

**THE EFFECT OF TOTAL DEBT AND WORKING CAPITAL ON
NET INCOME IN RETAIL TRADING COMPANIES LISTED ON
THE INDONESIA STOCK EXCHANGE
FOR THE 2019-2021 PERIOD**

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Abstract

The progress and profitability of a company are intricately linked to its financial management, specifically regarding total debt and working capital. This study aims to empirically examine the impact of Total Debt and Working Capital on Net Income in retail trade sub-sector companies listed on the Indonesia Stock Exchange during the period from 2019 to 2021. Employing quantitative research methods, the study employs purposive sampling to gather data. The sample comprises 24 companies. The study considers total debt and working capital as independent variables, while net income serves as the dependent variable. Secondary data is collected from the official website of the Indonesia Stock Exchange and analyzed using multiple linear regression analysis. The findings demonstrate that working capital has a significant partial effect on net income, and both total debt and working capital exhibit a positive and significant simultaneous effect on net income in retail trading companies listed on the IDX between 2019 and 2021.

Keywords: *Net Profit, Total Debt, and Working Capital*

1. INTRODUCTION

Economic globalization makes businesses or businesses in various countries develop very rapidly. Infrastructure growth in Indonesia also has an influence on business growth, especially in the retail sector so that it becomes increasingly competitive domestically, nationally and globally. The retail trade industry (retail) in Indonesia is currently showing the ability to progress with the increasing number of construction of retail shops in various places. Retail trade is a very popular industrial sector and has dominated the lives of Indonesian people for generations. Several factors become positive catalysts for national retail growth in the future.

Every company generally aims to obtain maximum profit. Profit for the company describes the company's growth, besides that profit is also a measure of the company's financial performance. Companies that have good financial performance will have an impact on the company. The success and development of a company can be seen from the way the company organizes and manages its funds to generate profits in a certain period. One of the components that affect the size of a profit is total debt and working capital. For companies that can manage these two things to the fullest and make the company survive in quite a long period of time. Research on retail trading companies listed on the IDX was conducted because they wanted to know how the effect of total debt and working capital on a company's profits.

Table 1. Average total debt, average working capital, and average net profit of retail trading companies listed on the IDX in 2019-2021

No	Company	Average Total Debt	Average Working Capital	Average Net Profit/Loss
1	PT Ace Hardware Indonesia Tbk	1,636,929	4,081,851	822,561
2	PT Sumber Alfaria Trijaya Tbk	18,048,474	-772,181	1,374,993
3	PT Sumber Kumala Indonesia Tbk	160,827	26,933	22,092
4	PT Catur Sentosa Adiprana Tbk	5,575,232	442,483	110,941
5	PT Duta Intidaya Tbk	588,793	-134,462	-27,328
6	PT Distribution Voucher Nusantara Tbk	264,128	1,154,322	472,920
7	PT Electronic City Indonesia Tbk	479,946	554,041	7.165
8	PT Erajaya Swasembada Tbk	5,268,282	2,359,317	639,815
9	PT Globe Kita Terang Tbk	808,986	-407,410	-30,130
10	PT Hero Supermarket Tbk	3,515,919	-440,355	-702,497
11	PT Kioson Commercial Indonesia Tbk	108,669	93,420	-14,833
12	PT Kokoh Inti Arebama Tbk	694,597	35,129	-1,787
13	PT Matahari Department Store Tbk	4,556,498	-550,568	468,852
14	PT MAP Active Adiperkasa Tbk	1,847,665	1,916,944	315,412
15	PT M Cash Intergration Tbk	828,986	1,193,249	80,336
16	PT Midi Utama Indonesia Tbk	4,340,840	-996,420	226,183
17	PT Mitra Communications Nusantara Tbk	518,220	400,436	-51,408
18	PT Matahari Putra Prima Tbk	3,894,020	-773,794	-431,844
19	PT NFC Indonesia Tbk	589,134	950,164	73,849
20	PT Ramayana Lestari Sentosa Tbk	1,511,984	2,498,971	226,533
21	PT Sona Topas Tourism Industry Tbk	173,498	632,169	-36,808
22	PT Rohartindo Nusantara Vast Tbk	57,720	57,040	9,242
23	PT Damai Sejahtera Abadi Tbk	205,630	6,199	8,877
24	PT WIR Asia Tbk	90,404	28,860	11,466

Source : www.idx.co.id (source processed 2023)

Based on table 1 above, the average total debt and average working capital in several years have increased but not followed by an increase in net profit growth. There are still fluctuations in net profit, which means that there are still companies that experience a decline in profits even though total debt and working capital have increased. It can be seen that the highest average total debt for three years was PT Sumber Alfaria Trijaya Tbk. This company uses this debt to help finance working capital needs in order to carry out daily business activities, so when the total debt is higher the company's profit will also increase. PT Sumber Alfaria Trijaya Tbk also has a high average net profit. The highest average working capital is PT Ace Hardware Indonesia Tbk. Proper management of working capital effectively and efficiently can increase company profits, because the greater the amount of working capital and the higher the turnover of working capital, the higher the profit earned by the company. Adding short-term and long-term debt and own capital is intended for expansion, namely expanding company activities, expanding

production activities, expanding marketing activities with the aim of obtaining maximum profit.

