

CHANGES IN PROFIT UNDER THE INFLUENCE OF DEBT TO EQUITY RATIO AND CURRENT RATIO

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ABSTRACT

This research aims to determine the effect of Debt to Equity Ratio and Current Ratio on changes in profits in Automotive and Component companies listed on the Indonesia Stock Exchange from 2020 to 2023. Based on the research, it can be concluded that partially the Debt to Equity Ratio has a significant negative effect on profits in Automotive and Component companies listed on the Indonesia Stock Exchange. Meanwhile, the Current Ratio also has a significant negative effect on the profits of Automotive and Component companies listed on the Indonesian Stock Exchange. Simultaneously, the Debt to Equity Ratio and Current Ratio have a significant effect on changes in profits in Automotive and Component companies listed on the Indonesian Stock Exchange.

Keywords: Debt to Equity Ratio, Current Ratio and Profit.

INTRODUCTION

Every profit-oriented company or business entity always has the ultimate goal, namely achieving the maximum profit and incurring the smallest costs. Because profit or profit is an important means of maintaining the company's survival. The higher the profit of a company, the higher the company's hope of being able to survive the growth and development of the company and become tough in facing competition and the company is required to be as efficient as possible in the sense that certain sacrifices made will achieve great results. Profit is a very basic thing in financial reports and has many uses, such as the basis for taxation and levies on wealth to the government, as a guide for dividend policy, a general guide for investment, as a measuring tool in forecasting for companies and also as a guide in decision-making. In addition, company profits are needed for the survival of the company and as a measuring tool for the company's inability to pay short-term debt obligations and long-term forests. Failure to fulfill these obligations will result in the company being eliminated from the economy. The higher the level of company funding provided by shareholders, and the greater the protection for creditors (protection margin) in the event of depreciation in asset value or large losses. James C. Van Horne (chapter four 2005, p. 209). Debt to Equity Ratio (DER) is a comparison between total debt and total capital. The greater the Debt to Equity Ratio (DER) of a company indicates the greater the risk that the distribution of the company's operating profits will be absorbed to pay off the company's obligations. The lower this ratio (Debt to Equity Ratio). Current Ratio (CR) This ratio is calculated by dividing current assets by current liabilities. This ratio shows to what

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extent current liabilities are covered by assets that are expected to be converted into cash in the near future. Brigham & Houston (part four 2010. Pg. 134). Current Ratio is a true indicator of company liquidity, because this calculation takes into account current assets and current liabilities for each company. In Economic decisions for interested parties require financial information published by the company in the form of financial reports. The financial information in question is information about company performance, changes in company profits, company capital, company cash flow, company debt and also the company's financial position. Information is really needed by interested parties in the capital market, not only information from the company's internal conditions but also from the company's external conditions such as economic, political, financial and other information.

Literature Review

According to Tasnim Ali Widjanarko, (1984, p. 132) stated: "Net profit is the net addition to own capital (Owner's Equity) that occurs due to company operations, net profit is calculated between income (revenue) minus costs (expenses)". Meanwhile Stice and Skousen, (2009, p. 204) state : "Profit is a measuring tool for the difference between the inflow of resources (income and profits) and the outflow (expenses and losses) during a certain period. Profit in pure economics is defined as an increase in an investor's wealth as a result of his investment. After deducting costs related to the investor. Meanwhile, profit in accounting is defined as the difference between sales price and production costs. Measuring profits is not only important for determining company performance but is also important. Net profit or net income is a net increase in capital. On the other hand, if the company experiences a loss, the last figure in the income statement is the loss or net loss. So from the opinions above it can be concluded that the definition of profit is the difference between the total costs and profits within a certain period of time which can be used by report users in making economic decisions that suit their interests.

RESULT

The results of this research include quantitative analysis in the form of data analysis. The sampling technique used is a purpose sample obtained from the Indonesian Stock Exchange. This research data is in the form of tabulated data from Debt to Equity Ratio and Current Ratio data obtained from financial reports of automotive and component companies.

