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The Influence of Return on Assets, Return on Equity and Current Ratio on Capital Structure in Consumer Goods Companies Listed on the Indonesia Stock Exchange

Yenni Martok[1], Losiana Tannika[2]

[1] yennymm28@gmail.com
[2] lositannika@gmail.com

Accounting Study Program, Universitas Pelita Harapan, Medan, Indonesia

Abstract. The objective of this research is to analyze the influence of return on assets, return on equity, and current ratio toward capital structure in consumer goods companies listed on the Indonesia Stock Exchange. The population of this research is the consumer goods companies listed in Indonesia Stock Exchange during 2013-2017. Further, with the employed purposive sampling and determined criteria, 20 companies are chosen as the samples. The data analysis method applied is multiple linear regression which is processed through SPSS 25. The result of this research shows that return on assets and current ratio have a significant negative impact toward capital structure partially, return on equity have a significant negative impact toward capital structure partially. On the other hand, return on assets, return on equity, and current ratio have significant simultaneous impact toward capital structure. Meanwhile, Institutional Ownership, Profitability, and Independent Commissioner do not have a significant impact toward Tax Avoidance.

Keywords: Return on Assets; Return on Equity; Current Ratio; Capital Structure; Consumer Goods Companies

1. Introduction

Companies need capital in the form of cash in the company. if the company does not have enough cash. the company will be difficult to develop because of the small amount of cash so that it is difficult to pay off debt. Company cash includes liquidity ratios. The higher the liquidity ratio. the more likely the debt can be paid and vice versa. In this study liquidity uses the current ratio.

The companies chosen in this study were industrial companies, especially the consumer goods sector listed on the Indonesia Stock Exchange. Industrial companies were chosen because industrial companies have the largest number of companies compared to other industries and are the largest issuers compared to other industries, especially in the consumer goods sector where the consumer goods sector is one sector with many companies able to withstand the pressure of the crisis so that companies in this sector tend to be more stable and continue to increase. This condition is the reason for this research. Besides that, another reason is to find out whether this research is consistent with previous research.

As for consumer goods companies on the Indonesia Stock Exchange Period 2013-2017 profit after tax (return on assets and return on equity). current assets (current ratio) and total liabilities (capital structure) data during the year 2013-2017 can be presented in table I.1 as follows:

Table 1.1
Profit After Tax (Return On Assets and Return on Equity). Current Assets (Current Ratio) And Total Liabilities (Capital Structure) Data During The Year 2013-2017

Company	Year	Profit After Tax (in mil Rupiah)	Current Assets (in mil Rupiah)	Total Liabilities (in mil Rupiah)
PT. Indofood CBP Sukses Makmur. Tbk	2013	2.235.040.000.000	11.321.715.000.000	8.621.314
	2014	**2.513.681.000.000**	**13.603.527.000.000**	**10.445.187**
	2015	**2.923.148.000.000**	**13.961.500.000.000**	**10.173.713**

	2016	3.631.301.000.000	15.571.362.000.000	10.401.125
	2017	3.543.173.000.000	16.579.331.000.000	11.295.184
PT. Mayora Indah. Tbk	2013	1.058.418.939.252	6.430.065.428.871	5.816.323
	2014	**409.824.768.594**	**6.508.768.623.440**	**6.190.553**
	2015	**1.250.233.128.560**	**7.454.347.029.087**	**6.148.255**
	2016	1.388.676.127.665	8.739.782.750.141	6.657.165.872.077
	2017	1.630.953.830.893	10.674.199.571.313	7.051.998.068.445
PT. HM Sampoerna. Tbk	2013	10.818.486	21.247.830	13.249.559
	2014	**10.181.083**	**20.777.514**	**14.882.516**
	2015	**10.363.308**	**29.807.330**	**5.994.664**
	2016	12.762.229	33.647.496	8.333.263
	2017	12.670.534	34.180.353	9.028.078

Source: Indonesia Stock Exchange (2022)

From table 1.1 it can be seen that the increase of profit after tax and current assets are not always followed by increased debt.

