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Financial management

The effect of receivables turnover, inventory turnover and current ratio on profitability

Wahyu Ersandi Yusup & Swarmilah Hariani

Fakultas Ekonomi dan Bisnis, Universitas Mercu Buana Jakarta

Abstract

In 2015-2019, food and beverage manufacturing companies experienced fluctuations in their corporate profits. To maintain profitability, these companies must focus on managing costs and identifying the key factors that impact their Return On Assets. This study analyzes the influence of Accounts Receivable Turnover, Inventory Turnover, and Current Ratio on Return on Assets. The study population includes 130 food and beverage sub-sector companies listed on the Indonesia Stock Exchange between 2015 and 2019, with a sample of 70 selected using a purposive sampling technique. The study uses quantitative causal analysis, and the results indicate that Accounts Receivable Turnover and Inventory Turnover have a significant negative impact. In contrast, the Current Ratio positively affects Return on Assets.

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Corresponding author
Hariani Swarmilah
Email: swarmilahhariani@mercubuana.ac.id

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Abstrak

Pada tahun 2015-2019, perusahaan manufaktur makanan dan minuman mengalami fluktuasi pada laba perusahaannya. Untuk mempertahankan profitabilitas, perusahaan-perusahaan ini harus fokus pada pengelolaan biaya dan mengidentifikasi faktor-faktor utama yang memengaruhi Return On Assets mereka. Penelitian ini menganalisis pengaruh Account Receivable Turnover, Inventory Turnover, dan Current Ratio terhadap Return on Assets. Populasi penelitian ini berjumlah 130 perusahaan subsektor makanan dan minuman yang terdaftar di Bursa Efek Indonesia pada tahun 2015 hingga 2019, dengan jumlah sampel sebanyak 70 orang yang dipilih dengan menggunakan teknik purposive sampling. Penelitian ini menggunakan analisis kausal kuantitatif dan hasilnya menunjukkan bahwa Perputaran Piutang dan Perputaran Persediaan mempunyai pengaruh negatif yang signifikan. Sebaliknya Current Ratio berpengaruh positif terhadap Return on Assets.

Kata kunci: Perputaran piutang, rasio lancar, perputaran persediaan, laba atas aset

INTRODUCTION

Competition in the business world for food and beverage sub-sector companies is getting more challenging, so companies must improve their financial performance to generate profits for these companies. Quoting news.detik.com sources, the food and beverage industry is one of the mainstay manufacturing sectors in making a significant contribution to national economic growth. The performance achievements of companies in the food and beverage sub-sector have been consistent and positive, starting from their role in increasing investment productivity and exports to employment.

This fact is supported by data from the Ministry of Industry, which shows that throughout 2018 the food and beverage industry was able to grow by 7.91% or exceed national economic growth at 5.17%. Production growth for the large and medium manufacturing industries in the fourth quarter of 2018 increased by 3.90% yoy compared to the fourth quarter of 2017. One of the reasons was the beverage industry's increased production, which reached 23.44%. The food industry is one of the sectors that support the increase in the value of the national investment, which in 2018 contributed up to IDR 56.60 trillion. Realized total investment in the manufacturing sector last year reached Rp 222.3 trillion. Realized total investment in the manufacturing sector last year reached Rp 222.3 trillion and was recorded as contributing the most to the value of national exports. In 2017, the export value of national manufactured products was USD 125.1 billion, and USD 130 billion in 2018, an increase of 3.98%.

Based on table 1, manufacturing companies in the food and beverage sub-sector in 2015-2019 show corporate profit figures that fluctuate yearly. Given this phenomenon, companies will seek to increase profits through cost management and identify the factors that significantly influence the level of Return On Assets. By knowing the factors that can affect company profits, so the company can determine steps to overcome problems and minimize future obstacles. In previous studies, the results of Wijaya & Tjun Tjun (2018) research (2018) stated that cash and accounts receivable turnover did not significantly affect profitability. In contrast to the research results of Ikhsan & Suryani (2018), cash and accounts receivable turnover simultaneously significantly affect profitability (Return On Assets). Based on the phenomenon and explanation above with the difference in the results of previous studies, the authors are interested in conducting another study between accounts receivable turnover, inventory turnover, and current ratio to profitability in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange.

This study aims to determine and prove the influence of accounts receivable turnover on profitability, the effect of inventory turnover on profitability, and the effect of the current ratio on profitability. This research is expected to provide a theoretical contribution that offers benefits in

the form of additional empirical references and as a learning tool to improve abilities in relevant and scientific research fields. This research is also expected to contribute ideas about the importance of accounts receivable turnover, inventory turnover, and liquidity (Current Ratio) to increase company profits or profitability and contribute to efforts to improve taxpayer compliance by knowing the factors that influence taxpayer compliance.

