Analysis of Quick Ratio, Return on Assets, and Company Size in Pulp and Paper Companies

Original Article

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Abstract

This research aims to analyze the influence of the Quick Ratio and Return on Assets on company size in the Pulp and Paper industry sector on the Indonesian Stock Exchange over a five-year period from 2017 to 2022. The study included 8 samples taken from 9 various groups of companies within the pulp and paper sub-sector listed on the IDX during the specified timeframe. The research utilized purposive sampling for data collection. The analysis involved classical assumption testing, coefficient of determination test (R^2), multiple linear regression, and hypothesis testing. The research results show that partially the Quick Ratio has no significant effect on Company Size. Meanwhile, Return on Assets has no significant effect on Company Size. After conducting the F test to analyze the third hypothesis, it was determined that the f value of 7.711 is greater than the f table of 3.209. Additionally, the significance value of 0.001 is less than the pre-determined alpha level of 0.05. This suggests that there is a significant impact of the independent variable on the dependent variable, namely the Quick Ratio and Return on Assets which together have an effect significant to Company Size. In this research, the Quick Ratio and Return on Asset variables can only explain 25.5% of company size according to the results of the coefficient of determination (R^2) test, so the closeness of the dependent and independent variables is low. Meanwhile, the remaining 74.55% is influenced by other variables outside the model discussed in this research.

Keywords: Quick Ratio, Return on Assets, Company Size

1. Introduction

A business is typically set up with the goal of maximizing profits in order to ensure its longevity and growth. A successful company is one that is financially stable and able to adapt to various economic situations by meeting its financial responsibilities and operating smoothly. Thus, the company can maintain its survival. Therefore, every company that stands must have financial reports so that a company can determine the condition of the company's financial health. All corporations have a strong desire to achieve significant financial gains and revenue from every transaction.

The pulp and paper sector are a significant actor in the Indonesian economy, offering high-quality products. The fast expansion of this industry has led to the rise of major corporations with substantial financial resources. The forestry sector plays a crucial role in Indonesia's economic progress by generating jobs and contributing to foreign exchange earnings outside the oil and gas sector.

Indonesia's pulp and paper industry is advantaged by its positioning near the equator, as trees grow at a rapid pace compared to colder regions, resulting in abundant forests for sourcing materials. Indonesia's central location in Asia positions it as a key player in the upcoming economic boom, making it a prime target for the global pulp and paper market.

The size of a company refers to its magnitude, which can be categorized as either large or small depending on the company's assets, sales, and share value. Investors use company size as a factor when deciding where to invest, with larger companies having better access to funding opportunities (Muharramah & Hakim, 2021). Therefore, the profitability of a company is greatly impacted by its size.

The quick ratio is useful for short-term financial planning as it indicates the company's capacity to pay off its debts without depending on inventory sales. Because it ignores inventory, the quick ratio can be more sensitive to changes in inventory which may not always reflect the true quick ratio. A healthy quick ratio can be a positive factor in negotiations with suppliers and creditors. It can increase third-party confidence in the company's ability to pay obligations on time. Quick ratio is considered more thorough and more appropriate to measure the company's ability to meet its short-term obligations.

Return on Asset evaluates how efficiently a company generates earnings relative to its assets. A company with a higher Return on Asset typically achieves greater profits. Return on Asset needs to be considered by investors in investing in stocks, because Return on Asset acts as an indicator of the company's efficiency in using assets to generate profits.

2. Literature Review

Financial statements are created by documenting all monetary activities within a business. The statements give a glimpse of the company's financial situation at a certain point in time, giving an understanding of how well it is performing overall, especially in financial terms. Financial reports aim to provide information to users of financial statements in making economic decisions about the company's survival in the present and predicting the future (Harefa & Hulu, 2022).

2.1. Company Size

The size of a corporation greatly influences its total worth, as larger corporations find it simpler to obtain funding from within and outside sources. Company size is a direct representation of the total assets held by the company, which can be classified into two categories: small-scale and large-scale companies (Meiliani et al., 2023).

Determining a company's size involves looking at different factors like overall assets, sales, capital, and profits. These factors play a role in measuring the company's size. There are two methods to assess company size:

a. Company size, measured as Ln Total Assets, represents the assets or resources a company possesses. With larger assets, a company can make substantial investments and meet product demand effectively. This capacity supports expanding market share and positively influences the company's profitability.

b. Company size, measured as Ln Total Sales, plays a crucial role in helping companies achieve their goal of generating profit. Consistently rising sales help cover production costs, leading to increased profits and ultimately enhancing the company's profitability.

