



Determinants of profitability in concept of going concern

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ABSTRACT

Study aims to identify and analyze liquidity and financial leverage as determinants of profitability. Going concern is accounting assumption that expects business to continue indefinitely. This concept implies the company's responsibility to maintain stability and continuity comprehensively through its ability to earn profit from its operating activities. Real Estate and Property Companies listed in the KOMPAS 100 Index for period 2018 to 2022 as population, using purposive sampling technique, six companies were selected as samples. At significance level of 0.05, results of multiple linear regression analysis prove that liquidity has positive and significant effect on profitability, while financial leverage is not proven. These results imply that liquidity is determinant of profitability. Liquid companies will be seen as having high credibility and tend to cause positive reactions from investors, so that the company has sufficient capital to carry out its operational activities in effort to improve profitability to realize going concern concept.

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INTRODUCTION

Going concern is one of the important concepts in conventional accounting. The company in publishing its financial statements has the duty to present information related to the sustainability of its operating activities in the future. The going concern principle is an accounting standard that assumes that a company is able to continue its business activities in the future, without any threat of liquidation (Ruiz-Barbadillo & Guiral, 2019) and (Lentner et al., 2020). The continuity of the company's business operations is influenced by several factors, both financial and non-financial factors. Accountants, as providers of financial statements should present information regarding the financial position and results of company operations in the notes to the financial statements for a period. The hope is that, as users of financial statements, investors can obtain sufficient information to determine the continuity of a business. Going concern is useful for users of financial statements to make appropriate investment decisions. This is because when investors make investment decisions, they have an interest in knowing the company's financial condition, especially regarding the sustainability of its business in the future. The more complete the accounting information disclosed in the notes to the financial statements (full disclosure), the more users of financial

statements will know the company's financial performance. Full disclosure can help reduce the occurrence of asymmetric information, as long as the presentation is not excessive. An adequate disclosure will have a positive impact on users of financial statements in making decisions.

Good financial performance is the key to the sustainability of a company to survive in the future (Deniswara et al., 2019), (Matemane & Wentzel, 2019), and (Horvathova & Mokrisova, 2023). Therefore, company finances need to be managed properly and carefully. Financial management activities are related to the process of planning, organizing, directing, and controlling company funds. Financial management is responsible for managing working capital funding, using it, allocating and managing these assets to achieve mutual prosperity. In addition to preparing estimates regarding working capital requirements, the financial management function also projects profit targets which are one of the company's goals. Companies must be able to balance working capital and profit orientation. It often happens that the company is unable to balance these two things, where the position of liquidity and leverage is inadequate due to the orientation of the company which is focused on pursuing profits without compensating for the management of aspects of its ability to pay its obligations. Or vice versa, because the company pays too much attention to liquidity and leverage, thus neglecting the aspect of profitability. This study aims to determine liquidity and financial leverage as determinants of profitability in order to analyze going concern companies, through an influence test, using multiple linear regression analysis method. Property and Real Estate Companies listed in the KOMPAS 100 Index for the period 2018 to 2022 as a population. The property and real estate sector industry was chosen as the subject of study because it is seen as having an important role in driving the growth of the national economy. The government has made the property and real estate sector a driving force for the trend of increasing national economic recovery, because this sector is seen as having a multiplier effect, both in terms of forward linkage and backward linkage, on employment. The results of the study are expected to have theoretical implications related to the going concern concept, namely the accounting assumption that expects a business to continue indefinitely, also called continuity. Apart from that, it is also hoped that it will provide practical implications for investors (potential investors) regarding understanding the factors determining profitability in the going concern concept.

Profitability is a measure of the success of a company in carrying out business operations. Profitability describes the result of a few companies' financial policies, which also reflect its survival (Parvin et al., 2019), (Rahmah et al., 2019), (Rajagukguk & Siagian, 2021), (Priyantoro et al., 2022), and (Thin et al., 2022). Profitability measures a company's ability to generate profits from a certain amount of capital and/or all the assets it manages (Ayoush et al., 2021) and (Nurkhin et al., 2023). A company must be in a favorable state to survive and thrive. Based on fundamental analysis, there are several financial ratios that affect profitability, including: liquidity, financial leverage, activity, growth, and company size. As already mentioned, this study focuses on two financial ratios, namely liquidity and financial leverage, to determine their effect on profitability. Several previous studies have proven that liquidity and financial leverage influence profitability, such as the results of the study by (Ridha & Kashmir, 2017), (Zaitoun & Alqudah, 2021), and (Fitriana et al., 2022). However, several previous studies have shown opposite results, such as studies by (Kamsari & Setijaningsih, 2020), (Husniar, 2022), and (Kusumawati, 2022). This implies that there is a research gap that lies behind the importance of this study being carried out. This study measures profitability using the return on assets indicator, namely earnings after taxes divided by total assets in period t .

