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The effect of receivables turnover, inventory turnover, and payables turnover on company profitability

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Abstract
This research examines the profitability of manufacturing companies, specifically fast moving consumer goods, and trends from period to period. Profitability is a crucial financial performance indicator in this industry that is heavily effect by high competition and demand. This study analyzes factors affecting company profitability and identifies profitability trends over time. The findings can assist companies in making informed decisions to improve future profitability. The research tests the effect of Accounts Receivable Turnover, Inventory Turnover, and Accounts Payable Turnover on Company Profitability. The independent variables in this study are Accounts Receivable Turnover, Inventory Turnover, and Accounts Payable Turnover. As per Agency Theory, Accounts Receivable Turnover and Inventory Turnover have a positive effect on Company Profitability. The population utilized is Fast Moving Consumer Goods companies listed on the Indonesia Stock Exchange (IDX) from 2017-2021. Samples were determined through purposive sampling method, resulting in 356 samples from 121 companies tested in this research using secondary data from Bloomberg. The dependent variable is measured through Return on Assets. This study employs descriptive statistical analysis, classic assumption tests consisting of normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test, as well as hypothesis testing consisting of Coefficient of Determination Test, T Statistical Test, and F Statistical Test. Through statistical analysis in this research, it is known that accounts receivable turnover and inventory turnover have a positive effect on company profitability as measured by return on assets (ROA). Meanwhile, accounts payable turnover has proven to significantly negatively affect company profitability.

Keywords: Account receivable turnover, inventory turnover, account payable turnover, return on asset

Introduction

The acceleration of industry and commerce growth in the contemporary era has the potential to offer distinct advantages. This compels various companies to continuously adapt and innovate to remain competitive. Therefore, maximizing profitability has become one of the primary objectives that companies aim to achieve. Data from the Central Statistics Agency (2021) [1] shows that the manufacturing sector remains the largest contributor to Indonesia's GDP with a contribution of 17.34%. The rapid economic growth and increasing market demand have led to heightened competition in the manufacturing sector. Additionally, the Ministry of Industry (2021) [2] also reported an increase in the export value of Indonesian manufactured products in line with the growth of the industrial sector. In the face of stiff competition, enhancing profitability becomes the top priority for manufacturing companies, as it reflects the company's ability to manage resources effectively and indicates competitiveness in the market. This suggests that companies are required to continually improve their financial performance to remain competitive in the market.

Profitability is a key indicator in evaluating a company's financial performance and also determines its appeal to investors and creditors (Suminar, 2015) [3]. However, achieving optimal profitability is not easy and requires the right strategy. Effective and efficient resource management is the key to achieving high profitability (Krisnando & Novitasari, 2021) [4]. This is particularly true in the FMCG industry, where companies must quickly adapt to market demand changes and remain effectively competitive. In this context, the use of financial ratios such as Return on Assets (ROA) becomes important in assessing a company's profitability. ROA is an indicator of a company's effectiveness and efficiency in generating profit from its total assets (Iswandi, 2022) [5]. A high ROA indicates good financial performance and can enhance the company's value in the eyes of investors (Maharani & Mawardhi, 2022) [6].

However, fluctuations in the ROA value of non-cyclical FMCG companies often attract attention as they can affect investors' and creditors' perception of the company's stability (Wijaya, 2019) [7]. Factors such as receivables turnover, inventory turnover, and payables turnover have a direct effect on profitability and the ROA value of the company (Delen *et al*., 2013) [8]. Companies in the FMCG sector must manage their assets and liabilities well to achieve optimal profitability levels (Pratama, 2020) [9].

Literature Review

Previous research has explored the effect of accounts receivable turnover and inventory turnover on Return on Assets (ROA), revealing divergent outcomes. Rusdiyanto *et al*. (2020) [10] argue that a higher accounts receivable turnover ratio significantly positively effect profitability, as measured by ROA. They contend this improvement occurs because a higher turnover ratio indicates a quicker collection period, beneficial for banks since the capital invested in receivables is utilized more effectively. Contrarily, Susanti (2019) [11] concludes that accounts receivable turnover does not significantly impact ROA. This disparity is attributed to some companies' inability to manage their receivables effectively, leading to uncollectible accounts.

