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The effect of cash turnover and receivable turnover on profitability

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Abstract

This study aims to examine the effect of Cash Turnover and Receivable Turnover on the Profitability of Bank Rakyat Indonesia Inc. from 2016 to 2018. The method used in this research is descriptive method with a quantitative approach. The results of this study explain that the Cash Turnover Ratio has a value of $0.037 > 0.005$ that the Cash Turnover ratio has no effect on the profitability ratio of Bank Rakyat Indonesia Inc. In conclusion, the greater the ratio of accounts receivable turnover can affect the level of Profitability at Bank Rakyat Indonesia Inc.

Keywords: Cash, Receivables turnover, Profitability, Indonesia.

El efecto de la rotación de efectivo y la rotación de cuentas por cobrar en la rentabilidad

Resumen

Este estudio tiene como objetivo examinar el efecto de la rotación de efectivo y la rotación de cuentas por cobrar en la rentabilidad de Bank Rakyat Indonesia Inc. de 2016 a 2018. El método utilizado en esta investigación es un método descriptivo con un enfoque cuantitativo. Los resultados de este estudio explican que el índice de rotación de efectivo tiene un valor de $0.037 > 0.005$ que el índice de rotación de efectivo no tiene ningún efecto en el índice de rentabilidad de Bank Rakyat Indonesia Inc. En conclusión, cuanto mayor sea el índice de rotación de cuentas por cobrar puede afectar nivel de rentabilidad en Bank Rakyat Indonesia Inc.

Palabras clave: Efectivo, Rotación de cuentas por cobrar, Rentabilidad, Indonesia.

1. INTRODUCTION

The current phenomenon in the banking industry in Indonesia faces an increase in 7-Day Reverse Repo (7-DRR). In May - June, Bank Indonesia had raised interest rates by 75 basis points. The increase in the benchmark interest affects the banking business of 7-DRR which has an effect on economic growth. Though economic growth is very influential on credit demand, therefore, when talking about weakening credit can also result in reduced banking profitability. Profitability is the ability to make a profit. While bank profitability is the ability of a bank to produce operating profit with its own capital and foreign capital used to generate profits. A bank has good profitability, so the survival of the bank is guaranteed. But on the

contrary, if the bank has bad profitability then the survival of the bank does not take long (TEE, 2018; NICOLAIDES, 2015).

Previous research explained that there were several factors that affect profitability GROSSE, MA, & SCOTT (2018) one of which is cash turnover and receivable turnover. Cash Turnover is any weather in the form of money or not that can be used as a means of payment. Some of which include cash are current accounts in banks, and cash in the form of the company is the most current assets so that in the statement of financial position is placed in the uppermost group. So that the cash turnover will have an impact on the level of profitability of the company (AB RAZAK & PALAHUDDIN, 2014).

Previous research related to receivable turnover is a ratio used to measure how long the collection of receivables during a period or the number of times funds invested in receivable revolves in one accounting period. The higher receivable turnover ratio indicates that the working capital invested in receivables is higher and of course this condition is good for the company. Whereas CHEN & YIN (2010) states that receivable turnover shows the number of times a company collects receivables in an accounting period. Receivables turnover shows the efficiency of a company in managing its receivables. Low receivable turnover shows that billing efficiency was getting worse during that period because of the length of time that billing was made.

The remainder of this research is organized as follows. The next section describes relevant research and develops hypotheses. Section 3

details the sample, variables, and empirical model. Section 4 provides analysis and empirical results. While Section 5 outlines the conclusions and implications of the study.

2. LITERATURE REVIEW AND HYPOTHESES

Agency theory explains the relationship between management and shareholders. Agency problems often occur between investors or creditors and management (JENSEN & MECKLING, 1976). Improving the company's financial performance provides management options to develop the company to improve shareholder welfare.

Profitability is the ability of a company to make a profit in relation to sales. Profitability is a ratio to assess the company's ability to obtain profits, while the most important goal of the company is to obtain maximum profit. To measure the profit level of a company is predicting profit ratios or profitability ratios (AANU, SAMUEL, AILEMEN & JOHN, 2016). The profitability ratio used in this study is Return on Assets (ROA), where this ratio is to measure the ability of the company to generate profits using net income divided by the total assets of the company.

Cash is working capital that is very liquid, the greater the nominal amount of cash contained in a company means the higher the level of liquidity. Cash is all payment instruments that can be used immediately such as coins, banknotes, and current account balances at

a bank. Cash is anything that is in the form of money or which can be used as a means of payment. Some of which include cash are current accounts in banks (cash in banks) and cash in the form of companies is the most current assets so that the balance sheet is placed at the top of the group at the top (SHARMA, TANYI & LITT, 2017).