Liquidity measures a company's ability to pay its short-term obligations or obligations that are due soon (Bhati et al., 2019), (Darmayanti et al., 2022) and (Kusumawati, 2022). A company is said to be liquid if it has a means of payment in the form of current assets that are greater than all its short-term liabilities. Liquidity is measured through sources related to working capital, namely current asset accounts and current liabilities. Liquidity and profitability are related when the condition of a company can pay its short-term obligations properly. During these conditions, the

Company is seen as having the ability to generate profits. High liquidity tends to trigger the attractiveness of (prospective) investors. This is because this reflects the fact that the company's finances are in good condition and are predicted to have a relatively small risk of loss. Usually, the stock market will categorize this company as a blue-chip stock, which is a type of stock from a company with prime financial condition, has been operating for many years, has reliable income, and often distributes dividends. In Indonesia, stocks that fall into the blue-chip category include those listed on the LQ45 index, KOMPAS 100 index, and IDX30. This study measures liquidity using the current ratio indicator, namely current assets divided by current liabilities in period t. H1: Liquidity affects profitability.

Financial leverage measures a company's ability to use fixed-load funds to maximize owner (investor) wealth. Conceptually, the relationship between financial leverage and profitability is reflected in the use of debt or loan funds to increase returns or profits in a business or investment (Ritonga, M., Kertahadi, 2013), (ALghusin, 2015), (Widiyanti & Elfina, 2015), (Huang, 2021), (Pasaribu et al., 2022), and (Banerjee et al., 2023). Funds from debt are used to enlarge the business, such as purchasing machinery and increasing the number of workers to increase production capacity, so that income will increase. However, the use of financial leverage is not always profitable. Because the greater the company's operations are financed from debt, the greater the interest expense that must be borne, so the greater the risk. This study measures financial leverage using the debt to assets ratio indicator, namely total debt divided by total assets in period t. H2: financial leverage affects profitability.

RESEARCH METHOD

The study population is property and real estate sector companies listed on the Indonesia Stock Exchange and included in the Kompas 100 Index category in the period 2018 to 2022, a total of 22 companies. Using a purposive sampling technique, 6 companies were selected as the study sample (Table 1). The data used for analysis is secondary data, which is collected by downloading from the Indonesian Stock Exchange's website. Furthermore, the collected data was analyzed using the multiple linear regression analysis method, by first conducting descriptive statistical analysis to obtain an overview of the collected data as it is and the classical assumption test to obtain the best regression model that meets the best, linear, unbiased, and estimated (BLUE) criteria.

Table 1. Study sample selection criteria

Companies defined as study population	22
Companies on criterion 1, which publish complete financial reports and upload them on the Indonesian Stock Exchange's website	(5)
Companies on criterion 2, which during the study period were consecutively included in the Kompas 100 Index category	(11)
Number of samples	6
Study period	5 years
Pooling data	30 data

Table 1 presents the sampling criteria, from a total of 22 populations there are 6 companies that meet the sampling criteria. Then, using data pooling, a number of 30 observational data were determined to be examined in this study.

Table 2. Study sample

No.	Company
1	PT. Bekasi Fajar Industrial Estate, Tbk.
2	PT. Bumi Serpong Damai, Tbk.
3	PT. Ciputra Development, Tbk.
4	PT. Lippo Karawaci, Tbk.
5	PT. Pakuwon Jati, Tbk.
6	PT. Summarecon Agung Tbk.

RESULTS AND DISCUSSIONS

Results of Analysis

Table 3. Results of descriptive statistics

Variable	N	Min.	Max.	Mean	Standard Deviation
CR (x1)	30	1.22	10.50	3.25	2.170
DAR (x2)	30	0.30	0.64	0.45	0.105
ROA (Y)	30	0.01	0.19	0.05	0.039

Table 3 presents the results of descriptive statistics, which function to provide an overview of the objects studied through sample data, so that the data studied can be processed into information.

Table 4. Results of normality test

Variable	Value of Kolmogorov-Smirnov	Explanation
Unstandardized Residual	0.163	normal distribution

Table 4 presents the results of the normality test, where the residual values are normally distributed. A good regression model is a model that normally has distributed residuals.

Table 5. Results of multicollinearity test

Model	Collinearity Statistics		Explanation
	Tolerance	VIF	
CR (x1)	0.539	1.856	no multicollinearity
DAR (x2)	0.159	6.296	no multicollinearity

Table 5 presents the results of the multicollinearity test, that based on the tolerance and variance inflation factor (VIF) shows no high correlation between independent variables is detected.