Inventory turnover, the second independent variable, is selected due to its role as a component of working capital and the existence of a research gap in previous studies.

Umar Farooq (2019) [12] discovered that inventory turnover ratio does not significantly affect ROA, suggesting that other ratios may effect a company's profitability. However, this does not conclusively mean that inventory turnover plays no role in profitability. Efficient inventory management can indirectly affect profitability by reducing transaction costs, maintenance expenses, and receivables. Conversely, findings from Kwatiah and Asiamah (2020) [13], as well as Atmaja and Muid (2021) [14], demonstrate a significant positive impact of inventory turnover on ROA.

The third independent variable addressed is payables turnover, included due to its presence in working capital and the observable research gap in previous findings. Tran *et al*. (2017) [15] identified that the payables turnover ratio significantly negatively affects ROA, suggesting that other ratios may also effect a company's profitability. Despite this, payables turnover remains a critical factor for profitability, potentially through the savings in transaction and maintenance costs and the improvement of cash flow. This conclusion is in stark contrast with Lestari (2022) [16], who observed a significant positive effect of payables turnover on ROA, arguing that effectively managed payables by companies enhance profitability.

Agency theory analytically explains contractual relationships in which one party (the principal) delegates authority and decision-making responsibility to another party (the agent). Agency issues are currently being examined as part of the ownership, management, and operations of organizations. An agency relationship is a working partnership where one or more individuals (the principal parties) delegate another party (the agent) to provide services and make decisions on their behalf. Principals refer to shareholders who provide resources and capital for the company. On the other hand, agents are the company's managers responsible for managing the assets entrusted to them by the shareholders (Jensen and Meckling, 1976) [17].

This research's relevance to companies lies in the cooperation and mutual interests between the company and various parties relying on financial statements, such as investors, creditors, and other individuals requiring financial information. The concept of agency occurs when a group of individuals or entities, typically referred to as principals or principal parties, collaborate with another individual or group of people acting as agents. In this cooperation, the principal parties provide resources and delegate decision-making authority to the agents, as outlined by Jensen and Meckling (1976) [17]. Jensen and Meckling (1976) [17] suggest two mechanisms to address agency conflicts: control mechanisms, where the principal incurs costs to monitor the agent's behavior and limit undesirable actions, and bonding mechanisms, where the principal pays a certain cost as a guarantee against potential losses caused by the agent.

The effect of Account Receivable Turnover on Profitability

Previous empirical research consistently demonstrates a significant and beneficial correlation between debt turnover and corporate performance. For instance, Rusdiyanto *et al*. (2020) [10] revealed that changes in accounting personnel have a favorable impact on profitability. Similarly, in their study, Kofi Amponsah-Kwatiah and Michael Asiamah (2020) [13] found a direct correlation between the rate of change in audience numbers and profitability levels. This data supports the premise that enhancing the effectiveness of receivables management by increasing the speed of collections can optimize corporate profitability. More specifically, the billing cycle is calculated by comparing net sales to the average collection period. This ratio represents the frequency of revenue generation from billing turnover within a certain time frame (Susanti, 2019) [11]. Higher receivables turnover leads to more efficient management of receivables, thereby increasing revenue and profitability for the organization. Drawing from the premises of agency theory and the understanding presented by researchers, the hypothesis proposed in this study is as follows:

H_1: Receivables turnover has a positive effect on profitability.

The effect of Inventory Turnover on Profitability

Kwatiah and Asiamah (2020) [13], in their study, demonstrated that inventory turnover significantly affects return on assets (ROA) positively. A similar conclusion was also reported by Atmaja and Muid (2021) [14], who argued that an increase in inventory turnover would enhance ROA. Consequently, various empirical evidences support the positive relationship between inventory management efficiency through increased inventory turnover and company profitability. Drawing from the premises of agency theory and the insights provided by researchers, the hypothesis proposed in this study is as follows:

H_2: Inventory turnover has a positive effect on profitability.