Assessing different elements like overall wealth, investments, rate of return on capital, manufacturing machinery, workforce size, extent of business connections, market influence, output, additional value, tax obligations, etc. can offer insight into the scale of a corporation. However, this overlooks the true essence of corporations being linked with large businesses (Almira & Wiagustini, 2020). Several indicators can also be used to assess the size of a company (Gusmiarni & Manalu, 2023):

a. Labor refers to the total count of both full-time and part-time workers either enrolled with or currently employed by the business at a specific moment.
b. The amount of revenue generated by a business during a specific time frame is known as the sales level.
c. The total debt represents the total amount of debt accumulated by a company over a specific timeframe.

2.2. Quick Ratio

The Quick Ratio evaluates a company's ability to meet its short-term financial obligations using assets that can be quickly converted into cash, with the exception of inventory. This ratio gauges the company's efficiency in meeting short-term debts without factoring in inventory, which is typically viewed as a less liquid asset. The quick ratio, also called the acid test ratio, assesses how current assets other than inventory compare to current debt. Inventory is not included in the calculation of the quick ratio because inventory is the least liquid component of current assets.

One of the roles of the quick ratio in business operations is to indicate the company's liquidity in the short term, or its capacity to fulfill immediate financial commitments. The quick ratio is typically employed to determine the portion of a company's assets that can be utilized to settle its debts. These assets can be cash, accounts receivable, short-term investments, as well as inventory (Gunawan et al., 2022)

The Quick Ratio serves the function of gauging the company's capacity to settle immediate debts with available assets. The greater the ratio value, the better the company's condition. Having a ratio of 1:1 or 100% indicates favorable company liquidity. In the event of liquidity issues, the company will have no trouble converting assets into cash to meet its financial obligations (Mawarni & Kusjono, 2021).

2.3. Return on Asset

Calculating Return on Asset (ROA) is a key metric for determining profitability in a company's operations. ROA is a formula that companies use to assess their capacity to generate profits from the assets they own, taking into account the expenses of acquiring these assets (Irawati et al., 2019)

Return on Asset (ROA) is a financial metric that showcases the effectiveness of generating profit from owned assets and is also utilized as a gauge for measuring the return on investment from the overall management of assets. The company's generated Return on Asset (ROA) value can impact the level of interest from potential investors in investing. Return on Asset (ROA) is a financial metric that showcases the effectiveness of generating profit from owned assets and is also utilized as a gauge for measuring the return on investment from the overall management of assets. The company's generated Return on Asset (ROA) value can impact the level of interest from potential investors in investing (Arnova, 2016).

Return on assets measures a company's ability to generate profits from the investments it makes (Almira & Wiagustini, 2020). Return on Asset evaluates the company's historical and future profit-generating capabilities. A high Return on Asset value indicates better returns for investors.

Return on Assets serves not just the interests of company owners and management, but also those external parties who are involved with or have a stake in the company. According to (Kurniawan, 2021). Return on Assets measures the efficiency of an investment in producing the desired returns. It showcases the ability of a business to make money from its investments, determined by dividing the net income by the total assets while considering interest and taxes.

3. Methods

This study utilizes mathematical methods based on the financial data of businesses in the Pulp and Paper sector. Secondary data is utilized as the source of information. The focus of this study is to analyze how Quick Ratio and Return on Asset impact the size of a company. The research is centered around analyzing the financial records of businesses in the Pulp and paper sub-industry that are publicly traded on the Indonesia Stock Exchange (IDX) from 2017 to 2022. The study included 8 companies that were purposely chosen from a pool of 9 companies in the industry.

4. Results and Discussion

4.1. Multiple Linear Regression

Table 1. Multiple Linear Regression Test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	28.899	.378		76.509	.000
Quick Ratio	.219	.129	.219	1.700	.096
Return on Asset	-.149	.043	-.444	-3.446	.001

a. Dependent Variable: Company Size

Source: SPSS Output 19 Version

Based on the multiple linear regression equation, it can be analyzed as follows:

a.   a = 28.899

The constant value of 28.899 identifies that if the independent variable, namely Quick Ratio and Return on Asset, is equal to 0 or constant, the Company Size increases by 28.899.

b.   b1 = 0.219

The Quick Ratio regression coefficient of 0.219 identifies that each increase in Quick Ratio by one unit, if the constant value and Return on Asset are equal to 0 or constant, the company size increases by 0.219.

c.   b2 = -0,149

The Return on Asset regression coefficient is -0.149, suggesting that each additional unit increase in Return on Asset results in a decline, holding Quick Ratio constant at 0, the Return on Asset will decrease by -0.149.