Debt to Equity data

Based on the results of research on 11 automotive companies and components that were the research sample, it shows that the growth of the company's Debt to Equity Ratio during 2020 to 2023 is presented in table 1 below:

Table 1. Debt to Equity Ratio Automotive and Component Companies listed on the Indonesia Stock Exchange 2020 – 2023

ISSUER	YEAR				amount	AVERAGE
	2020	2021	2022	2023		
ASII	1.1	1.02	1.03	1.02	4.17	1.0425
AOTU	0.38	0.47	0.62	0.32	1.79	0.4475

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BRAM	0.26	0.38	0.36	0.46	1.46	0.365
GDYR	1.76	1.77	1.35	1	5.88	1.47
GJTL	1.94	1.61	1.35	1.52	6.42	1,605
IMAS	4.99	1.54	2.08	2.28	10.89	2.7225
INDS	2.39	0.8	0.46	0.26	3.91	0.9775
LPIN	0.41	0.33	0.28	0.25	1.27	0.3175
TIME	0.87	1.68	0.68	0.66	3.89	0.9725
NIPS	1.28	1.69	1.45	2.06	6.48	1.62
PRAS	2.33	2.45	1.06	1.08	6.92	1.73
amount	17.71	13.74	10.72	10.91	53.08	13.27
AVERAGE	169	168.7	168.6	168.66	674.92333	168.73083

Source: BEI Data Processed (2010-2013)

Based on this table, it can be seen that automotive and component companies listed on the Indonesia Stock Exchange are still experiencing many declines and increases in the Debt to Equity Ratio. Judging from the average value of the Debt to Equity Ratio in automotive and component companies, it can be seen that the average value of the Debt to Equity Ratio in 2020 was 169. In 2021 the average value of the Debt to Equity Ratio Experienced a decrease of 168.7. In 2022 the average value of the Debt to Equity Ratio will decrease by 168.6 and in 2023 the average value of the Debt to Equity Ratio will be 168.66. Which means the company has not been able to effectively streamline its debt so that it can have an impact on the company.

Current Ratio

Current ratio is the result which is the result obtained from current assets (Current assets) divided by current liabilities (Current Liabilities). The following is the average Current ratio of automotive and component companies listed on the Indonesia Stock Exchange (BEI) for the period 2020 – 2023, as follows:

Table 2. Current Ratio Automotive and Component companies listed in BEI period 2020 – 2023

ISSUER	YEAR				Amount	AVERAGE
	2020	2021	2022	2023		
ASII	126.2	136.4	139.9	124.2	526.69	131.6725
AOTU	175.7	135.5	116.5	188.99	616.69	154.1725
BRAM	401.8	278.9	212.8	165.55	1058.95	264.7375
GDYR	86.42	85.34	89.48	99.02	360.26	90,065
GJTL	176.1	174.9	172	259.72	782.73	195.6825
IMAS	106.9	136.8	123.2	110.48	477.43	119.3575
INDS	128.7	240.4	233.4	419.89	1022.35	255.5875
LPIN	251.7	293.6	290.3	320.91	1156.44	289.11

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TIME	67.04	48.18	139.3	145.59	400.14	100,035
NIPS	101.7	108.4	110.3	114.39	434.79	108.6975
PRAS	135.3	113.8	111.3	100.89	461.24	115.31
Amount	1757	1752	1739	2049.6	7297.71	1824.4275
AVERAGE	314	313.6	312.5	338.55	1278.6425	319.66063

Source: BEI Data Processed (2020 – 2023)

Based on the table above, it can be seen that the average Current Ratio has increased and decreased from year to year. In 2020 the Current Ratio is 314, which means that every Rp. 1.00 of current debt is guaranteed by Rp. 314 current assets. And from 2020 to 2021 there was a decrease to 313.6, which means that every Rp. 1.00 guaranteed current debt of Rp. 313.6.00. Current assets decreased from the previous year by 0.4. This is because the current debt for that year is greater than the current assets. In 2022 there will be a decrease, namely 312.5, where in 2021 it will be 313.6, so for this year every Rp. 1.00 of the current debt will be guaranteed in the amount of Rp. 312.5. The decrease from 2021 to 2022 is 1.1, this is due to current debt which is greater than current assets in 2022. In 2023 there was an increase in 2022 of 312.5 while in 2023 it was 338.55. So for Rp. 1.00 Current debt will be guaranteed with Rp. 338.55.00. The increase that occurs from 2022 to 2023 is 26.05, this occurs because the value of current assets is greater than the value of current liabilities.