Table 1.
Food and Beverage Company Net Profit (in millions)

Company Name	2019	2018	2017	2016	2015
ICBP	Rp 5.360.029	Rp 4.658.781	Rp 3.543.173	Rp 3.631.301	Rp 2.923.148
INDF	Rp 5.902.729	Rp 4.961.851	Rp 5.097.264	Rp 4.852.481	Rp 3.231.713
AISA	Rp 1.134.776	Rp 123.513	Rp 846.809	Rp 719.228	Rp 373.750
ROTI	Rp 236.518	Rp 127.171	Rp 135.364	Rp 279.777	Rp 270.538
ALTO	Rp 7.383	Rp 33.021	Rp 62.849	Rp 26.500	Rp 24.345
CEKA	Rp 215.459	Rp 92.649	Rp 107.420	Rp 249.697	Rp 106.549
DLTA	Rp 312.114	Rp 347.689	Rp 276.390	Rp 258.831	Rp 191.304
MLI	Rp 139.915	Rp 1.224.807	Rp 1.322.067	Rp 982.129	Rp 496.909
MYOR	Rp 2.039.404	Rp 1.760.434	Rp 1.630.953	Rp 1.388.676	Rp 1.250.233
PSDN	Rp 25.762	Rp 46.599	Rp 32.172	Rp 36.662	Rp 42.619
SKBM	Rp 957	Rp 15.954	Rp 25.880	Rp 22.545	Rp 40.150
SKLT	Rp 44.943	Rp 31.954	Rp 22.970	Rp 20.646	Rp 20.066
STTP	Rp482.590	Rp 255.088	Rp 216.024	Rp 174.176	Rp 185.705
ULTJ	Rp 304.424	Rp 701.607	Rp 718.402	Rp 709.825	Rp 523.100

Source: www.idxcom

This research delves into how profitability is impacted by receivable turnover, inventory turnover, and current ratio variables. By examining financial data from companies and analyzing the interaction between these factors, this study aims to better comprehend how they work together to achieve the most favorable profitability. The anticipated outcome of this study is to offer valuable insights to decision-makers in companies, aiding them in enhancing their financial performance and profitability.

THEORETICAL BACKGROUND

Stakeholder Theory

According to stakeholder theory, businesses must consider the value they bring to stakeholders such as shareholders, creditors, consumers, suppliers, government, community, analysts, and other parties (Freeman et al., 2004). This theory emphasizes that a company should not solely focus on its interests but must also benefit its stakeholders. The support provided by stakeholders dramatically affects a company's existence (Chariri & Ghozali, 2007). The company develops a cooperative relationship with stakeholders through the concept of use, which ensures business continuity. Meanwhile, the company builds a functional relationship with stakeholders outside the company through partnerships, aiming to improve the quality of life. Stakeholder theory considers the interests of stakeholder groups that can influence corporate strategy, and transparency is a crucial aspect of company management (Pradita & Yahya, 2020).

Profitability

According to Dewi & Wirajaya (2013), profitability shows the company's ability to earn profits by selling products or services to increase the company's total assets and capital. Return On Asset

(ROA) is one of the financial ratios used to measure a company's ability to generate profits from the company's operational activities (Nugroho et al., 2019). The greater the ROA, the greater the level of profit achieved by the company and the better the company's reputation in the eyes of investors. The following is the calculation of the Return On Assets formula (Sugiyono & Untung, 2016):

$$ROA = (\text{Net profit after tax})/(\text{Total assets}) \times 100\%$$

Receivable Turnover

The receivables turnover ratio (Receivable Turnover) is the ratio used to measure how long or how many times the funds invested in these receivables rotate in one period. The receivables turnover ratio measures how often the average receivables are collectable during one period (Subranyaman & Wild, 2008). The sale on credit will give rise to receivables whose risks will be borne by the company. The risk due to receivables is in the form of costs, reducing the company's profit. The receivables turnover rate can be calculated using the formula (Kasmir, 2014):

Receivable Turnover = (Net sales)/ (Average receivables)

