The Effect of Accounts Receivable and Inventory on Profits in Large Trading Subsector Companies Listed on the Indonesian Stock Exchange in 2017-2021

Original Article

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Abstract

The main aim of this study is to investigate how accounts receivable and inventory influence the profitability of companies in the Large Trade subsector that are listed on the Indonesia Stock Exchange between 2017 and 2021. A total of 47 companies were examined in this research, with 16 companies chosen for the sample using purposive sampling. Quantitative data was employed for the analysis. The results indicated that there was no significant relationship between accounts receivable and profits, as the t-value of -0.154 was found to be lower than the t-table of 1.771, with a significance level of 0.878 > 0.05. Hence, the theory concerning accounts receivable was disapproved in this investigation. Conversely, stock was discovered to have a considerable effect on earnings with a t-value of 1.830, surpassing the t-table of 1.771, and significance level of 0.032 < 0.05, leading to the affirmation of the theory concerning inventory. Additionally, upon inspecting both accounts receivable and inventory together, there was a notable combined impact on earnings, as indicated by an F-value of 1.719 > F-table 1.611 and a significance of 0.018 < 0.05. Consequently, the hypothesis pertaining to the simultaneous influence of both variables on profit was acknowledged. The research equally found that about 23% of the variability in profit can be clarified by accounts receivable and inventory, whereas the other 77% is affected by unexplored factors like earnings manipulation, stock prices, and financial management proficiency.

Keywords: Accounts Receivable, Inventory Management, Profitability, Indonesian Trading Sector.

1. Introduction

The annual growth in companies going public shows a thriving business environment in Indonesia. This rise in listed companies on the Indonesia Stock Exchange has led to increased competition, forcing companies to enhance their performance and innovation to stay ahead. The trade sector plays a significant role in shaping the Indonesian economy. This is because as people's purchasing power increases, so does the demand for trade goods. The wholesale trade sector is a company engaged in the distribution of buying and selling in large parties. This company conducts buying and selling transactions to other trades such as retailers or to industrial users in large quantities. The rapid development in this field has made competition tighter and requires companies to take advantage of existing opportunities effectively and efficiently in their operational activities (Satriawan, et al 2017).

The financial report serves as a valuable resource for obtaining information about a company's financial status, whether it is in a positive or negative condition. Interested parties use this information to inform their decision-making process. Financial statements are

considered a report that details the financial status resulting from an accounting process over a specific period, serving as a means of communication for interested parties (Mursalini, Putri, et al., 2023).

2. Literature Review

2.1. Financial Report

Financial reports provide details on a firm's state and can also serve as a reflection of its financial achievements. The current financial status pertains to a company's monetary situation at a specific point for the balance sheet and over a certain duration for the income statement. It is essential to examine a company's financial statements as this analysis will uncover solutions regarding the financial situation and accomplishments of the involved company (Oktaviani, et al., 2023).

Financial reports provide information about a company's financial health over a specific time frame (Kasmir, 2015). They play a crucial role in guiding the company's future decisions by analysing its weaknesses and strengths (Salmawati, 2022). Financial statements are created with the aim of offering details on the financial status, implementation of budgets, cash flow, and financial achievements of an organisation to aid users in decision-making regarding resource distribution.

2.2. Profit

The primary objective of the company is to achieve profit or gains through its operations (Kusmayadi et al., 2015). The quality of earnings is essential as it reflects the company's performance and can impact its future profitability. A company with good earnings growth signifies a strong financial position, leading to an increase in its overall value. Earnings growth is the fluctuation in financial statements on a yearly basis, indicating the stability of retained earnings growth in the long run. Companies with above-average earnings growth typically operate in rapidly expanding industries (Maghfira et al., 2022). A positive profit growth indicates that the company effectively utilises its resources to generate profits, demonstrating strong financial performance. Assessing the profits generated by a company can help evaluate the effectiveness of its management in achieving success (Mursalini et al., 2024).

Profit is a key indicator of a company's performance during a specific accounting period. It represents the rise in financial gains through income generation, asset growth, or liability reduction, leading to an increase in overall equity without investor input. Profitability growth showcases effective management skills in successfully running a company. Firms with consistent profit levels can make accurate future profit estimations and are more likely to pay out a higher dividend percentage compared to those with fluctuating profits (Surenjani et al., 2023).