Data analysis

Multiple Linear Regression

This research aims to see whether there is an influence of the relationship between the independent variables on the dependent variable using multiple linear regression analysis

Table 3. Multiple Linear Regression Analysis Test

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
1 (Constant)	249,383			3,625	,001
DER	-13,557	39,747	-.055	-.341	,735
CR	-74,242	36,046	-.332	-2,060	,046

a. Dependent Variable:
PROFIT

Source: Data Processing Results (2023)

The multiple regression linear equation above can be interpreted as follows:

1. Constant (a) is 249,383, meaning that if there are independent variables such as Debt To Equity Ratio and Current Ratio, the profit of automotive and component companies listed on the Indonesia Stock Exchange (BEI) is 249,383 or 2.49%.
2. β_1 is -35,557, meaning that the Debt To Equity Ratio has a negative influence on company profits, where if the Debt To Equity Ratio increases by 1%, profits will decrease by -35,557 or 3.55%.

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3. B2 is -74,242, meaning that the Current Ratio has a negative influence on profits, where if the Current Ratio increases by 1%, profits will decrease by -74,242 or 7.42%.

Normality test

Data normality testing is carried out to see whether in the regression model, the dependent and independent variables have a normal or abnormal distribution. If the data spreads around the diagonal line and follows the diagonal line then the regression model meets the assumption of normality. The following are the results of the normality test using a histogram graph:

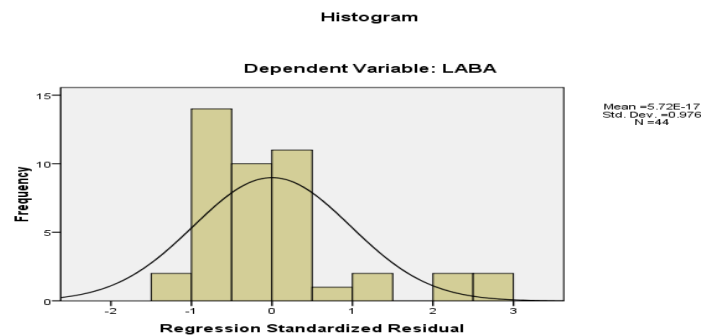


Figure 1. Histogram Graph

The histogram graph in the image above shows a normal distribution, because the graph does not slope to the left or right. Therefore, it can be concluded that the histogram graph is normally distributed so that it meets the normality assumption criteria. Below are the results showing the results of the normality test using the p-plot graph as follows:

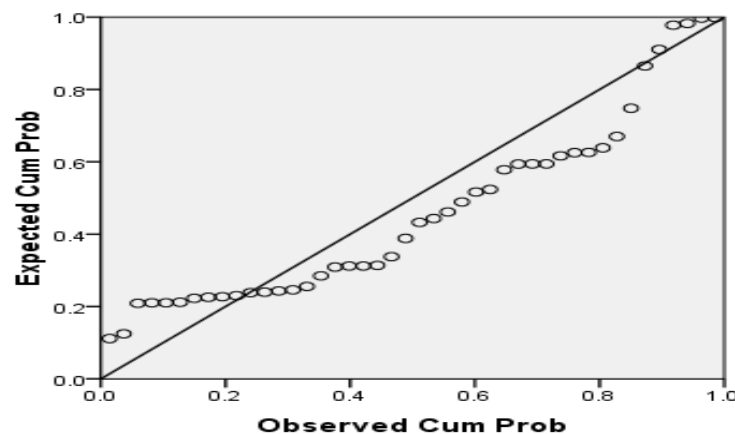


Figure 2: P-Plot Graph Normal P-Plot Of Regression Standardized Residuals

Source: Data Processing Results (2023)

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Based on the normal P-Plot graph above, it can be seen that the points spread along a diagonal line. Therefore, the normal P-Plot graph is declared to have a normal distribution so that it meets.

