

# The Analysis of the Influence of Current Changes toward RA, DAR, TATO, ROA, and PER in Predicting the Growth of Profits by Considering Company Size in Company That Is Joined in Lq45 Index Link in 2013 -2016

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Abstract: This study aims to determine the effect of the parsial and simultaneous of CR, DAR, TATO, ROA, and PER in predicting profit growth by considering firm size at company incorporated in LQ45 index year 2013 -2016 with company size as control variable. The technique of determining the sample in this research is by using purposive sampling. The method applies a descriptive qualitative. From result of F test, it is known that Current Ratio ( $\Delta$  CR) change, Debt Asset Ratio ( $\Delta$  DAR) change, Total Asset Turnover ( $\Delta$  TATO), Return On Asset ( $\Delta$  ROA) change, Price Earning Ratio ( $\Delta$  PER) simultant significant effect on profit growth variable at go public company listed in index LQ 45 in Indonesia with company size (Size) as control variable. From result of t test known that change of Total Assets Turn Over and change of Return On Assets partially have significant effect to profit growth ( $\Delta$  EAT). Variable of change of Curent Ratio ( $\Delta$ CR), change of Debt Asset Ratio ( $\Delta$  DAR), Price Earning Ratio ( $\Delta$ PER) change partially no significant effect to earnings growth variable with firm size as control variable.

## 1 INTRODUCTION

The rapid development of capital markets has made investors interest in investing in companies that offer high profits. One of the lure of investors in investing in companies is the profit that is offered by the companies. Companies that can provide high returns to investors will be reflected in good corporate financial performance. Good earnings changes, suggesting that the company has a good financial performance which it will increase the value of the company (Simorangkir, 1993). Profit growth is a change in the percentage increase in profit earned by the company.

The main purpose of financial ratio analysis is to give an indication of company performance in the future. Financial ratios are used to predict corporate earnings. Increase or decrease in profit will affect the other ratios like Curent Ratio (liquidity ratio), Debt Assets Ratio (solvency ratio), activity ratio (Total Assets Turn Over) and profitability ratio (Return On Assets). According to Riyanto (1995), financial ratios can be grouped generally into liquidity ratio, solvency ratio (leverage), activity ratio and profitability ratio.

The four ratios will be very useful for the management in carrying out operations or activities of the company, especially in planning and in deciding of whether short or long term. In addition, it becomes another consideration for investors in investing capital is by considering at the value of a company. It means that it can be reflected from financial, information, corporate financial flows, and financial performance of the company.

There are some researches on the ability of financial ratios in predicting earnings has been done with many diverse results. Firstly, Safitri (2016) conducts a study to determine the influence of various financial ratios to profit growth of PT. Kalbe Farma tbk. In the result can be known that variable inventory turnover has a significant influence in profit growth and debt to asset ratio, net profit margin. Meanwhile, inventory turnover and return on equity have a significant effect on profit growth return on equity that has no significant effect to profit growth. In addition, Mahaputra (2012) investigates the effect of current ratio, debt to equity ratio, total assets turnover, and profit margin on profit growth. The test results show that the current ratio, debt to equity, total asset

turnover, and profit margin have a significant influence on profit growth.

Based on the findings of the researchers that have been stated, the author interests in re-testing the ability of the liquidity ratio (Current Ratio), solvency (Debt Assets Ratio), activity (Total Assets Turn Over), profitability (Return On Assets), and market ratio (Total Assets Turn Over Ratio) in predicting profit growth by considering the size effect.

## 2 LITERATURE REVIEW

### 2.1 Financial Ratio Analysis

This ratio will be able to explain and provide an overview of the analysts about either the bad state or the financial position of a company (Nuryanto et al., 2014). Financial ratio analysis is an analytical tool that gives an indication that the company has sufficient cash to fulfill the financial obligations, the amount of receivables that is quite rational, the efficiency of the company's inventory management, the plan of good investment, and the healthy Return On Assets so that the goal of maximizing shareholder wealth can be achieved (Sartono, 2001). The ratios typically are as follows:

a. Liquidity Ratio

According to Prihadi (2008), liquidity is the company's ability to pay off short-term liabilities. Liquidity measurements typically associate short-term liabilities with current assets available to pay them off. Although, this ratio does not explain about the solvency issues, meanwhile a bad liquidity ratio in the long run will affect the solvency of the company. The measure of corporate liquidity in this research is CR. It is obtained by comparing current assets and liabilities. Thus, the higher of the current assets the higher of the current ratio that means the higher of the level of corporate liquidity. In the contrary, the higher the amount of unused cash will ultimately lower the level of profitability. Thus, there is always a trade-off between liquidity and profitability (Mardiyanto, 2008).

