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ANALYSIS OF THE INFLUENCE OF *WORKING CAPITAL ASSETS* AND *FIXED ASSETS* ON COMPANY PROFITABILITY (Study on Construction Companies Listed on the Indonesia Stock Exchange for the 2019-2021 Period)

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ABSTRACT

This study aims to examine the effect of working capital and fixed assets on company profits from construction companies listed on the Indonesia Stock Exchange in 2019-2021. This study aims to find empirical evidence regarding working capital. (Working Capital) and fixed assets (Fixed Assets) on company profits or profitability, so that they can provide views to company management or to investors and stakeholders to find out relevant accounting information regarding company profits or profitability in financial reports.

The research method used in this study was a quantitative approach with a population of 62 construction companies and 22 construction companies were taken as research samples. The data used in this research is secondary data obtained from the official website of the Indonesia Stock Exchange (IDX) which is used as the research sample. The analysis technique used is multiple linear regression.

The results of testing the hypothesis stated that the working capital variable and the correlation between working capital and fixed assets had a positive effect on company profits or profitability, while this study found that fixed assets (Fixed Assets) had a negative effect on company profits or profitability.

Keywords: Working Capital, Fixed Assets, Company Profitability.

INTRODUCTION

The main goal of starting a business is to make as much money or profit as possible. Profit according to Syamryn (2011: 41) is the result of a decrease in costs against income. In other words, the company will make a profit if its revenue is greater than the costs incurred for operations. Conversely, if operating costs are greater than total revenue, the company will make a loss. It is not easy to reap huge profits with little capital. Regardless of the investment and capital required, for a company to earn high profits.

Many factors affect the development of a company, one of which is specifically, financial management shows that the funds available are sufficient and managed properly and efficiently. The company can maintain internal work quality (the company itself), especially to improve financial performance. To do so, the company must pay attention to the structure of financial arrangements contained in the management of working capital.

According to finance theory, companies have to make three types of decisions: investment decisions, financing decisions, and managerial decisions. The three parts are an inseparable and indivisible whole. Investment decisions concern the firm's actions in managing its assets, which include current assets such as cash, accounts receivable, and inventory, as well as fixed assets such as vehicles, land, and manufacturing machinery. Funding decisions are decisions that affect how a company finances its assets. This is done so that the company's assets and liabilities are balanced. 2009 (Ikhsan Pradana).

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With this, company investors will be tempted to invest if the company can increase profits and improve its financial position. This is due to the fact that the success and ability of a company to use working capital productively is an important part of assets that must be organized and used effectively.

According to Munawir (2004), besides the effectiveness of working capital management, there are other factors that affect business profitability. These variables include the type of business, scale, age of the company, capital structure, and the level of product sales or products issued.

Several variables affect earnings, as mentioned above. However, in this study, working capital and company assets are the independent variables that affect net profit. Here, working capital is the investment a company makes to fund its daily operations. Working capital is defined as the amount of funds used during the accounting period to earn revenue. Companies can return their investment in a short period of time. Working capital that is higher than real needs will cause the company to spend money inefficiently. Conversely, if the company's capital is small, it will also hinder production operations.

In their operational activities, companies often experience a shortage of working capital. The main source of a company's business failure is insufficient capital or conversely, the presence of unproductive funds from operational activities. Working capital must be sufficient but must also be maintained so that it is not excessive so that it will result in the release of uncontrolled operating costs. Working capital that is used effectively and efficiently in the operational activities of a company can show that the company has a good debt ratio, which means that the company has the ability to pay its current obligations. Likewise with profit, if the management of a company can set working capital at an optimal level, then the company's power to reap profits from capital will at least be greater.

After having capital, the most important or priority thing for a company is fixed assets. Fixed assets help the company develop and run its business; without them, the company cannot develop or run its business. Investment funds according to Cashmere (2012: 248) are used to buy long-term fixed assets that can be used again. These fixed assets include land, buildings, machinery, cars, and others. Because of its relatively fixed or long-term useful life, fixed assets can be applied to investment tools for a longer period of time. In addition, fixed assets can be a definite source of profit for the company. According to Sinaga's research (2017), changes in fixed assets have an impact on profits because they show how business management uses fixed assets to help business operations.

Since financial managers spend a lot of time examining any changes to fixed assets and share capital, companies must provide quick and effective responses. One indicator that can be used to measure how well a business operation is performing is profit. Information about profit is quite important for related parties in a company/organization, such as those who make decisions regarding compensation, bonuses, investor interests, or determine the amount of tax imposed, in order to achieve the goals of public companies. Thus it can be said that fixed assets, capital, and profit are necessary components of a public company to achieve its goals, and an increase in the value of assets and capital will encourage an increase in final profit.

