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The Effect of Cash Turnover and Quick Ratio on Profitability (Study Of Multinational Companies Producing Chemicals (2019-2021 Period)

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Abstract

The enduring viability of a corporation is intrinsically linked to its primary objective of optimizing financial gains. Attaining this goal is crucial for guaranteeing the company's durability and ongoing prosperity. Within this environment, it is crucial to comprehend the complex interconnection among financial data. This study mainly aims to examine the impact of Cash Turnover and Quick Ratio on Profitability of Multinational Companies Producing Chemicals . from 2019 to 2021.

The company's enduring prosperity hinges on efficient financial management, with the primary objective being earnings maximization. To explore this phenomenon in depth, a research method that combines associations and quantitative data is utilized. The data utilized in this investigation are derived from the official website of Multinational Companies Producing Chemicals. and pertains to the period from 2019 to 2021.

The research findings provide a detailed comprehension of the interaction between financial variables and Profitability for Multinational Companies Producing Chemicals. Firstly, the study emphasizes Cash Turnover's favorable and substantial impact on Profitability, specifically Return on Assets (ROA). The impact is measured as 46.4%, highlighting the significant contribution that efficient cash turnover makes to improving the company's Profitability. This condition highlights the significance of efficiently managing cash flows to maximize financial performance.

Moreover, the study reveals that the Quick Ratio has a substantial and beneficial effect on Profitability (ROA) with a magnitude of 19.3%. The Quick Ratio, a metric that assesses a company's capacity to meet its short-term obligations using its most readily available assets, is significant in determining Profitability. This observation implies that upholding a favorable proportion of liquid assets to immediate liabilities benefits the company's overall Profitability.

Moreover, the study examines the collective influence of Cash Turnover and Quick Ratio on Profitability (ROA). The combined impact of these characteristics was determined to be both favorable and statistically significant, totaling 65.8%. This condition highlights the need to consider many financial indicators together to achieve improved Profitability.

Keywords: *Cash Turnover, Quick Ratio, Profitability*

Introduction

Like almost any other country worldwide, Indonesia is currently dealing with the Covid-19 pandemic. The Covid-19 epidemic is a worldwide catastrophe that has a detrimental effect on human lives and society. Having its inception in Wuhan, China, towards the conclusion of 2019, the official declaration of its presence in Indonesia was made in March 2020. The virus is highly contagious, rapidly disseminating within 5-10 seconds. Due to a substantial number of cases, the government formally recognized it as a pandemic. Hence, the government promptly responded to the increasing COVID-19 instances and fatalities by enacting community activity limitations and large-scale social restrictions measures. The use of compulsory COVID-19 immunization was also mandated to reduce mortality rates and prevent the emergence of new COVID-19 clusters.

The COVID-19 pandemic has resulted in a decline in economic activity, adversely affecting firms of many scales, especially in areas such as basic chemicals, textiles, and food industries in Indonesia. The introduction of work-from-home rules and the closure of workplaces, educational institutions, restaurants, and shopping malls have led to a decline in social, political, and economic situations. The worldwide economy has experienced a substantial deceleration.

Several corporations have had financial losses due to governmental actions, leading to a decline in the nation's economy and a rise in unemployment rates. In response, many firms have had to downsize their workforce through layoffs and temporary terminations to minimize losses and ensure the company's existence during the pandemic.

Managing a corporation amidst a persistent epidemic is arduous, particularly when diminished performance adversely impacts profits. A firm's profitability serves as a crucial indicator of its ability to sustain itself in the future. Performance reports for each period provide a comprehensive overview of financial data, including income and expenses, enabling transparent monitoring of all financial activities. (Faleria et al., 2017; Rajagukguk & Siagian, 2021) Nevertheless, the financial circumstances within a corporation are not fixed and might vary depending on the timeframe.