The same research was also conducted by Ani Zahara and Rachma Zannati (2018: 163) in this study showing that total debt, working capital, and sales have a significant effect on net income. The T (partial) test in this study shows that total debt and sales have no significant effect on net income, while working capital has a significant effect on firm value.

The objective of this study is to examine the impact of Total Debt and Working Capital on Net Income in retail trade sub-sector companies listed on the Indonesia Stock Exchange for the period of 2019-2021. By analyzing data from 24 companies and utilizing multiple linear regression analysis, the study aims to provide empirical evidence on the relationship between these financial management variables and net income. The significance of this research lies in its contribution to the understanding of how total debt and working capital influence the profitability of retail trading companies. The findings will be valuable for industry practitioners, investors, and policymakers in making informed decisions related to financial management and performance in the retail sector.

2. THEORITICAL REVIEW

2.1. Financial statements

Financial statements are data that represent the company's financial condition and can also be used to describe the company's financial success, according to Fahmi (2014: 2). Munawir further (2014: 2) says "Financial reports are a very important tool for obtaining information regarding the financial position and results achieved by the company concerned".

2.2. Net Profit

Baridwan (2009: 3) states that profit is an increase in capital (net assets) resulting from side transactions of business entities or transactions that rarely occur, as well as from all other transactions for events affecting the company during a certain period of time, unless those are generated from income. owner or investment. Profit is an important financial statement statistic with several applications. Profits are usually used as the basis for making investment decisions and are forecasted to determine future profits. According to Kasmir (2014) states that the notion of Net Profit is profit that has been reduced by company costs or expenses including taxes in a certain period. Based on the results of the above understanding, it can be concluded that net profit is the entire total revenue minus the total costs including taxes in a certain period. The following is the formula for calculating net profit:

$$\text{Net Profit} = \text{Profit Before Tax} - \text{Income Tax}$$

2.3. Total Amoun of debt

According to Munawir (2007: 18) debt is defined as all of the company's unpaid financial commitments to third parties, where this debt is a source of finance or capital for the company that comes from creditors. From the above understanding, it can be concluded that debt is all of the company's financial obligations that have not been paid

to third parties and originate from bank loans, financial institutions, or the issuance of debentures. According to Samryn (2011: 37), debt is divided into two categories in this study, namely long-term debt and short-term debt which has the following formulation:

$$\text{Debt} = \text{Short Term Debt} + \text{Long term Debt}$$

2.4. Working Capital

Every company needs working capital which is used to fund the company's daily operations. In funding ongoing business operations, cash must be available. Working capital is an important component of all company activities. The main variable that affects the company's operations is working capital. According to Kasmir (2012: 260) working capital can be calculated using the following formula:

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

3. RESEARCH METHODS

Quantitative data analysis was conducted using financial statements from companies in the retail trade sub-sector for the period of 2019-2021. The data collection technique employed was documentary research, which involved literature review and field research to observe financial reports and gather relevant data for analysis. The samples consisted of balance sheets and income statements of companies in the retail trade sub-sector during the specified period.

The research methodology involved several measurement techniques, including descriptive analysis, classical assumption tests, multiple linear regression tests, and hypothesis testing. Data for the study was obtained through documentation techniques, utilizing available Indonesian Stock Exchange records.

The following data analysis techniques were employed to determine the impact of total debt and working capital on net profit:

1) Descriptive Analysis

Data management and conclusions were drawn using the SPSS application. This analysis aimed to examine the effect of Total Debt and Working Capital on the Net Income of retail trading companies listed on the Indonesia Stock Exchange between 2019 and 2021.

2) Classic Assumption Test

Before conducting hypothesis testing, a classic assumption test was conducted to ensure that the chosen model was appropriate and capable of providing accurate results. The classic assumption tests included normality tests, multicollinearity tests, heteroscedasticity tests, autocorrelation tests, and linearity tests.