The effect of Payables Turnover on Profitability

According to Munawir (as cited in Wahyuni, 2021) [18], accounts payable turnover measures the speed at which a company settles its obligations to suppliers arising from credit purchases of goods or services. This ratio is calculated by comparing cost of goods sold with the average accounts payable. A higher ratio indicates a faster accounts payable cycle or a shorter payment period (Saputri, 2018) [19]. Analyzing accounts payable turnover enables companies to evaluate the effectiveness of their management of short-term obligations to suppliers. A low ratio reflects a relatively long debt repayment period, potentially increasing the risk for the company.

Several previous empirical studies have found a positive relationship between payables turnover and company profitability (Lestari, 2022) [16]. This is also corroborated by the research conducted by Amponsah-Kwatiah and Asiamah (2020) [13], which found a positive relationship between payables turnover and company profitability. The faster a company's payables turnover, meaning the shorter the payment period to suppliers, potentially increases profitability. Drawing from the premises of agency theory and the insights provided by researchers, the hypothesis proposed in this study is as follows:

H_3: Payables turnover has a positive effect on profitability.

Methods

The purpose of this study is to determine the effect of accounts receivable turnover, inventory turnover, and payable turnover on company profitability. This research utilizes secondary data of a quantitative nature in the form of annual reports and financial statements sourced from the Bloomberg terminal laboratory. The methods employed

include documentation technique and literature Study, such as literature reviews, reference books, and official company documents. In the analysis of financial performance, various variables were utilized and attributed to established scholarly works. Profitability, as a measure of net gain to total assets, was referenced from the research by Kofi Amponsah-Kwatiah and Michael Asiamah (2020) [13]. Accounts Receivable Turnover and Payable Turnover, reflecting the company's efficiency in managing credit sales and debt respectively, were also guided by the same authors. Inventory Turnover, indicating the efficiency of stock management in relation to net sales, follows the methodology proposed by Sinaga (2019) [20]. Additional financial indicators included are the Current Ratio, a liquidity measure from current assets to liabilities, Firm Size, represented by the natural logarithm of total assets to encapsulate company scale, and Leverage, denoting the ratio of total liabilities to total assets. Each of these variables draws on the foundational works by Sinaga (2019) [20] and Kofi Amponsah-Kwatiah and Michael Asiamah (2020) [13], offering a comprehensive set of tools to assess corporate performance in the FMCG sector on the Indonesia Stock Exchange. The following are the variables used in this study along with their measurements.

Table 1: Measurement of Dependent, Independent and Control Variables

Variabel	Pengukuran
Profitability (ROA)	Net income / total assets
Account Receivable Turnover (ART)	Net sales / average accounts receivable
Inventory Turnover (IRT)	Net sales / average inventory
Account Payable Turnover (APT)	Credit purchases / average total payables
Current Asset (CA)	Total assets
Current Ratio (CR)	Current assets / current liabilities
Firm Size (FS)	Ln(total assets)
Leverage (Lev)	Total liabilities / total assets

The population is a group of units that are the main subject of a study, analyzed in-depth and studied comprehensively. The method used is purposive sampling in this study. The population focused on is the annual financial statements of FMCG companies listed on idx.co.id for the period 2017-2021. The sample in this research includes a representative section of the entire population consisting of a number of entities with specific characteristics. In the research process, the selection of samples is carried out by considering criteria that have been predetermined.

This study employs multiple linear regression data analysis techniques using SPSS 25 software. Before proceeding to testing with multiple linear regression, the data to be tested must be reanalyzed. The method used is descriptive statistical methods and classical assumption tests. After the data passes the classical assumption tests, it is described as a multiple linear regression equation. Subsequent data testing is conducted with several tests, including the t-test, F-test, and determination coefficient

Table 2: Sampling process

No.	Sample Criteria	Quantity
1.	FMCG companies listed on the IDX from 2017-2021	121
2.	FMCG companies that have not published audited financial reports and annual reports consecutively for the period 2017 to 2021	(42)
3.	FMCG industries that do not publish annual financial reports in Indonesian Rupiah (Rp)	(0)
4.	Financial reports that cannot be accessed	(0)
5.	Companies that do not have complete data for all variables	(0)
	Total FMCG companies that can be used as research objects	79
	Total research sample	605
	Data not meeting the criteria	(179)
	Outliers in the sample	70
Final total of research sample		60

Result

Descriptive statistical analysis

Table 3 Analysis can be utilized to examine the data distribution from several measurements, such as standard deviation, mean, minimum value, and maximum value. These statistics are essential for understanding and comprehending the complete representation of the variables used.