Multicollinearity Test

In a good model there should be no correlation between independent variables because of the high correlation between independent variables in a multiple linear regression model. If there is a high correlation between the independent variables, then the relationship between the independent variable and the dependent variable is disturbed. Multicollinearity testing was carried out with the VIF value between independent variables. If the VIF shows a number that does not exceed 4 or 5 then multicollinearity does not occur.

Table 4. Multicollinearity Test Results

Coefficients^a

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	DER	.844	1,185
	CR	,844	1,185

a. Dependent Variable: PROFIT

Based on table 4 above, it can be seen that there is no multicollinearity in the regression model. Because VIF is not more than 5.

Heteroscedasticity Test

The aim is to test whether in the regression model there is an inequality of variance from the residuals of one observation to another, because to see whether there is an inequality of variance from the residuals of one observation to another observation. A regression model that meets the requirements is one where there is a constant similarity in the variance of the residuals from one observation to another observation or is called homoscedasticity. A good regression model is one where heteroscedasticity does not occur.

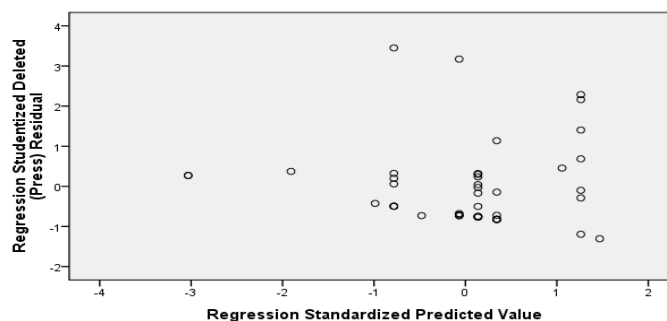


Figure 3. Heteroscedasticity Test Results Scatterplots

Source: Data Processing Results (2023)

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In the scatterplot image above, you can see that the points are spread above and below the number 0 on the Y axis. This shows that in this research data there are no symptoms of heteroscedasticity.

Autocorrelation Test

The autocorrelation test aims to test whether there is a correlation between confounding errors in one period and confounding errors in the previous period in the regression model. If autocorrelation occurs in the regression model, it means that the correlation coefficient obtained is inaccurate, so a good regression model is a regression model that is free from autocorrelation. One way to detect the presence or absence of autocorrelation is to carry out the Durbin-Watson (DW) test. The table below presents the DW test results using the SPSS 16.00 program.

Table 5. Autocorrelation Test Results

Model Summary b

	Change Statistics					
	R	Square	F Change	df1	df2	Sig. F Change
Model	Change					
1	,099		2,253	2	41	.118

a. Predictors: (Constant), CR, DER

b. Dependent Variable: PROFIT

Source: Data Processing Results (2023)

The criteria for assessing the occurrence of autocorrelation are:

1. If the DW value is below -2 then autocorrelation occurs
2. If the DW value is between -2 to +2, it means there is no autocorrelation
3. If the DW value is above +2 then negative autocorrelation occurs

From the results of the table above, it can be seen that the DW value is 1.532, which means it is included in the second criterion, so it can be concluded that the regression is free from autocorrelation problems.

T test

The t test of this research is to determine the ability of each independent variable to influence the dependent variable. Another reason the t test is carried out is to test whether the independent variable (X) individually has a significant relationship or not with the dependent variable (Y).

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Table 6. t Test Results

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	Q	Sig.
	B	Std. Error	Beta		
1(Constant)	249,383			3,625	,001
DER	-13,557	39,747	-.055	-.341	,735
CR	-74,242	36,046	-.332	-2,060	,046

a. Dependent Variable:
PROFIT

Source: Data Processing Results (2023)

From the results of the (partial) t statistical tests carried out in the table above, the following explanation can be drawn:

The Influence of Debt To Equity Ratio on Changes in Profit

The t test is used to determine whether the Debt to Equity Ratio has an influence or not individually (partially) and has a significant relationship to changes in profit. For the t test criteria, it is carried out at the $\alpha = 0.05$ level with the t value for $n = 44 - 2 = 42$ being 2.018.