Earnings growth is a metric that demonstrates how well a company can boost its net income from one year to the next. Net income refers to the profit left after deducting all expenses, including taxes, for a specific period. Earnings growth is calculated by comparing the net profit for a specific year with that of the previous year, then dividing it by the net profit from the previous year. A company's performance can be assessed based on its profit growth. A higher profit margin signifies a company's stronger performance (Surenjani et al., 2023).

The formula put forwards is as follows

$$Y = \frac{Y_t - Y_{t-1}}{Y_{t-1}} \; x \; 100 \; \%$$

2.3. Accounts receivable

Accounts receivable are funds owed to a company by customers or clients for goods, services, or merchandise provided on credit. Most businesses have accounts receivable resulting from sales transactions or transactions other than sales. The nature of accounts receivable is determined by the nature of the business. Trading and manufacturing companies typically have accounts receivable and other receivables, while revenue-related receivables are known as trade receivables (Rudianto, 2012).

2.4. Inventory

Inventories are materials or goods that the company will resell at some point, without or after undergoing management. Inventory is an important part of almost all business operations, just like accounts receivable, inventory levels will depend heavily on sales (Dzakiroh et al., 2023).

Inventories are items that are stored for use or sale in the future. Inventory includes raw materials, partially completed goods, and fully completed goods. Completed goods and partially completed goods are kept in storage prior to being utilized in manufacturing, whereas complete inventory or products are stored prior to being sold or distributed.

3. Methods

This study aims to investigate the financial records of publicly traded companies in the Large Trading sector on the Indonesia Stock Exchange from 2017 to 2021. The focus is specifically on companies in the Large Trading sector that are listed on the Indonesia Stock Exchange. Data for this research was obtained from the internet by downloading financial reports from https://lembarsaham.com/daftar-emiten/9-sektor-bei. The methodology used in this research is quantitative in nature. The information used in this study was collected from secondary sources, particularly from companies in the Large Trading sector listed on the Indonesia Stock Exchange during the period of 2017 to 2021. Data collection methods employed in this research include Documentation Studies and accessing relevant websites online.

The research carried out concentrated on the analysis of 47 financial reports from the sub-sector of Large Trading listed on the Indonesia Stock Exchange (IDX) between 2017 and 2021. A selection of sixteen (16) financial reports from the same sub-sector and timeframe were chosen for further examination.

4. Results and Discussion

4.1. Research Result

4.1.1. Classical Assumption Test

A. Normality Test

Table 1. Normality Test Results
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		61
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	8972.70310309
Most Extreme Differences	Absolute	.170
	Positive	.170
	Negative	-.134
Kolmogorov-Smirnov Z		1.324
Asymp. Sig. (2-tailed)		.200

a. Test distribution is Normal.
b. Calculated from data.
Source: Data processed with SPSS Version 22

The significance level of 0.200 for the Asymptotic value (two-tailed) is above the threshold of 0.05, suggesting that the residual data conforms to a normal distribution and is consistent with the assumptions of the test.

B. Multicollinearity Test

Table 2. Multicollinearity Test Results
Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	X1	.994	1.006
	X2	.994	1.006

a. Dependent Variable: Profit
Source: Data processed with SPSS Version 22

According to the information presented in the table, the tolerance values for the Receivables and Inventory variables are greater than 0.10, while the VIF values are less than 10. This indicates that the research is not affected by multicollinearity, as per the data testing guidelines.
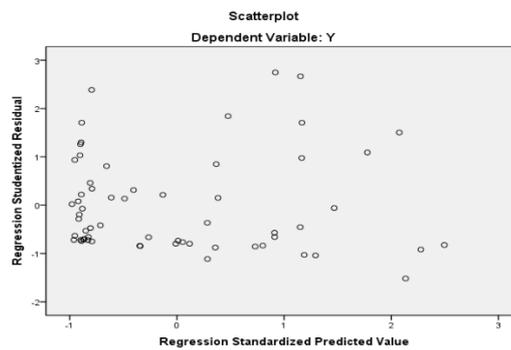
C. Heteroscedasticity Test

Figure 1. Heteroscedasticity Test Results
Source: data processed by SPSS 22

The image above illustrates that the randomly occurring points do not follow any specific pattern and are located both above and below 0 on the Y axis. Therefore, it can be inferred that there is no evidence of heteroscedasticity in the research data related to the independent variables.