b. Solvency Ratio

This ratio measures the company's ability to meet long-term liabilities. A non-solvable company is a company which total debt that is greater than its total assets. This ratio measures the company's long-term liquidity and focuses on the right side of the balance sheet. Solvency ratios that are applied in this research are: Debt To Total Assets Ratio. This ratio calculates how far funds that are

provided by creditors. The high ratio of total debt to total assets indicates that the company uses high financial leverage. The application of high financial leverage will increase the stock capital equity (Return On Equity) quickly. On the contrary, if sales decrease in capital stocks, the equity will decrease.

c. Activity Ratio

This ratio concerns at several assets and determines what level of activity these assets that are at a given level of activity. The low assets at a certain level of sales will result in an increasing amount of excess funds that are embedded in these assets. Excess funds will be better in the investing on other assets that are more productive. It applies Total Asset Turn Over (TATO).

d. Profitability Ratio

The profit margin ratio shows the company's ability to generate net income at certain sales levels. It can be seen directly in the common-size analysis for the income statement. A low profit margin signifies a company's ability to generate profits that are too low for a certain level of cost, a cost too high for a certain level of sales, or the combination. In general, a low ratio may indicate inefficient management. The ratio that is applied in calculating profitability is Return On Investment (ROI), Return On Equity (ROE) and Return On Assets (ROA).

e. Market ratios

The company's high Price Earning Ratio (PER) reflects to the valuable of growth and have the valuable prospects. Although, in terms of investors, the price Earning Ratio (PER) that is too high that may not be attractive because stock prices will probably not rise again which means the possibility of gaining capital gains will be smaller.

### 2.2 Company Profit

It classifies as the result of the last operation net of interest and taxes. Changes in earnings either a decrease or an increase that is caused by the selling price factor that can be used as a measurement of sales activities because this is due to changes in the quantity or volume of goods sold that have a direct relationship with sales activities. In addition, profit growth can be caused by changes in components of liquidity, profitability, solvency, and activity.

### 2.3 Company Size (Size Effect)

It is one tool to measure the size of a company. Employees, assets, sales, market value and value added are some common measurement in order to determine the size of a company (Hart and Oulton in Juliana, 2003). There are some fundamental differences between large and small companies. Elton and Gruber in Juliana (2003) say that larger companies will have easier access to the capital market. Small companies shares of the trading frequency level that is not as fast and as easy as a large company's stock. Besides, Scherer in Juliana (2003) finds the evidence that larger companies are more stable and growth patterns that can change rapidly than small companies. Therefore, the ability of large companies is to create various product lines and operations easier. In addition, Damayanti in Juliana (2003) considers the size of the company can be seen from the total assets. The result shows firm assets have not effect on the ability to predict financial ratios to future earnings growth in manufacturing companies.

### 2.4 Related Studies

Some of the previous research that have been done. They are as follows:

Firstly, Safitri (2016) finds that Debt to Asset Ratio, Variable Inventory, Debt to Asset Ratio, Net Profit Margin, Inventory Turnover and Return on equity have significant influence to profit growth, meanwhile, Variable Current Ratio and Variable Return on have not significant effect on profit growth.

Furthermore, Susanti (2014) shows (1) Total Assets Turnover, Net Profit Margin, and Return on Assets simultaneously have a significant effect on profit growth; (2) Total Assets Turnover, Net Profit Margin, and Return on Assets partially significant effect to profit growth; (3) Return on Assets have dominant influence to earnings growth because have coefficient value of partial.