Building construction companies are one of the industrial sectors listed on the Indonesia Stock Exchange (IDX). One industry that is very important for driving economic development is construction, which always needs to increase its contribution. Good public infrastructure in Indonesia is still the main driver of economic growth. Infrastructure development does not escape the role of construction companies in fostering effective cooperation to build a strong country.

THEORETICAL FRAMEWORK AND HYPOTHESIS FORMULATION

Packing Order Theory

Pecking order theory describes the level of corporate financing, which shows that companies prefer to use internal equity to raise funds for investment and apply them as growth opportunities. The theoretical pecking order shows that firms prefer internal funds over external funds, safe debt over risky debt, and lastly common stock (Myers & Majluf, 1984; Sugiarto, 2009). Peckig order theory based on several assumptions emphasizes the importance of companies having sufficient financial reserves to fund good projects with internal funds. Internal equity is obtained from retained earnings and appreciation or amortization. Debt is obtained from creditor loans, while external equity is obtained from the issuance of new shares of the company.

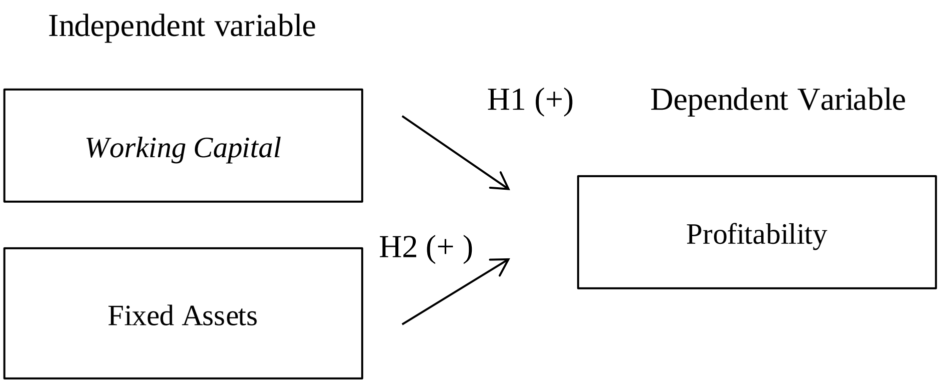
Assuming that the company's management has decided how much profit the company can reinvest and chosen its portfolio of debt models to raise funds for this investment, then deciding to pay a larger dividend means deciding to retain a smaller amount of profit at the same time, and will generate more external funds. On the contrary, when making corporate investment and financing decisions, a small dividend payment means a high degree of profit retention, and the demand for funds generated by external capital will be reduced. Corporate dividend decisions directly affect corporate funds.

If dividend payments increase and internal investment funds decrease, this will result in the need for additional funds, so the company will have to issue common shares or change the composition of its debt.

Pecking order theory emphasizes the problem of information asymmetry. Financially rich companies do not need to issue debt or risky shares to fund new projects, so there will be no information problems. The company will be able to accept all good projects without harming existing shareholders. This theory explains the behavior of companies that retain a portion of their profits and create large cash reserves.

The following framework chart shows the flow of thought that underlies the author from the explanation above :

Image 1 Framework of Thought



Hypothesis Formulation

The effect of working capital on company profitability

In financial statements, working capital is included in the current assets or short-term assets section as a type of investment. Cash or bank deposits, marketable securities, inventories, and other current assets are examples of working capital. When using functional techniques to estimate working capital, current assets used to finance current business assets such as cash, bank account balances, securities, receivables, and inventory are subtracted from current

liabilities, which include prepayments, bank loans or short-term liabilities, business expenses, taxes, past due debts, accrued expenses, and other payables (Muhajir, 2020). Working capital as a whole and its components, which include current assets and current liabilities, have a significant influence on business income (Wijaya, 2012; Nurfarkhana, 2015). Although additional research (Adawiyah and Suprihhadi, 2017) shows that financial resources have no effect, while additional research (Muhajir, 2020) shows that working techniques have no effect, there are additional findings (Anwar, 2018) that show that working capital has an effect on company profits. In the context of the relationship between working capital and profit, companies that follow the *Pecking Order* will probably prioritize internal financing for working capital rather than using external capital. This choice may affect profits because the cost of internal capital is often higher than using external capital.
H1 : Working capital has a positive effect on profitability

The effect of fixed assets on the company's profit (profitability).

Assets (Jumingan, 2014) are all the capital of a company in various forms. Assets show the total amount of money that can be used by the company to run its operations. Larger assets make management tasks more difficult. A higher number of assets indicates a more developed company size, which means greater profit potential (Basuki, 2018). Different findings show that profit is not affected by company size (Nugroho & Radyasa, 2019), but additional research (Zulkarnain, 2020; Jannati, Sur, & Machfiroh, 2021) strongly suggests that company size and asset growth have an effect.
H2 : Fixed Assets Have a Positive Effect on Profitability

RESEARCH METHODS

Population and Sample

This research uses companies in the Construction sector listed on the IDX as research subjects. Referring to the information provided on the IDX in 2021, the population of construction companies is 22.