4.2. Coefficient of Determination (R^2)

Table 2. Coefficient of Determination (R^2) Test Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.505[a]	.255	.222	1.849790

a. Predictors: (Constant), Return on Asset, Quick Ratio
b. Dependent Variable: Company Size

Source: SPSS Output 19 Version

The authors performed a determination test and found that the summary model had an R^2 value of 0.255, which is equivalent to 25.5%, the Company Size variable can be explained by the Quick Ratio and Return on Asset while the remaining 74.55% is influenced or explained

by other variables outside the model that are not discussed, such as long-term debt, fixed assets, capital, sales, interest, taxes, and stock prices. The correlation between the independent variables Quick ratio (X1) and Return on assets (X2) with the dependent variable Company Size (Y) is considered weak according to R2.

4.3. Partial Test (T-Test)

Table 3. Partial Test Result
Coefficients[a]

Model	T	Sig.
(Constant)	76.509	.000
QR	1.700	.096
ROA	-3.446	.001

a. Dependent Variable: Company Size
Source: SPSS Output 19 Version

From table 3 above, it can be seen that the effect between the independent variables, namely Quick Ratio and Return on Asset partially on the dependent variable, namely Company Size, is as follows:

a. Hypothesis Testing 1

Comparing t-count and t-table values is how hypothesis testing is carried out. The hypothesis is considered valid when t-count surpasses t-table and the significance value is less than 0.05. The t-table value at a significance level of 0.05 is 2.014. When examining the Quick Ratio (X1) variable, the t-value of 1,700 is less than the t-table value of 2,014 and the significance value of 0.096 is higher than 0.05. The research results back up the proposed hypothesis, leading to the dismissal of both H_o and H_1. Therefore, it is safe to say that the Quick Ratio (X1) does not play a significant role in determining Company Size, evidenced by a t count of 1.700 compared to a t table value of 2.014.

b. Hypothesis Testing 2

Hypothesis testing involves the comparison of the t-value with the t-table. If the t-value exceeds the t-table value and the significance level is below α 0.05, then the hypothesis is validated. The t-value for α 0.05 is 2.014. For Return on assets (X2), the t-value is -3, which is lower than the t-table value of 2.014 for α 0.05, with a significance value of 0.001. As a result, the hypothesis that was developed does not match the results of the study, causing both H_o and H_2 to be dismissed. This suggests that the size of a company is not significantly affected by the Return on Asset.

4.4. Simultaneous Test (F-Test)

Table 4. Simultaneous Test Result

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	52.768	2	26.384	7.711	.001[a]
	Residual	153.977	45	3.422		
	Total	206.746	47			

a. Predictors: (Constant), Return on Asset, Quick Ratio
b. Dependent Variable: Company Size
Source: SPSS Output 19 Version

During hypothesis testing, the f-count is compared to the f-table to determine whether the hypothesis is accepted. If the f-count exceeds the f-table and the significance value is below 0.05, the hypothesis is considered valid. The f-table value for a significance level of 0.05 is

3.209. The ANOVA or f test results indicate that f-count is 7.711, which is greater than f-table 3.209, with a significance value of 0.01, less than the significance level of 0.05. These findings suggest that both Quick Ratio and Return on Assets have a combined impact on Company Size. Therefore, the formulated hypothesis aligns with the research outcomes, leading to the acceptance of H_0 and H_3.

5. Conclusion

After analyzing the test results and examining the companies mentioned earlier, a number of findings were made. The initial conclusion is that the Quick Ratio factor does not play a substantial and beneficial role in determining the size of companies in the pulp and paper subsector listed on the Indonesia Stock Exchange during the 2017-2022 timeframe. Secondly, the impact of the Return on Assets variable on the size of companies in the pulp and paper subsector listed on the Indonesia Stock Exchange during the specified period is not noteworthy. Additionally, the combined influence of Quick Ratio and Return on Assets variables has a significant and positive correlation with the size of companies in the pulp and paper subsector listed on the Indonesia Stock Exchange from 2017 to 2022.

This research is limited in various ways, such as restrictions on time, data sources, and the researcher's focus. To achieve more optimal results, several recommendations are offered. For investors, it is advisable not to focus solely on the debt ratio in relation to company size, but to also consider other financial ratios that can impact a company's profitability. Investors have the opportunity to develop a more profound knowledge of a company's fundamental values, enabling them to make informed decisions regarding their investments. Companies are advised to constantly assess their capability to fulfill immediate obligations and improve their ability to produce substantial profits, which will have a positive effect on the company.

This research is expected to provide valuable insights and serve as a roadmap for future research for the general public. It is recommended that upcoming research include different variables or modify the existing independent variables, as the variables utilized in this study elucidate only 25.5% of company size, according to the coefficient of determination (R^2) table, which indicates that there are still many other variables that can explain company size. Moreover, lengthening the duration of the study to enhance the number of participants could lead to more impactful findings. Utilizing improved and precise techniques and assessment instruments would further aid in reaching more reliable deductions.

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