Table 6. Results of autocorrelation test

Value of DU	Value of <i>Durbin-Watson</i>	Value of 4-DU	Explanation
1.481	2.467	2.519	no autocorrelation

Table 6 presents the results of the autocorrelation test, that the regression model does not show any correlation between the error variable in period t and the error variable in period t-1 (previous).

Table 7. Results of heteroscedasticity test

Variable	Sig.	Explanation
CR (x1)	0.853	no heteroscedasticity
DAR (x2)	0.988	no heteroscedasticity

Table 7 presents the results of the heteroscedasticity test, that in the regression model there is an inequality (difference) of the variance from one residual observation to another.

Table 8. Results of multiple linear regression analysis

Variable	Regression Coefficient	Sig.	Explanation
Constanta	0.047	-	-
CR (x ₁)	0.212	0.049	significant
DAR (x ₂)	-0.022	0.929	insignificant
F test		0.000	significant
R ² = 0.723 = 72.3%			

Table 8 presents the results of multiple linear regression analysis which shows the effect of the independent variables on the dependent variable. The regression equation obtained from the test is:

$$Y = 0.047 + 0.212x_1 - 0.022x_2 + e$$

The results of the multiple linear regression equation can be explained as follows: (a) The constant in the regression equation is 0.048. This means that if CR (x_1) and DAR (x_2) are 0, then ROA (Y) is 0.047. (b) The CR variable regression coefficient (x_1) is 0.212. That is, if there is an increase in the CR variable (x_1), then the value of the ROA variable (Y) will increase by 0.212. (c) The regression coefficient value of the DAR variable (x_2) is -0.022. This means that if there is an increase in the DAR variable (x_2), then the value of the ROA variable (Y) will not change.

Based on Table 8, it can be seen the magnitude of the influence of each independent variable on the dependent variable as follows: (a) The probability level (α) is 0.049. This means that CR has an effect on ROA. (b) The probability level (α) is 0.929. This means that DAR has no significant effect on ROA.

The results of the F test show that the significance value is 0.000, which is smaller than 0.05, so the CR and DAR variables simultaneously influence ROA. The coefficient of determination (R^2) value is 0.723. This means that the regression model consisting of the independent variables CR (x_1) and DAR (x_2) can influence the dependent variable (ROA) by 72.3%, while the rest is influenced by other variables outside the model.

Discussion

Effect of Liquidity on Profitability

The results of this study indicate that the current ratio (CR) influences return on assets (ROA) where the significance value is 0.049 which is less than 0.05. Based on these results, it indicates that liquidity influences profitability. Thus, the hypothesis which states that liquidity influences profitability (H1) can be accepted. The results of this study support a study conducted by (Ridha & Kashmir, 2017) and (Fitriana et al., 2022). This result strengthens the function of liquidity as an anticipator of funds if at any time the company has a sudden need. Liquidity measures the availability of cash and cash equivalents to meet short-term debt. Liquidity can be taken into consideration whether a company is eligible to receive injections of funds from investors to carry out daily business activities. In addition, liquidity can be a tool for financial analysis and interpreting a company's short-term financial position. The effect of liquidity on profitability is to explain the assets that are managed in such a way that it is possible for the company perhaps capable of paying the rapid liability due upon it without substantial damage. The pre-arrangement of assets will lead toward gain profit. This result differs from the study results of (Winoto & Bustaman, 2020).

Effect of Financial Leverage on Profitability

The results of this study indicate that the debt to asset ratio (DAR) has no effect on return on assets (ROA) where the significance value is 0.929 which is more than 0.05. Thus, the hypothesis which states that financial leverage influences profitability (H2) is rejected. Based on these results, it indicates that financial leverage has no effect on profitability. The results of this study support research conducted by (Kamsari & Setijaningsih, 2020), (Husniar, 2022), and (Kusumawati, 2022). These results indicate that changes in financial leverage tend not to affect changes in profitability. This result differs from the study results of (Ayoush et al., 2021).

CONCLUSION

The study results prove that liquidity influences profitability, while financial leverage does not. These results reinforce empirical evidence that liquidity functions as a financial analysis tool and

interprets a company's short-term financial position. Meanwhile, in financial leverage, changes tend not to affect changes in profitability. The results of this study imply that liquidity is a determining factor for profitability. That is, in an effort to achieve a certain level of profitability, management should balance liquidity and profitability in realizing the going concern concept. It is hoped that the results of this study will contribute to an understanding of the concept of going concern, with the assumption that investors (potential investors) tend to invest in companies that are able to continue their business in an unlimited time (continuity).

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