For the Return on Assets (ROA) variable, the analysis indicates an average from 356 samples of 22.7335 with a standard deviation of 28.661, showing that the average accounts receivable turnover of the sample companies is approximately 22.7% with a high level of data variation. The range of values is indicated by the smallest value of 1.48 or 148% and the maximum point of 189.02 or 189%.

Regarding the Accounts Receivable Turnover (ART) (X_1) variable, the analysis shows an average from 356 samples of 22.7335 with a standard deviation of 28.661, indicating that the average accounts receivable turnover of the sample companies is approximately 22.7% with a high degree of data variation. The value range is demonstrated by the smallest value of 1.48 or 148% and the maximum point of 189.02 or 189%.

For the inventory turnover (IRT) (X_2) variable, the output states that 356 samples have an average of 6.4102 with a standard deviation of 4.54191, indicating that the 356 samples used have an average inventory turnover of approximately 6.41% with data that tends to be less varied or uniform. It is again indicated that the smallest value obtained for inventory turnover is 0.21 or 21%, and the fastest turnover is 28.18 or 2818%.

Regarding the Accounts Payable Turnover (APT) (X_3) variable, the output indicates an average from 356 samples of 15.170 with a standard deviation of 17.86996. Through this, it can be concluded that the average accounts payable turnover of the sample companies is 15.70% with a varied data distribution. The range of values is expressed based on the table above, with the smallest value at 1.41 and the highest at 171.15.

Table 3: Results of descriptive statistical analysis

	N	Mean	Std. Dev	Min	Max
ROA	356	.0365	.05563	-.12	.22
ART	356	22.7335	28.66115	1.48	189.02
IRT	356	6.4102	4.54191	.21	28.18
APT	356	15.1720	17.86996	1.41	171.15
CR	356	1.8589	1.44310	.11	8.64
CA	356	28.60	29.00	22.66	30.74
Lev	356	.2829	.19356	.00	.81
FS	356	28.4289	1.70461	23.80	32.27
Valid N (listwise)	356				

During the testing, the researcher found that the regression model was affected by autocorrelation, leading to the implementation of data transformation. Based on the results of the normality test using the transformed data, it was observed that the significance value was 0.200 > 0.05, leading to the conclusion that the data are normally distributed as indicated

Table 4: Normality test results (Kolmogorov-Smirnov Test)

		Unstandardized Residual
N		**355**
Normal Parameters[a,b]	Mean	0.0000000
	Std. Deviation	.03713297
Most Extreme Differences	Absolute	.041
	Positive	.041
	Negative	-0.035
Test Statistic		.041
Asymp. Sig. (2-tailed)		**.200[c,d]**
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

Furthermore, regarding other classical assumption tests such as multicollinearity, heteroskedasticity, and autocorrelation, the results indicate no evidence of multicollinearity, heteroskedasticity, or autocorrelation. Consequently, the research data are suitable for further hypothesis testing.

Hypothesis testing results

The effect of Account Receivable Turnover on Profitability

Based on Table 5, Accounts Receivable Turnover (ART) is determined by dividing the total credit sales by the average accounts receivable during the current period. The testing results indicate that the ART coefficient is 0.0061 with a significance level of 0.048, which is below the threshold of 0.05. Therefore, it can be concluded that the implementation of ART has a positive and significant effect on Return on Assets (ROA). Based on the tests conducted, it can be concluded that Hypothesis 1 is accepted.