D. Autocorrelation Test

Table 3. Durbin-Watson Results
Model Summary[b]

Model	Durbin-Watson
1	1.652

a. Predictors: (Constant), Receivables, Inventory
b. Dependent Variable: Profit
Source: Data processed with SPSS Version 22

According to the information provided in the table, the Durbin-Watson statistic of 1.652 was calculated based on a dataset with 16 observations and 2 independent variables (X1, X2). Since the DW value falls within the range of -2 to 2, specifically at 1.652, it indicates the presence of autocorrelation in the research data.

4.1.2. Multiple Linear Regression Test

Table 4. Multiple Linear Regression Test Results
Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
1 (Constant)	7684.068	2198.121	
Receivables	-.022	.143	-.020
Supplies	.088	.048	.234

a. Dependent Variable: Profit
Source: Data processed with SPSS Version 22

Based on the table above, the regression coefficient results can be seen, so a multiple linear regression model is obtained as follows:

$$Y = a + b_1X_1 + b_2X_2 + e$$
$$Y = 0.076 + -0.022\ X_1 + 0.088X_2 + e$$

The results of the linear regression equation above can be interpreted as follows:

a. a = 0.076

The constant value of 0.076 identifies that if the independent variables of Receivables and Inventory are zero (0) then Profit is worth 0.076 or 76%.

b. b_1 = - 0.022

The coefficient value of Accounts Receivable (X1) is negative at -0.022. This shows that if the value of Receivables (X1) increases by 1% with Inventory (X2) is fixed or zero, then Profit (Y) will decrease by 0.022 or 22%.

c. b_2 = 0.088

The coefficient value of Inventory (X2) is positive at 0.088. This shows that, if the value of Inventory (X2) increases by 1% with Receivables (X1) is fixed or zero, then Profit (Y) will decrease by 0.088 or 88%.

4.1.3. Hypothesis Test

A. Determination Test (R²)

Table 5. Determination Test Results (R^2)

Model Summary[b]

Model	R	R Square	Adjusted R Square
1	.237[a]	.056	.023

a. Predictors: (Constant), Inventory, Receivables
b. Dependent Variable: Profit
Source: Data processed with SPSS Version 22

According to the outcomes of the evaluation test, the R² score is 0.023, meaning that roughly 23% of the profit factor can be accounted for by Receivables and Inventories, whilst the remaining 77% is attributed to other variables not investigated in this research, such as Earnings Management, Stock Prices, and Financial Management Quality.

B. T-Test

Table 6. T-Test results

Coefficients[a]

Model	t	Sig.
1 (Constant)	3.496	.001
Receivables	-.154	.878
Inventory	1.830	.032

Source: Data processed with SPSS Version 22

With a sample size of 16, the t_{table} value can be determined using the degree of freedom (df) based on the number of samples and independent variables. In this study, the t_{table} value obtained is 1.771. The rejection of the first hypothesis (H1), which examines the impact of Receivables on Profit, is evident from the result t_{value} -0.154 < t_{table} 1.771, and significance 0.878> 0.05. Thus, it can be concluded that Receivables do not have a significant impact on Profit. On the other hand, the second hypothesis (H2) concerning Inventory on Profit is supported as shown by the t_{value} of 1.830> t_{table} 1.771 and significance 0.032 <0.05, indicating that the Inventory variable does influence profit.

C. F-test

Table 7. F Test Results

ANOVA[b]

Model	F	Sig.
1 Regression	1.719	.018[a]
Residual		
Total		

a. Predictors: (Constant), Inventory, Receivables
b. Dependent Variable: Earnings
Source: Data processed with SPSS Version 22

The findings of the F test indicate that the significance level is 0.018, which is below the threshold of 0.05. This suggests that the calculated F value of 1.719 exceeds the critical F value of 1.611. As a result, it can be deduced that hypothesis H3 is valid, demonstrating a noticeable influence of the independent variables on the dependent variable when viewed collectively.