Accounts receivable is the amount of balance to be received from customers, accounts receivable is the value of maturity that comes from the value of the sale of goods or services, or from the provision of money loans. Receivables include the amount due to activities such as rent and interest. Receivables are company claims for money, goods, or services to other parties due to past transactions (ABADIE, CHAMORRO & GONZÁLEZ-EGUINO, 2013). While receivables are a number of bills to be received by the company from other parties both as a result of the delivery of goods and services on credit or as a result of excess cash payments to other parties. Receivables are a number of debts from consumers in companies that buy goods and services on credit to the company. Receivables are classified as current assets if they are expected to be realized or billed within one year or one operating cycle.

Cash turnover towards profitability, Agency theory explains the relationship between management and shareholders. Agency problems often occur between investors or creditors and management (HUAN, GAOPING, & DAN, 2017). Improvement of the company's financial performance will provide options for management to develop the company and to improve the welfare of shareholders, previous

research explained that cash turnover has a positive effect on profitability. This means that the greater the company's cash turnover will have an impact on the profitability of the company (AANU, SAMUEL, AILEMEN & JOHN, 2016).

H₁: Cash turnover has a positive effect on the profitability of Bank Rakyat Indonesia Inc.

The greater accounts receivable means increasing the risk and impact on increasing profitability obtained by the company. Previous studies have explained that accounts receivable turnover has a positive effect on company profitability. This means that the longer the average billing period, the more investment accounts receivable so that the impact on the amount of profitability obtained by the company (AALTONEN, KELLOMÄKI & PITKÄNEN, 2000).

H₂: The ratio of accounts receivable turnover has a positive effect on the profitability ratio of Bank Rakyat Indonesia Inc.

3. METHODOLOGY

The method used in this research is descriptive method with a quantitative approach. This study uses differential statistics conducted on a random sample. Presentation of data can be in the form of tables, frequency distribution tables, line graphs, bar graphs, pie chart diagrams, and pictograms. To explain and avoid different

interpretations, this research explains the main terms used in this study, namely:

The dependent variable in this study is banking profitability which is the ability of banks to obtain net profit for one period (AB RAZAK, 2014). In this study, profitability is calculated using the Return of assets (ROA).

$$ROA = \frac{\text{Net Income}}{\text{Total Asset}}$$

The independent variable is a variable that influences or causes changes in the dependent variable. In this study, the independent variables are Cash Turnover Ratio and Receivable Turnover Ratio. To obtain a clear picture of the variables in this study, operationally the following limitations are given:

a. Cash turnover is the ability of cash to generate income so that it can be seen by the number of times the cash revolves in one time period. To find out the efficient use of cash in the company, the company can compare net sales / average cash in the accounting cycle, it will produce a level of cash turnover. Cash turnover (X_1)

$$\text{Cash turnover} = \frac{\text{Net sales}}{\text{Average cash}}$$

b. Receivables turnover shows how many times a company collects its receivables in a period (AASSVE, & LAPPEGRD, 2010). Receivables turnover (X_2)

$$\text{Receivables turnover} = \frac{\text{Credit sales}}{\text{Accounts Receivable}}$$

The population used in this study is the financial statements of Bank Rakyat Indonesia Inc. registered on the Indonesia Stock Exchange from 2016 to 2018. The technique of determining the sampling uses Purposive Sampling. The sample selection method is based on certain considerations by actually meeting the specified criteria, data available on the website of Bank Rakyat Indonesia Inc. in the form of financial statements from 2016 to 2018, the sample of this study is the financial statements of Bank Rakyat Indonesia Inc. in 2016 until 2018. The data of this study are secondary data in the form of financial statements of Bank Rakyat Indonesia Inc. All data sources were obtained from the website of Bank Rakyat Indonesia Inc.

The data analysis technique used in this study is multiple linear regression analysis using the application of the SPSS program, to determine the causal relationship and value-free. The regression equation formula in this study is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

4. DISCUSSION

The regression linearity test with the F-statistic test is calculated by F table with a significance level of 5%. If the F-count is small or equal to the F-table, the relationship of the independent variable (X) with the variable (Y) is stated linear.

1. Linearity Test of ROA toward Cash Turnover

Table 1: Linearity Test of ROA toward Cash Turnover

			Sum of Squares	df	Mean Square	F	Sig.
ROA * P_Cash	Between Groups	(Combined)	78.474	4	19.618	8.875	.000**
		Linearity	70.163	1	70.163	31.741	.000**
		Deviation from Linearity	8.311	3	2.770	1.253	.574
	Within Groups		68.525	31	2.210		
	Total		146.999	35			

The table above explains $0.574 > 0.05$, it can be concluded that there is a linear between the variable Cash Turnover against ROA.

