CHAPTER I

INTRODUCTION

1.1 Background

The success of an enterprise is measured based on its performance. The company's performance can be assessed through financial statements presented on a regular basis every period (Juliana and Sulardi, 2003). Brigham and Enhardt (2003) stated that the accounting information on the activities of the company's operations and financial position of the company can be obtained from the financial reports. Accounting information in financial statements is very important for the business person such as investors in decision-making. Investors will invest in companies that can provide a high return.

The Financial Accounting Standards Board (FASB) (1978), Statement of Financial Accounting Concepts No.1, stated that the main focus of the financial statements is profit, so the information of financial statements should have the ability to predict profit in the future. Profit as a performance measurement process, reflect the company's increase or decrease in capital transactions from various sources (Takarini and Ekawati, 2003). The company expected earnings each period will increase, so that the profit estimate is needed to achieve the company for the coming period. Estimation of profit can be made by analyzing financial statements. Analysis of financial statements conducted can be either through interpretation and calculation of financial ratios.

Meythi (2005) States that one of the ways to predict the company's profit was using financial ratios. Financial ratio analysis can help the business person and the Government in evaluating the financial state of the company's past, present and projected the results or profits that will come (Juliana and Sulardi, 2003). In General, financial ratios can be grouped into liquidity ratios, leverage ratio, the ratio of activity and profitability ratios (Riyanto 1995). According to research Takarini and Ekawati (2003) liquidity ratio of positive influence significantly to profit growth into next year is the Working Capital to Total Assets (next called the WCTA). WCTA shows the ratio between the working capital (current assets minus debt) to total assets. The higher of the WCTA showed the greater working capital acquired the company than the total of its assets. With a large working capital, the company's operations to be clear so that earned income is increasing and this resulted in profits gained on the rise. However, research conducted by Mahfoedz (1994) and Suwarno (2004) shows that the WCTA has no effect against a significant profit growth in coming years. Machfoedz (1994) in his research showed that the ratio of leverage that influence significantly to profit growth is the Current Liability to Inventory (CLI) and Operating Income to Total Liabilities (OITL). CLI is a comparison between the current debt (Current Liabilities) of the preparation (Inventories) (Machfoedz, 1994). A high CLI shows the dependence of the company on high supplier or the amount of short-term debt of the company to finance its preparation. This can lead to considerable risks for the company when the company is unable to pay the liabilities at maturity, so that it will interfere with the continuity of operations of the company. In addition, the company will be faced with high interest charges so as to lower the company's

earnings. This is according to research by Machfoedz (1994) and Ediningsih (2004) show that significant negative effect CLI to predict a profit growth in coming years. This means that the company cannot make its debt to gain profit. However, research Takarini and Ekawati (2003) showed that the CLI does not influence significantly to predict profit growth one year ahead.

OITL is the ratio between operating profit before interest and taxes (i.e. the result of the reduction in net sales minus the cost of goods sold and operating expenses) to total debt (Riyanto, 1995). The larger the OITL, pointed out that the revenue generated from sales activities than the total debt, meaning that the companies is able to pay their debt. Thus the continuity of the company's operations will not be disrupted, so that earned income be increased and profits obtained huge. Mahfoedz (1994) and Ediningsih (2004) in his research showed that significant positive effect OITL predicts profit growth for one year to the next. While research and Takarini Ekawati (2003) and Suwarno (2004) indicates that no effect significant OITL predicts profit growth for one year to the next.

Ou (1990) showed that the ratio of an influential activity to predict significant growth in profit is Total Assets Turnover (TAT). TAT is an comparison between the net sales to total assets. TAT function to measure the company's ability to use a total of its assets in generating net sales. The larger the TAT shows increasingly efficient use of all the company's assets to support sales activities. This shows that the better the performance of the company, thus investors keen to invest its capital, so that it can increase the profits of the company.