The calculated Debt to Equity Ratio value of -0.341 is smaller than the t table of 2.018 with significantly (0.735) greater than alpha (0.05) ($\text{sig.} 0.735 > \alpha 0.05$). Thus H_0 is accepted and H_a is rejected. Based on these results, it was concluded that H_0 was accepted and H_a was rejected, this shows that partially there is an insignificant influence between the Debt to Equity Ratio on profits.

The Effect of Current Ratio on Profit

The t test is used to determine whether the Current Ratio individually (partially) has a significant relationship with changes in profit. For the t test criteria, it is carried out at the $\alpha = 0.05$ level with the t value for $n = 44 - 2 = 42$ being 2.018.

The Current Ratio t-calculated value of -2.060 is greater than the t table of 2.018 with significance (0.046) greater than alpha (0.05) ($\text{sig.} 0.046 < \alpha 0.05$). Thus H_0 is rejected and H_a is accepted. Based on these results, it was concluded that H_0 was rejected and H_a was accepted, this shows that partially there is a significant negative influence between the Current Ratio on profits.

F Test

The F test shows whether all independent or independent variables included in the model have a simultaneous or joint influence on the dependent variable.

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Table 7. Simultaneous Test Results (F Test)

ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	187239.248	2	93619.624	2,253	.118a
Residual	1703539.661	41	41549.748		
Total	1890778.909	43			

a. Predictors: (Constant), CR, DER

b. Dependent Variable: PROFIT

Source: Data Processing Results (2023)

Based on the table above, the ANOVA (Analysis of Variance) above shows that Fcount is 2.253 which is smaller than Ftable 4.46 with a significance level of $0.118 > 0.05$. Based on these results, it proves that the Debt to Equity Ratio and Current Ratio simultaneously do not have a significant influence on profits in automotive and component companies listed on the Indonesia Stock Exchange.

Coefficient of Determination (R-Square)

This coefficient of determination functions to determine the percentage of influence of the independent variable and the dependent variable.

Table 8. Coefficient of Determination Results

Model Summary b

Model R	R Square	Adjusted Square	R Std. Error of the Estimate	Durbin-Watson
1 .315a	.099	.055	203.83755	1,532

a. Predictors: (Constant), CR, DER

b. Dependent Variable: PROFIT

Source: Data Processing Results (2023)

From In the table above, you can see the results of the overall regression analysis, the R value is 0.315, indicating that the correlation or relationship between Profit (dependent variable) and the Debt to Equity Ratio, Current Ratio (independent variable) is at a low level. Then the corresponding R-Square (R²) or coefficient of determination value is 0.099. This means that 9.9% of profits are influenced by the Debt to Equity Ratio, Current Ratio. while the remaining 90.1% is influenced by other variables. Such as company value, company size, managerial ownership and interest rates, then the standard error of the estimate is 203.83755, where the smaller this number, the more accurate the regression model is in predicting profits.

DISCUSSION

The effect of Debt to Equity Ratio on profits

Results research obtained regarding the influence of the Debt to Equity Ratio on the profits of automotive companies and their components listed on the Indonesia Stock Exchange. From the research results, it was found that the Debt to Equity Ratio t was -0.341,

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smaller than t_{table} amounting to 2.018 ($-0.341 < 2.018$) and the insignificant value of the Debt to Equity Ratio based on the t test was obtained at 0.735 ($sig. 0.375 > 0.05$). Thus, partially the Debt to Equity Ratio has a significant influence on profits. This shows that an increase in the Debt to Equity Ratio indicates a lack of attraction from external parties (improvers and creditors) and the results of the t test show a negative correlation, which means that the Debt to Equity Ratio increases, then profits will have a negative impact on the company. The increasing Debt to Equity Ratio shows that there is a lack of attraction for creditors to invest their funds in the company. Because companies that already have poor liquidity, it will be difficult to pay larger debts. This shows that increasing the Debt to Equity Ratio will reduce investors' confidence in the company's liquidity, making it difficult for management to increase debt which causes company profits to decline. The results of this research are supported by Kasmir's theory (2013, p. 158) which explains that for banks (creditors), the greater this ratio, the more unprofitable it will be because the greater the risk borne by the company. However, for companies, the bigger this ratio, the better.