4.2. Discussion

4.2.1. The Effect of Receivables on Profit

According to the test findings, it appears that the presence of Receivables does not impact the profits of major trading firms that are included in the Indonesia Stock Exchange data from 2017 to 2021. Consequently, the initial hypothesis (H1) put forth in this investigation has been dismissed, suggesting that the evaluation of Receivables does not play a role in influencing Profit. This is supported by the analysis results indicated in the t_{count} table -0.154 < 1.771 t_{table} or significance 0.878> from 0.05. The outcomes of this research align with the findings of previous studies conducted on the subject (Surenjani et al., 2023). The results of this study indicate that the accounts receivable may not have a substantial effect on asset growth due to the t_{value} being lower than the t_{table} and the significance level exceeding 0.05. Previous research has also looked into the correlation between stock prices and profit growth, finding no significant influence (Surenjani et al., 2023).

4.2.2. Effect of Inventory on Profit

Based on the results of the analysis, it has been found that the profits of major trading companies on the Indonesia Stock Exchange from 2017 to 2021 are significantly influenced by Inventory. As a result, the confirmation of the second hypothesis (H2) suggests that the assessment of inventory has an impact on determining profit levels. This is backed up by the data showing a t_{value} value of 1.830 exceeding the t_{table} value of 1.771, with a significance level of 0.032 below the accepted threshold of 0.05. The outcomes of this investigation are in line with the findings of previous research (Mursalini, Oktaviani, et al., 2023). The results of this study indicate that the increase in profits affects the growth in assets, providing support for

hypothesis H2. Previous research has also shown that hypothesis H2 plays a role in impacting variable Y, as seen in a recent study on how company size and leverage influence the financial performance of food and beverage companies listed on the Indonesian stock market from 2019 to 2022 (Kurniawati, 2023).

4.2.3. The Effect of Receivables and Inventories on Profit

As per the assessment, it was discovered that Accounts Receivable and Inventory have an impact on the earnings of prominent trading companies present on the Indonesia Stock Exchange from 2017 to 2021. Thus, the third hypothesis H3 of this study has been proven correct.   The results of the F test show a significance value of 0.018, which is below 0.05, or Fvalue 1.719 surpasses Ftable 1.611. These results align with earlier research carried out by different scholars. According to Mursaliniet al.(2023), the combination of the Current Ratio, Debt To Equity Ratio, and Net Profit Margin has a considerable impact on Profit Growth, evident by the higher fvalue of 2.890 compared to the ftable value of 2.78. The significance value of 0.044b is below the significance level of α 0.05, indicating a noticeable effect. This research, along with previous studies, implies that the Current Ratio, Debt to Equity Ratio, and Net Profit Margin collectively affect Profit Growth. Another research study on the impact of company size and leverage on earnings quality in food and beverage companies listed on the Indonesian stock exchange from 2019-2022 also supports this conclusion (Kurniawati, 2023).

5. Conclusion

According to the findings of the study, there are a number of key outcomes.   To begin with, the study results indicate that Accounts Receivable (X1) does not impact Profit (Y) in Large Trading Companies listed on the Indonesia Stock Exchange between 2017 and 2021. Secondly, the Inventory variable (X2) has been shown to influence Profit (Y) in these companies. Finally, both Accounts Receivable (X1) and Inventory (X2) together have an impact on Profit (Y) in the Large Trading company.

In light of the above findings, some recommendations are put forward which could be beneficial for companies, investors, and future researchers. Companies are encouraged to provide a detailed breakdown of profits in their annual reports to assist in data collection for subsequent research. Additionally, the discovery that Accounts Receivable have a positive effect on Earnings could serve as a point of consideration for investors when evaluating a company's potential for growth and forecasting future profits by analysing Receivables and Inventories. For researchers in the future, it is hoped that this study will be used as a point of reference to include more samples, time periods, and additional variables such as Earnings Management, Stock Price, and Quality of Financial Management in order to conduct a more thorough analysis.

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