The research by Ou (1990) and Asyik and Sulistyo (2000) show that the positive effect of TAT significant profit growth. While the study conducted by Suwarno (2004), Takarini and Ekawati (2003), Juliana and Sulardi (2003) and Meythi (2005) indicates that TAT does not influence significantly to earnings growth. Asyik and Soelistyo (2000) in his research showed that the ratio of profitability that influence significantly to profit growth is the Net Profit Margin (NPM) and the Gross Profit Margin (GPM). NPM is a comparison between the net profit after taxes (i.e. profit before income tax is reduced by income tax) of net sales. This ratio measures the company's ability to generate revenue to achieved net sales company (Riyanto, 1995). The higher the NPM shows that increasing net profit achieved the company against net sales. Increasing NPM will improve the attraction of investors to invest its capital, so that the company's earnings will increase. Mahfoedz (1994), Asyik and Soelistyo (2000), and also Suwarno (2004) in his research suggests that the positive influence of NPM significant profit growth one year ahead. However, research results from Usman (2003), Meythi (2005), Takarini and Ekawati (2003) and Juliana and Sulardi (2003) showed that the NPM has no effect against the significant profit growth one year ahead.

GPM is the ratio between the gross profit (i.e. net sales minus the cost of goods sold) of net sales (Ang, 1997). GPM which increase shows the greater the level of refund for gross profits that accrue to the company against net sales. This means the more efficiently costs the company incurred to support sales activities so that the earned income be increased. Research results from Juliana and Sulardi (2003) suggest that the positive effect of the GPM significant profit growth one year ahead. While the results of the research by Meythi (2005) and Usman (2003)

showed that the GPM has no effect against the significant profit growth one year ahead. Based on empirical evidence that links between financial ratios (WCTA, CLI, OITL, TAT, NPM and GPM) against earnings growth (growth of Earning After Tax) still shows different results, then this study examines how the influence of the ratio of these financial-ratio of profit growth especially in the manufacturing sector in Indonesia Stock Exchange (IDX) of the period 2008 to 2012.

Selection of manufacturing companies in IDX because the manufacturing industry is the most industry many listed in IDX. Until now, the economy of Indonesia has not fully recovered from the economic crisis that faced Indonesia at the domestic level since mid-1997 and even in 2008 has the global economic crisis which impacted to the economy of Indonesia, therefore it is expected in 2008 to 2012 can improve economic conditions and profit growth will increase.

1.2 Formulation of the problem

This research was conducted to examine the influence of the WCTA, CLI, OITL, TAT, NPM and GPM of profit growth in the future in manufacturing companies registered in IDX period 2008 to 2012, so that the research question can be derived as follows:

1. How does the WCTA influence the profit growth at the company's manufacturing in the future?

2. How does the CLI influence the profit growth at the company's manufacturing in the future?

3. How does the OITL influence the profit growth at the company's manufacturing in the future?

4. How does the TAT influence the profit growth at the company's manufacturing in the future?

5. How does the NPM influence the profit growth at the company's manufacturing in the future?

6. How does the GPM influence the profit growth at the company's manufacturing in the future?

1.3 Purpose and Usability

1.3.1. Research Objectives

The purpose of doing this research is:

1. Analyze the effect on profit growth against the WCTA manufacturing company.

2. Analyze the influence of the CLI to profit growth at the company's manufacturing.

3. Analyze the effect on profit growth against OITL manufacturing company.

4. Analyze the effect of TAT to profit growth at the company's manufacturing.

5. Analyze the influence of NPM to profit growth at the company's manufacturing.

6. Analyze the influence of the GPM of profit growth at the company's manufacturing.

1.3.2. The Usefulness of The Research

This research is expected to be beneficial to:

1. For Issuers

The results of this research are expected to be used as one of the basic considerations in decision-making in the areas of finance, especially in order to maximize the profit of the company having regard to the factors examined in this study.

2. For investors

The results of this research are expected to be used as a consideration in the decision making investments in manufacturing companies in Indonesia stock exchange (IDX).

1.4 Writing Systematic

The writing systematic of this study is divided into five chapters and each chapter divided into some subchapter. The first chapter are describes about the research backgrounds, problem definitions, research objectives, research benefits, and writing systematic.

The second chapter is literature review, theoretical framework and hypothesis that discuss about the theoretical analysis of this study that gathered from some sources, such as books, journals, internet, and previous research and discuss about hypothesis development.

The third chapter discusses the research methodology used in the preparation of this study, type of research, population and sampling, variable

definition and measurement, types of data, data collection method, data analysis method, classical basic assumption and hypothesis testing which used to analyze the data and any information needed.

Chapter fourth describes the result of research based on the data and information gathered related with problems definitions.

The last chapter is conclusions , this chapter presents the conclusions which consist of the entire conclusion that have been taken and also consist of suggestion from the author as a result form the problem that hopefully will be useful for certain of people.