The Effect of Current Ratio on Profit

The research results obtained regarding the influence of the Current Ratio on profits in automotive and component companies listed on the Indonesia Stock Exchange (BEI). From the research results, it was found that the total Current Ratio t value was -2.060 which was smaller than the t table of 2.018 ($-2.060 < 2.018$) and the significant Current Ratio value was 0.46 ($sig 0.46 > \alpha 0.05$). Thus, partially the Current Ratio has a significant influence on profits. These results indicate that a decrease in the Current Ratio will indicate the attractiveness of external parties (investors and creditors) and the t test results show negative, which means that the Current Ratio decreases, so profits will have a negative impact on the company. The decrease in the Current Ratio indicates that there is no attraction for creditors to invest their funds in the company. Because companies that have good liquidity will have the ability to pay greater debt. This shows that an increase in the Current Ratio will reduce investors' confidence in the company's liquidity, making it difficult for the company to increase debt which will cause the company's profits to decrease. The results of this research are supported by Sartono's theory (2012, p. 116) which explains that a company's liquidity is indicated by the size of its current assets, namely assets that are easy to convert into cash which include securities, cash, inventory receivables. The higher the Current Ratio, the greater the company's ability to meet its short-term financial obligations. This is in accordance with Kasmir's theory (2012, p. 135) "If the current ratio is low, it can be said that the company lacks capital to pay debts. However, if the current ratio is high, then the company is in good condition. A Current Ratio that is too high indicates an excess of cash or other current assets compared to what is currently needed or a low level of liquidity compared to current assets and vice versa.

Effect of Debt to Equity Ratio, Current Ratio on profits

From the ANOVA (Analysis of Variance) test in the previous table, it can be seen that F_{count} is 2.253 and F_{table} is 4.46. Based on these results, it can be seen that $F_{count} < F_{table}$ ($2.253 < 4.46$). And seen from the significance level of $0.118 < 0.05$. Based on the results of the regression analysis through the simultaneous test above, it can be concluded

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that for the Debt to Equity Ratio variable, the Current Ratio as independent variables together (simultaneously) does not have a significant effect on profits. This means that the higher the Debt to Equity Ratio, the Current Ratio decreases, the more investors' confidence in investing their capital in the company decreases, so that the company's capital will decrease. This research is supported by Sartono's theory (2012 p. 221) which explains that a high level of liquidity reflects that the company is able to pay its maturing obligations and the total debt the company has is getting smaller. This is also in accordance with Kasmir's theory (2012 p. 200) which states that net profit is a measure of profit by comparing profit after interest and tax with sales. This ratio shows the company's net income from sales which can be used to capitalize the company's business and reduce debt.

CONCLUSION

Based on the results of the research and discussion previously presented, conclusions can be drawn from research regarding the influence of the Debt to Equity Ratio and Current Ratio on changes in profits in automotive and component companies listed on the Indonesia Stock Exchange (BEI) from 2020 to 2023 with a sample a total of 11 companies are as follows: The research results partially prove that the Debt to Equity Ratio has a significant effect on profits in Automotive and Component companies listed on the Indonesia Stock Exchange (BEI) in 2020 - 2023. Partial research results prove that the Current Ratio has a significant effect on profits in Automotive and Component companies listed on the Indonesia Stock Exchange (BEI) in 2020 - 2023. Simultaneous research results prove that the Debt to Equity Ratio and Current Ratio do not have a significant effect on profits in Automotive and Component companies listed on the Indonesia Stock Exchange (BEI) in 2020 - 2023. Based on the results of the research, it is known that the Debt to Equity Ratio and Current Ratio variables simultaneously do not have a significant effect on profits. And partially the Debt to Equity Ratio and Current Ratio have a significant effect on changes in profits. This research has several limitations. This research only uses Automotive and Component companies listed on the Indonesia Stock Exchange as research objects and does not cover all existing types of companies. This research only used a four year time period. This period is unable to capture situations that require a fairly long observation period. This research only uses two independent variables, there are still other variables that influence dividend variables. To overcome the limitations in this research, the researcher provides recommendations for further research as follows: future research should use a longer research period with a larger number of samples so that the research results can represent the entire existing population.

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