3) Multiple Linear Regression Analysis

Multiple regression analysis was employed to determine the impact of the independent variables, Total Debt (proxied by X1) and Working Capital (proxied by X2), on the dependent variable, Net Income (Y).

4) Hypothesis Testing

Hypothesis testing was conducted to determine the significant influence between the independent variables and the dependent variable. The testing included partial tests (t-test), simultaneous tests (F-test), and coefficient of determination tests.

4. RESULTS AND DISCUSSION

4.1. Research Result

4.1.1. Descriptive Statistics

Table 2. Descriptive Statistics Result

		Descriptive Statistics			
		Minimum	Maximum	Means	Std. Deviation
Total Amount of debt	72	17571276558.00	18703002000000.00	2323558060098,4450	3785333600226,45000
Working capital	72	-2164158000000.00	4469570705861.00	514847676828,1529	1262524435240,37770
Net profit	72	-1214602000000.00	1950991000000.00	148941857373,9229	497007199092,86150
Valid (listwise)	N 72				

Source: processed data (2023)

Based on table 2 above, total debt has an average value of 2,323,558,060,098.4450 and a standard deviation of 3,785,333,600,226.45000. The maximum value of total debt is 18,703,002,000,000.00 and the minimum value is 17,571,276,558.00, then working capital has an average value of 514,847,676,828.1529 and a standard deviation of 1,262,524,435,240.37770. The maximum value of total debt is 4,469,570,705,861.00 and the minimum value is -2,164,158,000,000.00. Net profit has an average value of 148,941,857,373.9229 and a standard deviation of 497,007,199,092.86150. The maximum value of net profit is 1,950,991,000,000.00 and the minimum value is -1,214,602,000,000.00.

4.1.2. Classic Assumption Test

**Table 3. Normality Test Result
One-Sample Kolmogorov-Smirnov Test**

		Abs_res
N		72
Normal Parameters, ^b	Means	235354388775,5404
	Std. Deviation	298398770373,61360
Most Extreme Differences	Absolute	,287
	Positive	,287
	Negative	-,216
Test Statistics		,287
asymp. Sig. (2-tailed)		,973

a. Test distribution is Normal.

b. Calculated from data.

Source: processed data (2023)

Based on table 3, it can be seen that the data that has been tested is normally distributed because the Asymp sig value > 0.05 , namely $(0.973 > 0.05)$.

Table 4. Multicollinearity Test Result
Coefficients^a

Model	Model	Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Total Amoun of debt	,949	1,054
	Working capital	,949	1,054

a. Dependent Variable: Y

Source: Processed data (2023)

Table 4 explains that the tolerance and VIF values of the two variables have fulfilled the conditions given or are free from multicollinearity symptoms because all the independent variables in the study have a VIF value of less than 10 and a tolerance value of more than 0.1, so it is said that the two independent variables are not have a relationship or correlation.

Table 5. Heteroscedasticity Test

Model	Model	Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
		B	Std. Error			
1	(Constant)	174150003008,566	42245281606,050		4,122	,000
	Total Amoun of debt	.031	,009	,391	3,487	,853
	Working capital	-.020	,027	-.086	-,767	,446

a. Dependent Variable: Abs_res

Source: Processed data (2023)

Free from symptoms of heteroscedasticity because the significance value is > 0.05 for each variable.

Table 6. Autocorrelation Test Result

Model	R	R Square	Summary model ^b		Durbin-Watson
			Adjusted R Square	Std. Error of the Estimate	
1	,642 ^a	,412	,395	386552417206,77765	1.855

a. Predictors: (Constant), Working Capital, Debt

b. Dependent Variable: Net Income

Based on the table above, there is no positive autocorrelation because the value of $d > dU$ ($1.855 > 1.61482$) and there is no negative autocorrelation because $(4-d) > dU$ ($2.145 > 1.61482$).

4.1.3. Multiple Linear Regression Analysis

Table 7. Multiple Linear Regression Analysis Result Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
1 (Constant)	-116345196112,654	59423116115,389		-1.958	.054
Total Amoun of debt	,074	,012	,566	5,975	,000
Working capital	,180	,037	,457	4,819	,000

a. Dependent Variable: Y

Source: Processed data (2023)

Based on the table above, if the total debt and working capital is 0 or constant, the net profit is -116,345,196,112.654 meaning that without being affected by changes in total debt and working capital, the company's net profit is negative. The coefficient value of total debt is 0.074 and is positive, meaning that every increase in total debt by 1 rupiah will increase net profit by 0.074 rupiah assuming the other independent variables are zero. The working capital coefficient value is 0.180 and is positive, meaning that every increase in working capital by 1 rupiah will increase net profit by 0.180 rupiah assuming the other independent variables are zero.