According to Munawir (2010), the decrease in the receivables turnover ratio can be caused by the following factors: (1) decreasing sales and increasing receivables; (2) a significant reduction followed the decline in receivables in sales; (3) a significant increase followed the increase in sales in receivables; (4) falling sales with fixed receivables; and (5) increased sales while accounts receivable did not change. The higher the receivables turnover rate, the faster the funds invested in trade receivables can be billed into cash or shows a working model embedded in low receivables. Conversely, if the receivables turnover rate is low, trade receivables take longer to be billed in money. The receivable turnover ratio is a financial measure gauges how fast a company can collect trade receivables from its customers or clients in a specific time frame. This ratio indicates how well a company manages its receivables, and a higher value means that the company can quickly turn its receivables into cash. On the other hand, profitability measures a company's capacity to generate profits from its operations, reflecting its management's efficiency and effectiveness. In contrast, a high receivable turnover can benefit companies by enabling them to promptly receive payments from customers and convert them into revenue. This can speed up the company's revenue cycle, positively impacting net operating profit. Such profits can be invested in product development, debt reduction, or other ventures, all of which have the potential to drive long-term profitability.

Inventory Turnover

According to Bangun (2018), inventory is the main element of working capital, an asset in constant rotation and constantly changing. Determining the amount of investment or capital allocation in inventory directly impacts company profits. Because if there is an error in determining the amount of investment in inventory will reduce the company's profits. If it is too small in inventory, it will have a depressing impact on the company. Inventory turnover is the number of times goods are sold and held back during a certain period (Rahayu & Susilowibowo, 2014). The higher the inventory turnover rate, the shorter or better the average time between investment in inventory and sales transactions. According to Kasmir (2014), inventory turnover can be calculated using the formula:

Inventory turnover = (Cost of goods sold)/(Average inventory)

A good inventory turnover is needed to accelerate cash returns through sales from processing inventory into ready-to-sell products. Inventory turnover shows how many times inventory is replaced in a year. A high inventory turnover rate indicates that the company has a high sales level. With a high inventory turnover rate, the risk of loss and cost to inventory can be minimized. The Inventory Turnover financial ratio measures how quickly a company's merchandise inventory is

sold and replaced within a specific period. This ratio indicates the efficiency of inventory management, with a higher value reflecting a company's ability to sell and replace inventory more rapidly. On the other hand, profitability measures a company's capacity to generate profit from its operations, which indicates its management efficiency and effectiveness. The relationship between Inventory Turnover and profitability can be explained in several ways.

Firstly, a high inventory turnover implies that the company can avoid excessive inventory accumulation by selling its inventory swiftly. Excessive inventory can tie up capital and increase holding costs and departure risk. By optimizing inventory spending, companies can reduce costs associated with storage and potential obsolescence, ultimately contributing to increased profit margins. Secondly, a high inventory turnover can also reflect efficiency in the supply chain and company operations, reducing cycle times and production costs, which positively impacts operational profit. If companies can respond more quickly to changes in demand and market trends, they can increase their potential profitability. Thirdly, a high inventory turnover can help ensure that inventory is turned into revenue more quickly, improving a company's cash flow. Better liquidity can help companies avoid liquidity problems that can hinder growth and financial performance and provide flexibility in taking profitable business opportunities.

Current Ratio

Liquidity is a ratio that describes a company's ability to meet its short-term obligations due soon (Mahardika, 2019). The current ratio is the ability of a company to meet debt needs when they fall due. The higher the current ratio, the greater the company's ability to meet short-term obligations. A current ratio that is too high indicates an excess of idle current assets. This is not good for company profitability because current assets generate lower returns than fixed assets (Supardi et al., 2018). The higher the company's current ratio, the smaller the risk of failure in fulfilling its short-term obligations (Saragih, 2015). As a result, the risk that shareholders will bear will also be smaller. A high current ratio value of a company will reduce uncertainty for investors but indicates the existence of idle funds that will reduce the level of company profitability. A high current ratio indicates an excess of cash or other current assets compared to what is needed now. The current ratio is calculated by comparing total assets with current liabilities. The following is the formula for calculating the current ratio:

Current Ratio = (Current Assets)/(Current Liabilities) × 100%

The current ratio is a financial measure determining a company's capability to pay its short-term debts using its current assets. To calculate this ratio, divide the total existing investments by the total short-term liabilities. The current ratio provides a quick overview of a company's liquidity to meet its short-term obligations. While it does not directly measure a company's profitability, a high current ratio implies that it has enough current assets to be easily converted into cash, meaning it can pay its short-term debts without problems. This ensures smooth operations, which helps to run the business efficiently, maintain productivity, and avoid disruptions that can harm profitability. In contrast, a low current ratio may indicate a higher liquidity risk, leading to additional costs such as late payment penalties or interest on loans that have not been paid on time, reducing the company's profits. With a high current ratio, companies can avoid these risks and additional costs that can affect profitability. Additionally, a healthy current ratio offers companies the flexibility to pursue investment opportunities or business expansion that can increase long-term profitability. With sufficient liquidity, companies can invest in projects that have the potential to generate higher profits, such as developing new products or expanding into new markets. The decision to invest can significantly impact future income and gains.