2. Linearity Test of ROA on Accounts Receivable Turnover

Table 2: Linearity Test of ROA toward Accounts Receivable Turnover

			Sum of Squares	df	Mean Square	F	Sig.
ROA * P_Accounts Receivabl	Between Groups	(Combined)	146.968	33	4.454	284.573	.004**
		Linearity	118.367	1	118.367	7563.410	.000**

e		Deviation from Linearity	28.600	32	.894	2.109	.617
	Within Groups		.031	2	.016		
	Total		146.999	35			

The table above explains that $0.617 > 0.05$, it can be concluded that there is a linear between the variables of Accounts Receivable Turnover towards ROA. The multiple regression method explains the relationship between the two variables between the independent variable and the dependent variable. The independent variable consists of Cash Turnover and Receivable Turnover, while the dependent variable is Profitability. The following results from the multiple linear regression analysis are as follows

Table 3: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.591	.296		1.997	.054
	P_Cash	35.107	16.133	.202	2.176	.037
	P_Accounts Receivable	2.525	.306	.769	8.262	.000**
a. Dependent Variable: ROA						

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e / (Y = 0.054 + 0.037 + 0.000 + e)$$

The regression equation can be explained by a constant of 0.591 showing variable cash turnover and accounts receivable turnover at zero or constant, then the value of profitability increases by 0.054, the

regression coefficient value of variable cash turnover by 35.107 means cash turnover increases by one unit then profitability will decrease by 0.037 and so does profitability vice versa with the other variable conditions constant, the value of the variable regression coefficient Turnover Receivables by 2.525 means the Receivable Turnover increases by one unit then Profitability will decrease by 0.000 and vice versa with the other variable conditions constant.

Table 4: Partial Test

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.591	.296		1.997	.054
	P_Cash	35.107	16.133	.202	2.176	.037
	P_Accounts Receivable	2.525	.306	.769	8.262	.000**
a. Dependent Variable: ROA						

The table above explains the results of the t-test analysis. Influence on Cash Turnover Against Profitability, The independent variable of Cash Turnover has a significance value of $0.037 > 0.005$, it can be concluded that the Cash Turnover variable does not have a significant positive effect on profitability. While the Effect of Accounts Receivable Turnover on Profitabilitas, the independent variable Accounts Receivable Turnover has a significance value of $0,000 < 0.005$ it can be concluded that the Accounts Receivable Turnover variable has a significant positive effect on Profitability.

Table 5: Partial Tests Determine the Effect of X1, X2 on Y

Model	Unstandardized Coefficients			Standardized Coefficients	T	Sig.	Correlations		
	B	Std. Error	Beta				Zero-order	Partial	Part
1	(Constant)	.591	.296		1.997	.054			
	P_Cash	35.107	16.133	.202	2.176	.037	.691	.354	.156
	P_Accounts Receivable	2.525	.306	.769	8.262	.000*	.897	.821	.594
a. Dependent Variable: ROA									

The table above explains that Accounts Receivable Turnover has a significant value of 0.000 <0.005, which shows that Accounts Receivable Turnover has a positive effect on profitability. The F-test evaluates all independent variables on the dependent variable, the independent variables simultaneously influence the dependent variable with a significance level of 0.000 <0.005.

Table 6: Simultaneous Test

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	121.961	2	60.980	80.370	.000**
	Residual	25.038	33	.759		
	Total	146.999	35			
a. Dependent Variable: ROA						
b. Predictors: (Constant), P_Accounts Receivable, P_Cash						

The table above explains that the F-test results of 80,370 with a significance level of $0,000 < 0.005$ which can be explained that Cash Turnover and Accounts Receivable Turnover has a positive effect on profitability. The coefficient of determination (R^2) measures the ability of the independent variable to explain the dependent variable in this study.

Table 7: Determinant Coefficients of Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.911 ^a	.830	.819	.87106
a. Predictors: (Constant), P_ Accounts Receivable, P_Cash				
b. Dependent Variable: ROA				

The table above explains that the R-squared value is 0.830 which shows that 87% of the dependent variable Profitabilitas can be explained by the independent variables of Cash Turnover and Accounts Receivable Turnover ratios. The remaining 13% is explained by other independent variables not used in this study.

5. CONCLUSION

Cash of turnover ratio of Bank Rakyat Indonesia Inc. has a value of $0.037 > 0.005$ which is that the Cash Turnover ratio does not have a significant positive effect on the profitability ratio of Bank Rakyat Indonesia Inc. which means that the greater the ratio of cash

turnover cannot affect the Profitabilitas of Bank Rakyat Indonesia Inc. While the accounts receivable Turnover ratio of Bank Rakyat Indonesia Inc. has a significance value of $0,000 < 0005$, that the Receivables Turnover ratio has a significant positive effect on the profitability ratio of Bank Rakyat Indonesia Inc. which means that the greater the ratio of accounts receivable turnover can affect the Profitability of Bank Rakyat Indonesia Inc.

The results of the F test of 80,370 with a significance level of $0,000 < 0.05$, that the ratio of Cash Turnover and Receivable Turnover Ratio has a positive effect on the Profitability Ratio of Bank Rakyat Indonesia Inc. Whereas the R-squared value of 0.830 shows that the 87% Bank Indonesia Indonesia Profitability Rate ratio. can be influenced by the Turnover ratio and the Receivable Turnover ratio and the remaining 13% is explained by the Financial Ratio analysis of Bank Rakyat Indonesia Inc. the others were not used in this study.

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