4.1.4. Hypothesis testing

Table 8. Partial Test Result (t test) Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
1 (Constant)	-116345196112,654	59423116115,389		-1.958	.054
Total Amoun of debt	,074	,012	,566	5,975	,000
Working capital	,180	,037	,457	4,819	,000

a. Dependent Variable: Net Income

Source: Processed data (2023)

Based on the results of the partial test, it was found that total debt had a positive and significant effect on net income which was explained by the t statistic value obtained at 5.975 greater than t table, namely 0.67801 ($5.975 > 0.67801$) and the significance value obtained was 0.000 less than 0.05. So, the first hypothesis in this study is accepted. As

for working capital, it has a positive and significant effect on net income which is explained by the t statistic value obtained of 4.819 which is greater than the t table, namely 0.67801 ($4.819 > 0.67801$) and the significance value obtained is 0.000 less than 0.05. So, the second hypothesis in this study is accepted.

Table 9. Simultaneous Test Result (f test)

ANOVA^a

Model		Sum of Squares	df	MeanSquare	F	Sig.
1	Regression	7227975856319534 000000000,000	2	3613987928159767 000000000,000	24,186	,000 ^b
	Residual	10310171216139787 000000000,000	69	14942277124840271 00000000,000		
	Total	1753814707245932 0000000000,000	71			

a. Dependent Variable: Net Income

b. Predictors: (Constant), Working Capital, Debt

Source: Processed data (2023)

From the processing carried out, it was obtained that the variables of debt and working capital simultaneously had a positive and significant effect on net income because the calculated F value was 24.186 greater than the F table which was 3.98 and a significance value of 0.000 was less than 0.05. This means that the total debt and working capital together affect net income.

**Table 10. Coefficient of Determination
Summary model^b**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,642 ^a	,412	,395	386552417206,77765

a. Predictors: (Constant), Working Capital, Debt

b. Dependent Variable: Net Income

Source: Processed data (2023)

From the data processing carried out, the R square value was 0.412 or 41.2%, which means that total debt and working capital affect net profit by 41.2% and the remaining 58.8% net profit is influenced by other independent variables that are not in the study. This.

4.2. Discussion

Based on the results of statistical tests and analyzes that have been carried out, it is found that total debt has a significant influence on net income, which means that the higher the total debt value can increase net profit. This is evidenced by the t-statistic value obtained which is 5.975 greater than t table which is 0.67801 ($5.975 > 0.67801$) and the significance value obtained is 0.000 which is less than 0.05.

Based on the results of statistical tests and analyzes that have been carried out, it is found that working capital has a significant and significant effect on net income. This is

evidenced by the t-statistic value obtained at 4.819 greater than t table, namely 0.67801 ($4.819 > 0.67801$) and the significant value obtained at 0.000 is less than 0.05. In line with Kasmir's theory (2015: 256), namely for capital companies the function is to maximize the use of current assets in order to encourage profits and sales

Simultaneous test results show that the F statistic value of 24.186 is greater than the F table which is 3.98 and a significance value of 0.000 is less than 0.05. This means that total debt and working capital jointly affect net income. This is certainly in line with (Sundari & Michell, 2022) which states that the total debt owned by a company will have an impact on the net profit it gets.

5. CONCLUSION

Based on the findings from the data analysis, it can be concluded that total debt has a significant impact on net income. This implies that a higher value of total debt can lead to an increase in net profit. Additionally, working capital also has a noteworthy influence on net profit, indicating that a higher value of working capital can contribute to higher net profit. Moreover, it is worth noting that both total debt and working capital play a role in influencing net income. Consequently, a higher value of both total debt and working capital can result in an overall increase in net income.

Based on the findings of the data analysis, it is clear that total debt and working capital have a significant impact on net income. To make the most of these insights, several recommendations can be made. Firstly, organizations should focus on effective debt management by monitoring and optimizing their debt levels. Maintaining a healthy debt-to-equity ratio and ensuring timely repayment can mitigate risks associated with excessive debt. Secondly, optimizing working capital is crucial. Streamlining inventory management, improving accounts receivable and payable processes, and implementing efficient cash flow management practices can maximize resources and positively impact net profit.

Additionally, conducting comprehensive financial analyses that encompass various key metrics, along with regular monitoring and forecasting, is essential. This allows for proactive decision-making, risk identification, and adjustment of financial plans to adapt to changing market conditions. By implementing these recommendations, organizations can enhance their financial position, optimize profitability, and achieve sustainable growth in the long term.

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