Companies with high levels of profitability tend to have low debt levels. This can be explained through a pecking order theory which states that companies with high levels of profitability have abundant internal funding sources. Sawir (2015: 8) claims that the current ratio is the most commonly used measure to gauge a company's ability to satisfy short-term obligations since it reveals how far short-term creditors' demands are covered by assets that are expected to be cash in the same period as debt maturity. Based on the background above. the researcher is interested in choosing the title **"The Influence of Return on Assets and Return on Equity and Current Ratio on Capital Structure in Consumer Goods Companies listed on the Indonesia Stock Exchange".**

2. Literature Review

2.1 Profitability

According to Sartono (2010: 122), profitability is a company's ability to produce a profit relative to its sales, total assets, and own capital. Profitability, according to Riyanto (2009: 36), is the capacity of a bank to make operating profits with its own capital and foreign capital. In addition, according to Harahap (2015: 304), profitability is the capacity of a business to generate profits from all available capabilities and resources, including sales activities, cash, and capital. From the preceding definitions, it can be determined that profitability is the company's ability to earn profits in relation to total assets, sales, and its own capital, in order to determine the company's ability to pursue profits.

According to Kasmir (2012: 196), a company's profitability demonstrates how efficiently it runs in order to generate benefits. Profitability of a firm can be determined by correlating earnings or profits from the company's principal activities with assets or assets owned to generate corporate profits (operating assets). Profitability analysis is crucial for long-term investors because it enables shareholders to determine the proportion of profits that will be distributed as dividends (Munawir, 2014: 77). According to Kasmir, Hanafi, and Halim (2016: 81), profitability is a ratio that measures a company's potential to earn profits given a specific amount of sales, assets, and capital. From the three aforementioned points of view, it can be stated that the examination of profitability is crucial for long-term investors, as it allows shareholders to determine how much profit will be distributed as dividends. This profitability indicates how efficiently the company runs in order to generate benefits.

2.2 Liquidity

According to Fahmi (2016: 65), a company's liquidity ratio can be defined as the extent to which it is able to meet its short-term obligations in a timely way. According to Hery (2015: 166), liquidity ratios are ratios that represent the company's ability to satisfy its short-term obligations that are shortly due. In other words, liquidity ratios measure a company's liquidity. The liquidity ratio of a corporation is the ratio that describes how well the company can satisfy its short-term obligations. (Kasmir, 2012: 110).

It is possible to draw the conclusion from the three explanations that were presented earlier that the liquidity ratio is a ratio that describes the company's capacity to satisfy its short-term obligations that are quickly approaching their due dates.

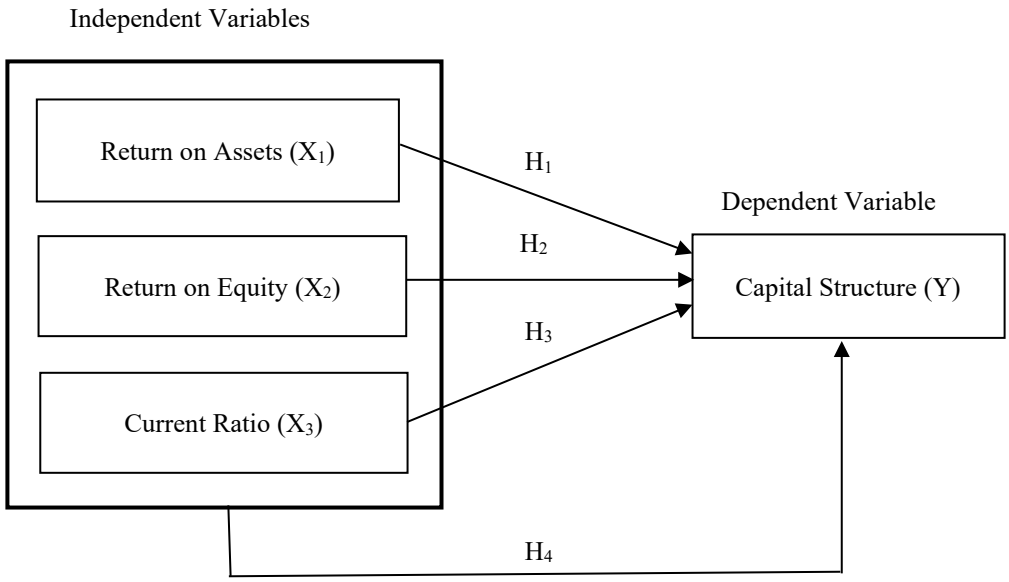
Before the analyst takes final conclusion from the analysis of the current ratio, it is necessary to consider the following factors: (Fahmi, 2015: 69–70)

