The effect of working capital turnover and receivables turnover of return on equity: A case study from cooperative

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Abstract

The research aims to determine the influence of working capital turnover, receivables turnover on return on equity (ROE) at Koperasi Pegawai Negeri (KPN) "Kasabua Ade" Bima city, Indonesia. This research used quantitative research with purposive sampling with a 10-year sample collection and data analysis techniques using multiple regression analyses. The results showed that: 1) a partial working capital turnover level has no significant effect on ROE; 2) the receivables turnover has been partially significant to the ROE.

Keywords: Working capital turnover; receivables turnover; ROE

Introduction

Working capital is funds that are embedded in current assets needed by the company in financing its operations. The amount of working capital in a company must be sufficient to finance the company's daily activities so that the company does not experience financial difficulties and failures due to inadequacy or mismanagement in working capital. However, the existence of excessive working capital shows that there are unproductive funds and this will cause losses for the company because it is a waste of profit (Baños-Caballero, García-Teruel, & Martínez-Solano, 2010; García-Teruel & Martínez-Solano, 2007).

Receivables, as an element of working capital that has important role in profitability. The spinning period or the period of capital tied to the receivables is dependent on the payment terms. The more lenient or longer the payment terms mean that the longer the capital is related to the receivables. This means that the turnover rate during a specified period is lower. The level of receivable turnover can be determined by dividing the number of credit sales during a given period by the average amount of receivables. The receivable turnover has a direct effect on the size of the capital invested in accounts receivable. The higher the turnover, it means that the shorter time the capital is bound in the receivables (Jindal, Jain, & Vartika, 2017; Rahayu & Susilowibowo, 2014). Hence, to maintain certain net credit sales with increased turnover, a smaller amount of capital is needed which is invested in receivables.

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Profitability ratios used in this study is Return on Equity (ROE). ROE is the return on ordinary equity that is the ratio of net income to average equity (Heikal, Khaddafi, & Ummah, 2014). Hence, it can be concluded that Return on Equity is the company’s ability to generate profits. Profits are obtained from the adequate working capital turnover and the receivable turnover that it runs.

In Indonesia, SMEs play a significant role in employment absorption and diversification of products (Rofik, Lestari, & Septianda, 2018; Suliswanto & Rofik, 2019). The fact, cooperatives are one of the backbones of SME financing (Suliswanto & Rofik, 2019). Therefore it is essential to continue to improve the performance of cooperatives so that the productivity of SMEs will be boosting.

KPN Kasabua Ade of the Bima City, Indonesia, is a cooperative whose operational activities are aimed primarily at improving the welfare of its members, and citizens, and SMEs in general. Net profit on the KPN Kasabua Ade increased from 2009 to 2012 and experienced a fluctuating trend in from 2013 to 2019. In 2013 Net Profit was Rp.1,019,646,685, then it decreased in 2015 that was Rp.932,879,324 then increased the following two years in 2016 to Rp.1,170,716,215, and in 2017, it became Rp.1,371,635,107, then dropped back to Rp.1,161,545,830 in 2018 then increased again in 2019 to Rp.1,203,497,955. We suspect profit volatility due to the influence of working capital turnover and accounts receivable turnover. Therefore, this study aims to justify these allegations.

Research method

This research was conducted at the KPN "Kasabua Ade" Bima City, Indonesia. The type of data used is primary data that is data obtained directly in the field through observation and literature studies. The data is sourced from the Financial Statements in the form of Balance Sheet and Calculation of Operating Results in KPN Kasabua Ade. The data sample used is financial data for ten years from 2009 to 2018. The data analysis used was multiple linear regression.

Results and Discussion

The results show that working capital turnover does not have a significant effect receivable turnover has a significant effect, and working capital with accounts receivable turnover simultaneously has a significant effect on return on equity.

From the results in Table 1, it is obtained that the working capital turnover has no significant effect on ROE. The results of this study are in line with research which states that working capital has no partial effect on profitability (Bagh, Nazir, Khan, Khan, & Razzaq, 2016; Raheman & Nasr, 2007). This finding supported by the facts that occur in the object of research that currently, the KPN Kasabua Ade has not been able to use working capital effectively where when working capital is run and lent to members experiencing constraints on credit disbursement.
Table 1 Regression coefficient

| Variable             | Coefficients | t       | Sig  |
|----------------------|--------------|---------|------|
| Working capital turnover | -0.152       | -1.861  | .105 |
| Receivables Turnover | 1.118        | -.769   | .467 |
| C                    | -0.51        | 4.155   | .004 |
| F                    | 27.123       |         | .001 |
| R Square             |              | .886    |      |

Based on the results of the tests that have been done, the results show that Accounts receivable turnover has a significant effect on ROE. The results of this study are in line with research (Nuriyani & Zannati, 2017; Rahayu & Susilowibowo, 2014), which states that a positive coefficient means that profitability is influenced by the accounts receivable turnover, the fast receivables turnover will affect the company’s cash income. The faster the receivables revolve, the higher the profits to be gained resulting in increased ROE. It is not an obstacle for KPN Kasabua Ade in generating profits even though some of its members do not have the awareness of paying installments. The circulation of shows stability so that it can produce ROE. It was proven in this test that the accounts receivable turnover variable had a significant effect on ROE.

From the results of the tests that have been carried out, they obtain the results that working capital turnover and accounts receivable turnover simultaneously have a significant effect on ROE. Although the test results partially work capital variables have no significant effect while the accounts receivable turnover variable has a significant effect, simultaneous testing shows different results "equally influence" because working capital and accounts receivable turnover are important elements in generating the profit of the KPN Kasabua Ade.

Without the support of working capital, credit disbursement will be hampered which will impact on the accounts receivable turnover, if the accounts receivable turnover is hampered, profitability will decline, which in turn will reduce shareholder equity income. The condition of the KPN Kasabua Ade is considered to be able to overcome the risk of its business by showing its existence in generating ROE and is not affected by some members who hinder the circulation of receivables.

Conclusions

The conclusions are: a) working capital turnover does not have a significant effect on return on equity; b) receivable turnover has a significant effect on return on equity; c) working capital turnover and receivable turnover simultaneously have a significant effect on return on equity. It is expected that the KPN Kasabua Ade will always conduct an evaluation of the determination of the portion of funds invested in the assets that produce it and the portion of the funds to face the possibility of withdrawing funds from the public so that the conditions of working capital turnover and turnover receivables and ROE stay balanced.
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