ROA can be effect by accounts receivable turnover. Credit sales can be converted into cash more quickly if the accounts receivable turnover is high. Therefore, when the accounts receivable turnover rate is high, it means that the collection of receivables is smooth and can easily be converted into cash. This cash is then used to keep the business running and generating profit for the company, ultimately leading to higher earnings. Kusmawardani *et al*. (2021) [21] stated that if a business generates more money, its financial records will show accurate information and will not contain incorrect information. This prevents the occurrence of information asymmetry. Several previous studies have found a relationship between changes in receivables and a company's ability to generate money. In the cases of Kwatiah and Asiamah (2020) [13] and Rusdiyanto, *et al*. (2020) [10], they found that accounts receivable turnover has a positive impact on Return on Assets (ROA), which is a measure of profitability. These results support the idea that companies can generate more money by accelerating the rate of accounts receivable turnover to be more efficient. Various real-world studies show that there is a strong relationship between changes in receivables and a company's ability to generate money.

The effect of Inventory Turnover on Profitability

Referring to Table 5, Inventory Turnover Ratio (IRT) is determined by dividing the cost of goods sold by the average inventory during the current period. The IRT coefficient in this test is 0.0020, with a significance value of 0.001, which is below the threshold of 0.05. IRT demonstrates a positive and significant effect on Return on Assets (ROA). Based on the tests conducted, it can be concluded that Hypothesis 2 is accepted.

The process of managing inventory from raw materials to finished goods becomes a vital process in maintaining the business continuity of FMCG companies, so significant inventory turnover indicates, in its performance, the company's ability to manage inventory, from raw materials to finished goods. Therefore, the higher the level of inventory turnover, the greater the indication that the company will obtain larger profits from the sales generated. This has been supported by several pieces of research, such as Suminar (2015) [3] and Muid and Atmaja (2021) [14], who stated that high inventory turnover will increase the company's Return on Assets (ROA) rate.

The effect of Payables Turnover on Profitability

As indicated in Table 5, Accounts Payable Turnover (APT) is calculated by dividing the cost of goods sold by the average inventory for the current period. In this test, the APT coefficient is 0.0003 with a significance value of 0.021, which is less than 0.05. This indicates that APT has a negative and significant effect on Return on Assets (ROA). Based on the testing conducted, it can be concluded that Hypothesis 3 is rejected.

This research indicates a negative relationship between the debt turnover ratio and the ROA of companies. This contradicts some previous studies by Kwatiah and Asiamah (2020) [13]; Lestari (2022) [16], which found a significant positive effect between the two variables. However, this finding is consistent with the results of the research by Tran *et al*., (2017) [15], which stated that debt turnover has a significant negative effect on company profitability. From the perspective of agency theory, this can be explained as a form of opportunistic action by management who make risky investment decisions for short-term gains, even at the expense of long-term profitability. Such practices reflect a conflict of interest between management and shareholders due to the weak control mechanisms of the board of directors and investor

Table 5: t-test result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.0830	.026		-3.243	.001
	ART	.0061	003	.098	1.982	.048
	IRT	.0020	.001	.155	3.456	.001
	APT	-.0003	.000	-.105	-2.325	.021
	CR	.0138	.002	.333	6.514	.000
	CA	.0267	.004	.752	6.727	.000
	Lev	-.0565	.016	-.183	-3.509	.001
	FS	-.0206	.004	-.574	-5.000	.000
a. Dependent Variable: ROA						

Conclusion

There is an effect of accounts receivable turnover on profitability (ROA), meaning that the accounts receivable turnover variable affects the return on assets of FMCG companies listed on the Indonesia Stock Exchange. There is an effect of inventory turnover on profitability (ROA), implying that the inventory turnover variable impacts the return on assets of FMCG companies listed on the Indonesia Stock Exchange. There is an effect of debt turnover on profitability (ROA), suggesting that the debt turnover variable affects the return on assets of FMCG companies listed on the Indonesia Stock Exchange. Furthermore, the R^2 value is reflected in the adjusted R^2 amounting to 0.422. This condition means that all the effectiveness variables can explain 42.2% of the Return on Assets variable. The remainder, which is 57.8%, is explained by other variables.

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