During sample collection, the sample collection procedure applied to select samples based on certain standards or commonly called *purposive sampling*. Researchers use standards in the form of:

1. Companies in the construction sector that are listed on the IDX for the 2019-2021 period and have published *audited* financial reports comprehensively and consistently in the period ending December 31 for the 2019-2021 period.
2. Financial statements of construction companies that use currency in the company's financial statements.
3. Complete data on the variables used in the research is available and can be reached via the IDX website.

Variables and Their Measurement

The following are the variables used in this study and their measurements:

Table 2 Framework of Thought

Variables	Symbol	Measurement
Dependent Variable *Profitability*	ROA (Return On Assets)	profit after deducting expenses, including taxes, that a company makes over a certain period of time.
Independent Variable Working Capital Fixed Assets	 Working Capital Fixed Assets	Where Current Assets include assets that are expected to be converted into cash or used within one year, such as cash, receivables, and inventory.

Research Model

The data obtained is processed with the help of Microsoft Excel 2021 to find the average value of the variables of each company. This study uses two analysis models to find out the relationship between variables, namely the Multiple Linear Regression Test and the Moderated Regression Analysis Test. Data analysis is carried out with the help of the SPSS application by starting with descriptive statistical analysis. After that, a classic assumption test is carried out to determine whether the regression model is suitable for regression testing or not and after it is said to be feasible, the regression test is carried out to test the hypothesis.

RESEARCH RESULTS AND DISCUSSION

Description of Research Sample

The purpose of this research is to measure the financial performance of corporations through analyzing the effect of profitability on the variables of working capital *(Net Working Capital)* and fixed assets *(Fixed Assets)*. The focus of the research is the financial statements of construction companies listed on the IDX for the 2019-2021 period. The test sample was determined through the use of a target sampling technique in line with the set criteria.

Table 2 Sample selection

No.	Sample Criteria	Total
1	Construction sector companies listed on the Indonesia Stock Exchange as of 2021.	(22)
2	Companies that did not issue financial reports continuously during the 2019-2021 period.	(0)
3	Manufacturing companies that do not use rupiah currency in recording financial statements.	(0)
4	Companies that do not earn profits continuously during the observation period.	(0)
	Total research sample (22 x 3)	66
	Final total research sample	66

Descriptive Statistics

Referring to the results of the descriptive analysis, the descriptive conclusions of all research variables are:

1) In the Working Capital variable, the minimum value is -52.72 and the maximum value is 6234.73. From this value the author can conclude that the profitability of the highest construction company is 6234.73 and the lowest is -52.72. While the average is 857.9941, meaning that the profitability of all construction companies is 857.9941. From the standard deviation value it can be concluded, of the 66 samples used, the distribution of profitability touched 1472.68396.
2) The Fixed Asset variable has a minimum value of 0.15 and a maximum value of 7298.67. It is concluded that construction companies produce the highest Fixed Assets worth 7298.67 and the lowest worth 0.15. While the average is 1005.0482, meaning that all construction companies produce fixed assets of 1005.0482. From the standard deviation it can be concluded that the scale of distribution of fixed assets in the 66 samples used touched 2056.70678.

3) The Profitability variable has a minimum value of -3435.19 and a maximum value of 573.84. It is concluded that construction companies produce profitability with a maximum value of 573.84 and a minimum value of -3435.19. While the average is -1005.0482, this means that all construction companies produce profitability touching -1005.0482. Based on the standard deviation value, it can be concluded that the magnitude of the profitability distribution of the 66 samples used reaches 760.28834.

Table 3 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
working capital	22	-52.72	6234.73	857.9941	1472.68396
fixed assets	22	0.15	7298.67	1005.0482	2056.70678
Profitability	22	-3435.19	573.84	107.5082	760.28834
Valid N (listwise)	22				

Normality Test

In this study, the graph that shows the shape of the curve does not point too much to the right or left, this shows that the data the author uses is normal. On the one hand, the points are not too far apart or are on a straight line from the bottom left to the top right which indicates: the data used is normal. The Kolmogorov-Smirnov test has a Monte Carlo significance value of 0.321, which means it exceeds 0.05, indicating that the data used is normal. This can conclude, the data is normally distributed and passes the normality test.