Financial reports communicate between a company and its stakeholders, providing numerical information regarding the company's commercial operations. (Chalmers et al., 2019; Kartiko & Rachmi, 2021) They offer historical data derived from past business operations, given in the form of quantitative information encompassing balance sheets, income statements, cash flow statements, and statements of changes in equity. (Annisa & Chabachib, 2017; Purwanti, 2022; Rachmawati & Pinem, 2015) The financial reports play a vital role in evaluating a company's capacity to fulfill its immediate financial responsibilities, ultimately impacting its profitability. Analyzing the financial records from each period allows for assessing a company's financial condition, affecting its profit or gain. (Iwan Firdaus, 2023; Kartikasari et al., 2023)

Financial constraints present a substantial obstacle to a company's growth and advancement. The fundamental objective of every firm is to optimize its financial gains. Financial ratio analysis is a method firms employ to evaluate financial performance by comparing data from several components of financial statements, including the balance sheet, income statement, and cash flow statement, over a given timeframe. (Bustani et al., 2021; Jasmani, 2019) Financial ratios, such as profitability, cash turnover, and quick ratios, are used to assess the influence of short-term obligations and cash capabilities on a company's profitability.

This study involves the collection of samples from Multinational Companies Producing Chemicals is a company engaged in the primary chemical sector. This nationwide corporation offers high-quality products and services in Indonesia's fundamental and specialized chemicals. Multinational Companies Producing Chemicals Prepares financial reports on a quarterly, per-quarter, and annual basis. These reports include balance sheets, income statements, cash flow statements, and notes to the financial statements. The financial statements can serve as a foundation for evaluating the company's profitability, considering the data from the financial reports that demonstrate variances between 2019 and 2021.

Financial ratio analysis entails the comparison of figures inside financial statements through the process of dividing one figure by another. Financial ratios are essential for evaluating a company's financial performance. They include comparing financial data from previous periods and expressing the findings as ratios or percentages. Profitability ratio analysis, cash turnover ratio analysis, and quick ratio analysis are vital techniques for evaluating a company's financial performance. Profitability ratio analysis measures a company's potential to make profits, whereas cash turnover ratio analysis evaluates the sales value obtained from the company's working capital. The quick ratio study assesses a company's capacity to utilize its present assets to settle short-term commitments. Given the facts and theory presented, the researcher intends to conduct a study entitled " The Effect of Cash Turnover and Quick Ratio on Profitability (Study Of Multinational Companies Producing Chemicals (2019-2021 Period)”

Research Method

This study utilizes the Descriptive Research methodology with a Quantitative Approach to examine the correlation between Cash Turnover, Quick Ratio, and Profitability at Multinational Companies Producing Chemicals. This study intends to examine the complex relationships between financial factors by analyzing financial reports from 2019 to 2021, using secondary data as the primary source of information. The population for this study consists of all financial report data from the company for the three-year timeframe.

Validating the compatibility of the data with the chosen analytical approach is crucial, and the use of classical assumption tests achieves this. These tests include normality, multicollinearity, heteroskedasticity, and autocorrelation tests. The outcomes of these assumption tests are vital in guaranteeing the accuracy of future studies. If the data satisfies the assumptions, the research will conduct additional analysis regarding the correlation between Cash Turnover, Quick Ratio, and ROA.

The selected research methodology offers a solid basis for understanding the financial issues that impact the profitability of

Multinational Companies Producing Chemicals. This method is anticipated to generate valuable insights within the particular context of the firm. Descriptive Research with a Quantitative Approach enables a thorough analysis of the financial dynamics, revealing the complex relationship between the variables being studied.

After confirming the traditional assumptions, the study will thoroughly analyze the relationship between Cash Turnover, Quick Ratio, and ROA. The results of this study are expected to enhance our comprehension of Multinational Companies Producing Chemicals financial dynamics also advance the broader financial research and practice domain.

This research aims to establish a solid basis for decision-makers and other stakeholders by carefully analyzing the traditional assumptions and investigating the connections between the selected financial indicators. This data can provide valuable insights for making strategic decisions, which can help develop policies to improve financial performance and profitability.

The technique utilized in this research guarantees a meticulous analysis of the selected financial factors, providing a methodical and thorough comprehension of their interconnections. Incorporating classical assumption testing enhances the study's robustness, confirming the dependability of future studies. This research has the potential to significantly contribute to the academic discussion on financial analysis and the practical domain of corporate decision-making. It will offer practical and actionable insights for Multinational Companies Producing Chemicals. could be a reference point for other companies dealing with financial difficulties in the ever-changing business environment.