METHODS

This research is causal research, where the researcher aims to test hypotheses about the effect of one or several variables. Causal research design is used to prove the cause and effect relationship of several variables. The population in this study are food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2015-2019, comprising 26 companies. Sampling in this study used a purposive sampling method, a sampling technique with certain considerations in which the requirements are made as criteria the sample must meet to obtain a representative sample (Sugiyono, 2017). Based on the determination of sampling using the purposive sampling technique, the sample number in this study was 14 companies.

This research was conducted from March to June 2020. This research uses secondary data obtained from literature study, namely by studying, classifying, and analyzing secondary data in the form of notes to financial reports and other information related to the scope of research and annual financial reports issued by manufacturing companies in the food and beverage sub-sector obtained from the Indonesia Stock Exchange website (www.idx.com) during 2015-2019. Data were analyzed and processed using descriptive, classical assumption, and hypothesis analysis using SPSS software version 25.

RESULTS AND DISCUSSION

Analisis Statistik Deskriptif

Receivables turnover had the highest value obtained at PSDN in 2016 at 17.07, and the lowest turnover was obtained at MLI in 2019 at 1.04. The mean or average receivable turnover is 8.14, with a standard deviation of 3.89136. The standard deviation of accounts receivable turnover is smaller than the mean, indicating that the deviation of the receivables turnover data is relatively small, with a small data deviation indicating that the receivables turnover data is quite good.

Inventory Turnover has the highest value obtained at ROTI 2016 of 26.00, and the lowest receivables turnover was obtained at ULTJ in 2019 at 1.09. The mean or average inventory turnover is 6.97, with a standard deviation of 5.32. The standard deviation of inventory turnover is smaller than the mean, indicating that the deviation of the inventory turnover data is relatively small, with a small deviation showing that the inventory turnover data is quite good.

Table 1.

Descriptive statistics

Variable	Mean	SE
Receivable turnover	8.137	.465
Inventory turnover	6.968	.636
Current ratio	231.815	22.233
Return on asset	1.038	.0165

Source: SPSS 25 output results

The current ratio has the highest value obtained at DLTA in 2017 of 863.78, and the lowest current ratio was obtained at AISA in 2018 at 15.24. The mean or average current ratio is 231.82, with a standard deviation of 186.01. The standard deviation of inventory turnover is smaller than the mean, indicating that the deviation of the inventory turnover data is relatively small, with a small deviation showing that the inventory turnover data is quite good. Return On Assets has the highest value obtained at AISA 2019 of 0.61, and the lowest ROA was obtained at AISA 2017 of -0.10. The mean or average ROA is 0.10 with a standard deviation of 0.1. The standard deviation of the return on assets

is smaller than the mean, indicating that the inventory turnover data deviation is relatively small, with a small data deviation indicating that the inventory turnover data is quite good.

Model feasibility test results

Based on the Table 2, it shows that the sig value is 0.000 ‹0.05 and the F count › F Table (20.473 › 2.75), it can be concluded that simultaneously accounts receivable turnover, inventory turnover and the current ratio affect the return on assets so that the hypothesis research accepted.

	b	SE	t-value	Sig.
Receivable turnover	.002	.002	1.120	.267
Inventory turnover	.001	.001	.749	.462
Current ratio	.25	.03	9.80	.00
F-statistics	20.473			
Adj. R^2	.50			

Source: SPSS 25 output results

The coefficient of determination is a coefficient that shows the magnitude of the variation arising from the independent variable or the magnitude of the influence exerted by the independent variable expressed in percentage form. Based on the figure above, the R Square value is 0.502, so the receivables turnover, inventory turnover, and current ratio variables simultaneously or jointly affect the return on assets of 50.2%. At the same time, the remaining 49.2% (100%-50.2%) is influenced by other variables outside the variables used in this study.

Based on the data obtained, the receivables turnover variable was found to have a value of 1.120 and a significance value of 0.267. The significance value is higher than the set significance level (α) of 0.05. Therefore, it can be concluded that the accounts receivable turnover does not impact the return on assets. Similarly, the inventory turnover variable was found to have a value of 0.740 and a significance value of 0.462. The significance value is higher than the set significance level (α) of 0.05. This indicates that the inventory turnover does not affect the return on assets. On the other hand, the current ratio variable was found to have a value of 9.80 and a significance value of 0.000. The significance value is lower than the set significance level (α) of 0.05. This proves that the current ratio significantly and positively impacts the return on assets.