Multicollinearity Test

This test is conducted to answer whether there is a relationship between independent variables. The measure involved when testing multicollinearity is the tolerance value or VIF, if the tolerance> 0.1 and VIF < 10 indicates that the regression model used does not have multicollinearity. The multicollinearity test results are:

Table 4 Multicollinearity Test

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	T	Sig.	tolerance	VIF
1	(Constant)	-66.617	101.624		-.656	0.520		
	working capital	0.560	0.099	1.084	5.654	0.000	0.375	2.669
	fixed assets	-0.519	0.071	-1.403	-7.314	0.000	0.375	2.669

Heteroscedasticity Test

In this study, it can be seen that the significance value owned by all independent variables is 0.05 (5%). The value owned by Working Capital is 0.931, then Fixed Assets with 0.058. So through these results, it can be concluded that because the Glejser test does not reach a significance value of 0.05, it can be concluded that there is no heteroscedasticity.

Autocorrelation Test

In this study, the results of the autocorrelation test are presented which shows the *Durbin-Watson* value of 1.54 < 1.880 < 2.85 which indicates that no autocorrelation is found in this research. Based on the autocorrelation test results that show *du < d < 4-du, it* indicates that autocorrelation does not appear.

Multiple Linear Regression Test

The hypotheses in this research were tested using multiple linear regression analysis. This method is used to understand the effect of one variable on another. This test was calculated using SPSS software version 25 and the results are presented below:

Table 5 Linear Regression Test

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	-66.617	101.624	
	working capital	.560	.099	1.084
	fixed assets	-.519	.071	-1.403

Through these results, it can be seen that the constant coefficient value is -66.617, Working Capital is 0.560, Fixed Assets are -0.519. Through these results, the equation can be obtained using multiple linear regression for this study to be :

PP = -66.617 + 0.560 working capital + -0.519 fixed assets

Referring to the multiple linear regression equation, then the explanation is:

1. The constant value reaches -66.617 saying that if the Working Capital and Fixed Assets variables are considered constant, then the value of profitability touches -66.617.
2. The Fixed Assets regression coefficient value of -0.519 states that if the level of Fixed Assets increases by one unit through the assumption that other independent variables remain (constant), then the company's profitability value will jump by -0.519.

Determination Coefficient Test

In this study, the *adjusted R* value^2 is 0.711 or 71.1%. it indicates that the independent variables, namely Working Capital and Fixed Assets, have an influence on Profitability *of* 71.1%. While the residue worth 38.9% has other effects that do not appear in the regression model .

F-test

In this study, it is the product of the *f-test* which shows a significance value <0.05, which means it shows that the independent variables in *the* form of Working Capital and Fixed Assets have an effect on the company's overall profitability. Therefore, it can be concluded that the independent variables in this study have a significant influence on the independent variables.

Hypothesis Test

Based on the *t-test* in the table above, the regression model results are as follows:

A. Hypothesis 1 states that Working Capital has a positive effect on company profitability. As Table 4.9 shows, Working Capital produces a positive coefficient of 0.560, and depending on the significance value, it produces a value <; 0.05, namely 0.000. Based on the results of the coefficient value and significance level, since the correlation between management ownership and financial performance is found to be significantly positive, **H1 is accepted.**

B. Hypothesis 2 states that Fixed Assets have a positive effect on company profitability. As table 4.9 contains, Fixed Assets produces a negative coefficient of -0.519 and refers to the significance value producing a value of <0.05, namely 0.000. From the coefficient value produced and its significance level, the correlation between Fixed Assets is significantly negative to profitability, hence **H2 is rejected.**

Conclusion

This research aims to find reliable and significant empirical evidence about the impact of company profit or profitability calculated through working capital and fixed assets. A construction company in Indonesia. The research products of the data and tests conducted can be summarized as:

- The relationship between working capital and company profitability is clearly positive, meaning that *working* capital can increase company profitability. This result shows that the first hypothesis is accepted. Theoretically, more working capital means more profitability, and vice versa. High working capital indicates an increase in operating activities, and the profits earned will indicate the level of profitability of the company. Proper working capital can have a positive impact on the profitability of the company. By ensuring sufficient working capital to handle operational obligations, companies can keep business activities running smoothly without a significant shortage of funds. This can reduce additional borrowing costs or potential losses due to the inability to meet obligations on time. Thus, effective working capital management can directly contribute to the improvement of a company's profitability by ensuring the right balance between liquidity and operational efficiency.
- The relationship between fixed assets and company profitability is negative, meaning that the company's fixed assets can have no effect on the company's profitability. It displays, the second hypothesis is rejected. This is influenced because of the depreciation of fixed assets, in other words, depreciation means allocating the cost of depreciation of fixed assets periodically over the useful life of fixed assets. In other words, depreciation costs will increase along with the amount of fixed assets, which means that depreciation costs will increase, which in turn will reduce company profits.

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