Result and Discussion

This study aims to analyze the combined impact of Cash Turnover and Quick Ratio on Profitability at Multinational Companies Producing Chemicals. from 2019 to 2021. The analysis was performed by evaluating the coefficient of determination (R2) to determine how much the two independent variables may account for the variability in ROA. The results indicate that Cash Turnover and Quick Ratio can account for 65.8% of the fluctuation in ROA. The remaining 34.2% may be attributed to other factors not considered in this study.

These data illustrate the combined impact of both independent factors on ROA. While these variables offer valuable insights into the issues that impact profitability, there remains unexplained variability. Hence, forthcoming investigations could contemplate supplementary variables to achieve a more all-encompassing perspective.

An augmentation in current assets may result in a reduction in profitability and an escalation in the hazards encountered by the organization. On the other hand, a reduction in current assets can enhance both profitability and risk. Our research in this context revealed that Cash Turnover and Quick Ratio favorably affected Return on Assets (ROA). This finding supports the hypothesis that higher levels of liquidity might contribute to improved profitability.

Moreover, the debate centers on the specific impact of each independent variable on the return on assets (ROA). Firstly, the Cash Turnover ratio demonstrates a substantial positive influence on Return on Assets (ROA), as indicated by a positive regression coefficient. This condition is consistent with expectations, suggesting that a rise in cash turnover can enhance corporate profitability. Maximizing the speed at which currency is circulated can enhance asset usage efficiency, positively impacting the return on assets (ROA).

The Quick Ratio has a notable beneficial influence on the Return on Assets (ROA). The Quick Ratio measures a company's capacity to fulfill its short-term financial obligations promptly. The research findings suggest that organizations with a higher quick ratio generally have a higher Return on Assets (ROA). This condition highlights the significance of effectively managing liquidity to achieve maximum profitability.

While these studies offer helpful insights, it is essential to acknowledge certain limitations. Initially, this study is constrained to utilizing secondary data from financial accounts, excluding non-financial variables that could impact profitability. Hence, the forthcoming study should contemplate incorporating supplementary variables to conduct a more exhaustive analysis. Furthermore, this study failed to consider extraneous variables that could influence the organization's performance, such as economic circumstances and rivalry within the industry.

These findings have important practical significance for Multinational Companies Producing Chemicals management to improve its profitability, implementing strategies that specifically target the improvement of cash turnover and maintaining an ideal quick ratio can be highly successful solutions. This information can also offer stakeholders, such as investors and creditors, a more comprehensive comprehension of the company's financial performance.

In summary, this research effectively and thoroughly examines the impact of Cash Turnover and Quick Ratio on Profitability (ROA) at Multinational Companies Producing Chemicals. The results are consistent with the theories that support them, and these findings can be used as a basis for future research to enhance our comprehension of the elements that impact firm profitability. This research provides a significant contribution to the field of corporate financial analysis, taking into account the constraints and practical ramifications.

Conclusion

This research aims to investigate simultaneously the influence of Cash Turnover and Quick Ratio on Profitability (ROA) at Multinational Companies Producing Chemicals. 2019-2021 period. Through the Descriptive Research method with a Quantitative Approach, secondary data from the company's financial reports is used to analyze the relationship between these variables.

The research results show that Cash Turnover and Quick Ratio have a significant positive impact on ROA, as indicated by the coefficient of determination (R2) of 65.8%. This condition means that the two independent variables can explain around 65.8% of the variation in ROA. In contrast, the remainder, around 34.2%, is influenced by other factors not included in this study.

Individual analysis shows that Cash Turnover significantly impacts ROA, indicating that increasing cash turnover can increase a company's profitability. Likewise, with the Quick Ratio, the results show that the company's ability to meet short-term obligations quickly has a positive impact on ROA.

This research provides a deeper understanding of the factors that influence Multinational Companies Producing Chemicals. As practical advice, company management can consider strategies to increase cash turnover and maintain the quick ratio at an optimal level to support increased ROA. Although this research makes a significant contribution, it should be remembered that there are limitations, such as limited secondary data and not including external factors. Therefore, further research could expand the scope and consider additional variables for a more comprehensive analysis.

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