1. Distribution of current assets posts.
2. Trend data from current assets and short-term debt for a period of 5 or 10 years.
3. Credit terms given by creditors to companies in returning goods, credit terms given by companies to customers in the sale of goods.
4. Current value or market value or change value of merchandise and the level of collection of receivables.
5. Possible changes in the value of current assets
6. Changes in inventory in relation to current and future sales volumes.
7. The size of working capital requirements for the coming year.
8. The size of the amount of cash and securities in relation to working capital needs.
9. Corporate credit rating in general.
10. The size of the receivables in relation to sales volume.
11. Types of companies, whether they are industrial companies, trading companies, or public utilities.

The objectives and benefits that can be derived from the results of the liquidity ratio (Kasmir, 2012: 132-133):

1. To measure the ability of a company to pay obligations or debts that are immediately due when billed. That is, the ability to pay obligations that are already due is paid in accordance with a predetermined time limit schedule (specific date and month).
2. To measure a company's ability to pay short-term liabilities with overall current assets. This means that the number of obligations under one year or equal to one year, compared to total current assets.
3. To measure the company's ability to pay short-term liabilities with current assets without taking into account stocks or receivables. In this case, current assets minus stocks and debts which are considered to be lower in liquidity.
4. To measure or compare the number of available stocks with the company's working capital.
5. To measure how much cash is available to pay off debt.
6. As a planning tool for the future, especially relating to cash and debt planning.
7. To see the condition and position of the company's liquidity from time to time by comparing for several periods.
8. To see weaknesses owned by the company, from each component in current assets and current debt.
9. Become a trigger for management to improve its performance, by looking at the current liquidity ratio.

2.3 **Research Model**



2.4 **Hypothesis Development**

1. ROA has significant influence on Capital structure in Consume Goods Companies
2. ROE has significant influence on Capital structure in Consume Goods Companies

3. Current ratiao has significant influence on Capital structure in Consume Goods Companies
4. ROA,ROE, Current ratios has significant influence on Capital structure in Consume Goods Companies

3. Research Methods

3.1 Research Design

In this study, the writer employs the quantitative method and causal research design, in which the influence of one variable on another variable is demonstrated empirically using acquired data and facts. Studies of causation examine whether one variable influences another (Sekaran & Bougie, 2016). The purpose of the writer's causal research is to determine whether the independent variables of return on assets, return on equity, and current ratio influence the dependent variable of capital structure for consumer goods companies listed on the Indonesia Stock Exchange for the period 2013-2017.

