative autocorrelation.
The results of the multiple linear regression analysis test have the model formula

$$Y = -0.222 - 0.016X1 + 0.198X2 - 0.012X3 + 2.538X4$$

Table 6. t test results

Model	t	Sig.	Conclusion
(Constant)	-1.453	.150	
CR	-.464	.644*	Not significant
DER	1.922	.058**	Significant**
ROA	-.015	.988*	Not significant
NPM	2.942	.004*	Significan*

Source: Data processed, 2022

H1 Testing Effect of Current Ratio on Profit Growth. The tcount value of the CR variable (X1) is -0.464 and ttable is 1.988 with a specified significance level, which is 5% or 0.05 - (tcount < ttable). Then from a significant level of 0.644 which is greater than 0.05 (0.644 > 0.05), it can be concluded that the Current Ratio variable has no significant effect on Profit Growth.

H2 Testing The Effect of Debt to Equity Ratio on Profit Growth. The t-count value of the DER (X2) variable is 1.922 and ttable is 1.663 with a specified significance level, which is 10% or 0.1 - (tcount > ttable). Then from a significant level of 0.058 which is smaller than 0.1 (0.058 < 0.1) it can be concluded that the Debt to Equity Ratio variable has a significant effect on Profit Growth.

H3 Testing The Effect of Return On Assets on Profit Growth. The tcount value of the ROA (X3) variable is -0.015 and ttable is 1.988 with a specified significance level, which is 5% or 0.05 - (tcount > ttable). Then from a significant level of 0.988 which is greater than 0.05 (0.988 > 0.05), it can be concluded that the Return On Assets variable has no significant effect on Profit Growth.

H4 Testing Effect of Net Profit Margin on Profit Growth. The tcount value of the NPM variable (X4) is 2,942 and ttable is 1,988 with a specified significance level, which is 5% or 0.05 - (tcount > ttable). Then from a significant level of 0.004 greater than 0.05 (0.004 <0.05), it can be concluded that the Net Profit Margin variable has a significant effect on Profit Growth.

The coefficient of determination (R^2) aims to measure how far the model's ability to explain the variance of the dependent variable (Ghozali, 2016:95).

Table 6. Test R2 (Adjusted R Square)

R	R Square	Adjusted R Square	Std. Error of the Estimate
,439[a]	,193	,155	,249962

Source: Data processed, 2022

Based on the results obtained the number R^2 (Adjusted R Square) of 0.155 or (15.5%). This shows that the percentage of the independent variable's contribution to the dependent variable is 15.5%. Or the variation of the independent variable used in the regression model is able to explain 15.5% while the remaining 84.5% is explained by other variables outside the research variables.

Based on the results of the t-test, the tcount value of the CR variable is -0.464 and 0.644 is significantly greater than 0.05. So it is known that the Current Ratio does not have a significant effect on profit growth. The results of this study indicate that a low current ratio has no effect on the company's profit growth and if the current ratio is high it can be caused by uncollectible accounts receivable and unsold merchandise inventory which of course cannot be used to fulfill obligations. This is in line with the research of Lestari (2021) which states that the Current Ratio (CR) has no effect on profit growth.

Based on the results of the t test, the t-value of the DER variable is 1.922 and is significantly 0.058 which is smaller than 0.1. So it is known that the Debt to Equity Ratio variable has a significant effect on profit growth. This means that the company's capital structure is more dominated by capital than debt. The domination of capital certainly has an impact on the survival of the company, especially in increasing the effectiveness of the performance obtained in earnings management. This study is in line with the results of research conducted by Estininghadi, (2019) that partially the Debt to Equity Ratio variable has an effect on profit growth.

Based on the results of the t-test, the t-value of the ROA variable is -0.015 and is significantly 0.988 which is greater than 0.05. So it is known that Return On Assets has no significant effect on profit growth. Return On Assets is the ratio used to measure the effectiveness of the company in generating profits by utilizing the total assets owned. However, it is possible that the company cannot get the maximum profit because the available assets do not produce due to a natural factor or another. The natural factor faced is the 2019 Covid pandemic where this outbreak has greatly affected all factors, especially in the Consumer Goods Sector companies and other companies. The results of this study are in line with the results of research conducted by Yanti (2017) which states that a positive Return On Assets has no significant effect on profit growth.

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Based on the results of the t-test, the t-value of the NPM variable is 2,942 and 0.004 is significantly smaller than 0.05. So it is known that Net Profit Margin has a significant effect on profit growth. A high Net Profit Margin indicates that the company is able to increase its business through the achievement of operating profit in that period so that the company does not experience a loss. For investors, the achievement of this profit will be a positive picture of the influence of the company's earnings so that investors can expect a high return from their capital. The results of this study are also in line with the results of research conducted by Wahyuni et al., (2017) which states that Net Profit Margin has a significant effect on profit growth.

CONCLUSION

Based on the discussion and research results indicate that the Debt to Equity Ratio and Net Profit Margin have a significant effect on Profit Growth while the Current Ratio and Return On Assets have no significant effect on Profit Growth. From this research, there are several suggestions that can be given to further researchers to add replacement of other variables that can affect profit growth such as other financial ratios, increase the research period, and also add research objects outside the consumer goods sector companies listed on the IDX. For investors, it is hoped that this research can be used as a basis for assessing earnings management which is the initial consideration in making investment decisions for the future. For management, it is hoped that this research can be a motivation to improve earnings management performance, so that it can be reflected in the financial statements and as a basis for making decisions regarding policies regarding financial ratios to profit growth.

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