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Discussion

Effective financial management is essential for any business to survive and succeed in a competitive environment. One crucial objective of financial management is to achieve optimal profitability by generating sufficient profits from company operations. To achieve this objective, companies must manage their financial resources effectively, which includes managing accounts receivable and maintaining a balance between assets and liabilities through the current ratio. Two key indicators used to analyze the efficiency of funds receivable management and a company's ability to meet short-term obligations are receivable turnover and current ratio. Receivable turnover measures how quickly a company can collect trade receivables from customers.

At the same time, the current ratio describes the company's ability to use its existing assets to pay short-term debts. The relationship between the efficiency of accounts receivable management, the ability to pay short-term obligations, and profitability is a significant concern for financial practitioners and academics. The relationship between receivable turnover and profitability shows how the speed of receivable collection can impact a company's liquidity and ultimately affect the level of profit generated. Additionally, the relationship between the current ratio and profitability is meaningful because it indicates how well a company can maintain a healthy financial balance without sacrificing potential profitability.

First, the results of this study indicate that accounts receivable turnover has no effect and is not significant on return on assets. The receivables turnover variable has a regression value of 0.002 units, which means that every increase of one receivables turnover variable will increase the return on assets. Based on the research results, it can be seen from the results of the t-test that the receivables turnover variable has a sig value of 0.267 > 0.05 with a t-table value of 1.120. Based on these data t count < t table, the receivables turnover variable does not affect the return on assets. This research is in line with Yuliana (2018), which states that accounts receivable turnover does not affect the return on assets. Receivables turnover has no effect due to the small number of credit sales transactions with management's consideration of getting cash quickly without going through the terms issued from the company's credit sales policy. Through cash sales, it can also anticipate uncollectible accounts so that they become over-investment in company receivables, affecting company profitability.

Second, the results of this study indicate that inventory turnover has no effect and is not significant on return on assets. The inventory turnover variable has a regression value of 0.001 units, which means that every increase of one inventory turnover variable will increase the return on assets. Based on the research results, it can be seen from the t-test that the inventory turnover variable has a sig value of 0.462 > 0.05 with a t-table value of 0.740. Based on these data t count < t table, the inventory turnover variable does not affect the return on assets. This study's results align with Siti's research (2018), which states that inventory turnover does not affect profitability. Inventory turnover has no effect because the high inventory turnover causes the embedded capital to get smaller. In contrast, the low inventory turnover rate causes the capital embedded in large inventories the risk loss from inventory in the warehouse. The results of this study indicate that the current ratio has a significant and significant effect on return on assets. The current ratio variable has a regression value of 0,000 units, which means that each increase in the current ratio variable will increase the return on assets. Based on the research results, it can be seen from the results of the t-test that the current ratio variable has a sig value of 0.000 <0.05 with a t-table value of 9.80. Based on these data t count > t table, the current ratio variable affects return on assets.

Finally, this research is in line with Mahardika (2019), which states that the current ratio affects profitability. A high current ratio value indicates that the availability of current assets to pay off current liabilities is also high. The positive influence is because the company's ability to meet its short-term obligations is higher, with higher current assets owned by the company. So that the company can pay a short-term debt by guaranteeing its current assets, a significant influence means that investors will get a higher return on investment if the company's ability to meet its short-term obligations is higher (Supardi et al., 2018).

The current ratio compares a company's current assets to its short-term liabilities, providing insight into its liquidity for meeting immediate obligations. A high current ratio suggests enough current assets to cover short-term debts, while a low ratio may indicate liquidity issues. However, the current ratio's impact on profitability is also a topic of interest in academic literature and business. Some argue that a low ratio indicates efficient use of working capital, leading to higher profitability, while a high ratio suggests less efficient resource use and limited profitability potential. Given the importance of financial decision-making and the complexity of this relationship, research is necessary to understand the impact of the current ratio on profitability.

CONCLUSION

Based on the testing and discussion results, as has been done in the previous chapter, the following conclusions can be drawn: Receivable turnover has no effect and is not significant on return on assets; Inventory turnover has no effect and is not substantial on return on assets.; The current ratio has a considerable impact on the return on assets. Based on the research results, the following suggestions can be made: First, companies in the food and beverage sub-sector are expected to maximize company profits through sales, accounts receivable, and inventory turnover. Second,

future research should be able to add other financial ratios and other macroeconomic variables and use a more extended research period to obtain good results.

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