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3.2 Population, Sample, and Sampling Technique

In this research, the population is consumer goods companies that are listed in Indonesia Stock Exchange from the year 2013-2017 with a total of 40 companies. The sampling method used in this research is purposive sampling method,

Table 3.1
Sample Determination

No	Benchmark	Amount
1	Consumer Goods companies that listed in Indonesia Stock Exchange during the period 2013-2017	40
2	Consumer Goods companies that do not consistently published annual report during the period 2013-2017	(10)
3	Consumer Goods companies that do not generate profit during the period 2013-2017	(10)
Amount of Consumer Goods companies chosen as research sample		20
Total Data		100
Data Outliers		(10)
Total Sample		90

Source: Indonesia Stock Exchange (2021)

3.3 Data Analysis Method

In this study, the writer selects samples based on financial statements of consumer goods companies published on the Indonesia Stock Exchange website or the respective companies' websites between 2013 to 2017. This method of data collection is known as secondary data. Secondary data are records gathered by others for purposes other than the current investigation. Furthermore, for this research's data collection procedure, the documentation approach was used to investigate and collect data or information contained in financial statements. The library study approach is also used in this research, as it examines a variety of literatures, journals, articles, and other forms of written media that are related to the research problem and objective (Sekaran & Bougie, 2016)

4. Findings and Results

4.1 Normality Test

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	.131	100	.000	.866	100	.000

a. Lilliefors Significance Correction

4.2 Multicollinearity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	.745	.049		15.254	.000		
	ROA	-10.201	.784	-1.677	-13.007	.000	.909	1.005
	ROE	7.239	.521	1.558	13.901	.000	.120	8.317
	CR	-.079	.017	-.271	-4.649	.000	.445	2.246

a. Dependent Variable: DER

4.3 Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.933[a]	.870	.866	.12824	1.881

a. Predictors: (Constant), CR, ROE, ROA
b. Dependent Variable: DER

5. Discussion

The simultaneous test result shows that return on assets, return on equity, and current ratio simultaneously impact capital structure which is shown through the result of f-test where the value of F_{count} is more than F_{table} (192.081 > 3.10), significance value of 0.000 that is more than 0.05. Through this result, it indicates that the fourth hypothesis of this research (H_4) is accepted.

In addition, coefficient determination which is shown from the value of adjusted R^2 is amounted 0.866 or equals to 86.6% which implies that the multiple linear regression model explains for 86.6% of the total variance. This indicates that the independent variables, namely that return on assets, return on equity, and current ratio impact 86.6% of the dependent variable, capital structure, while the remaining 13.4% is impacted by additional variables not discussed in this study

6. Conclusion

This study examines the impact of return on assets, return on equity, and current ratio on capital structures with return on assets, return on equity, and current ratio as the independent variables and capital structure as the dependent variable. Consumer Goods Companies listed on the Indonesia Stock Exchanges (IDX) between 2013 and 2017 are the subject of this research. Purposive sampling was employed, with 20 companies eligible and taken as samples, resulting in a total of 90 observations used in this study. The data attained is secondary data derived from annual financial reports of consumer goods companies listed on the Indonesia Stock Exchange from 2013 to 2017. The following conclusions can be derived through data analysis (multiple linear regression) and hypothesis testing:

1. Return on Assets has significant partial impact toward capital structure on consumer goods companies listed at Indonesia Stock Exchange during the period 2013 to 2017. Therefore, H1 is accepted.
2. Return on Equity has significant partial impact toward capital structure on consumer goods companies listed at Indonesia Stock Exchange during the period 2013 to 2017. Therefore, H2 is accepted.
3. Current Ratio has significant partial impact toward capital structure on consumer goods companies listed at Indonesia Stock Exchange during the period 2013 to 2017. Therefore, H3 is accepted.
4. Return on Assets, Return on Equity and Current Ratio has a significant simultaneous impact toward capital structure on consumer goods companies listed at Indonesia Stock Exchange during the period 2013 to 2017. Therefore, H4 is accepted.

In addition, adjusted R2 (adjusted coefficient of determination) is amounted 0.866 or equal to 86.6% which implies that the multiple linear regression model explains for 86.6% of the total variance. This indicates that the independent variables, namely Return on Assets, Return on Equity and Current Ratio, impact 86.6% of the dependent variable, capital structure on consumer goods companies listed at Indonesia Stock Exchange during the period 2013 to 2017, while the remaining 13.4% is impacted by additional variables not discussed in this study.

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