Besides, Gunawan and Wahyunu (2013) conducts the research with the aim to: (1) test partially the influence of financial ratios on profit growth in trading companies in Indonesia Stock Exchange. (2) test simultaneously the influence of financial ratios on profit growth in trading companies in Indonesia Stock Exchange (3) to know the most dominant financial ratios that influence to profit growth in trading company in Indonesian Stock Exchange (4) know the aspect of asset, income management, aspect debt, and equity to profit growth in trading companies in Indonesia Stock Exchange. From t test result show Total Assets Turn Over, Fixed Assets Turn Over,

Inventory Turn Over partially influence to profit growth, while Curret Ratio, Debt To Assets Ratio, Debt To Equity Ratio partially no significant effect to profit growth. From the F test shows Total Assets Turn Over, Fixed Assets Turn Over, Inventory Turn Over, Curret Ratio, Debt To Assets Ratio, Debt To Equity Ratio simultaneously have a significant effect on profit growth.

Adisetiawan (2012) shows that variable of Operating Income to Total Assets (OITL) and Current Ratio (NPM) partially have significant effect to profit growth. Meanwhile, the variable Working Capital to Total Asset (WCTA), Current Liabilities To Inventory (CLI), Total Asset Turnover (TAT), and Gross Profit Margin (GPM) have no significant effect on profit growth. The six variables used in this study (WCTA, CLI, OITL, TAT, NPM and GPM) simultaneously have no significant effect on profit growth, with predictive ability of the six variables of 4.4%.

The last one is Mahaputra (2012) that finds that the current ratio, debt to equity, total asset turnover, and profit margin have a significant influence on profit growth.

### 2.5 Hypothesis

The changes in Curret Ratio, Debt Assets Ratio, Total Assets Turnover, Return On Assets and Price Earning Ratio simultaneously have a significant effect on the profit growth of companies incorporated in the LQ45 Index of 2013 -2016 with firm size as control variables.

## 3 RESEARCH METHODS

This research is descriptive quantitative which explains the relationship between variables by analyzing numerical data (numbers) and using statistical methods through hypothesis testing. This research is a case study research company that is incorporated in the index LQ45 in Indonesia Stock Exchange in 2013-2016. The source data is taken from this study consists of Annual Reports published by the company that becomes the object of research. The population that is used is all companies that are incorporated in LQ45 period 2013-2016 that are listed on Indonesia Stock Exchange (IDX). Furthermore, the technique is by applying purposive sampling. It means criteria of companies that are incorporated in the LQ45 period 2013-2016 that are listed on the Indonesia Stock Exchange (IDX). There are the samples like companies that are incorporated in LQ45

period 2013-2016, not engaged in services, had an issue financial statements as of December 31, 2013 – 2016, had financial statement data related to the measurement of variables in the study, and had a positive profit.

## 4 RESULTS AND DISCUSSION

### 4.1 Classic Assumption Test

#### 4.1.1 Normality Test

Normality test was performed by Kolmogorov Smirnov test from the residual value of a regression model (Ghozali, 2005). From the test results of Kolmogorof Smirnov normality that appears in table 4.1 shows the significant value of  $1.158 > \alpha = 0.005$  then the data is normally distributed.

Table 1: Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
Unstandardized Residual		
N		56
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.18304339
Most Extreme Differences	Absolute	.155
	Positive	.155
	Negative	-.124
Kolmogorov-Smirnov Z		1.158
Asymp. Sig. (2-tailed)		.137

#### 4.1.2 The Test Autocorrelation

Table 2: Test Results Auto Correlation Durbin-Watson Method

Variable	D-W	Criteria	Conclusion
X1,X2,	1,914	4-du > DW > du	No problem
X3,X4, X5		2,2322 > 1,914 > 1,7678	autocorrelation

The term autocorrelation can be defined as the correlation between members of a series of observations sorted (Gujarati, 2001). The valuable of regression model is a regression independent of autocorrelation. To determine whether there is autocorrelation symptoms in the regression calculation of this study or not, it will be used durbin watsen test (DW TES). From the results of the above table it is known that the D-W test value of 1.914 where the number is between  $du = 1.7678$  and  $4-du = 2,2322$  it can be concluded there is no autocorrelation, then the model that is used in this study is feasible for basic analysis.

### 4.1.3 Heteroscedasticity Test with Glejser Test

The purpose of the heteroscedasticity test to test whether in the regression model there is a variance inequality of the residual one observation to the other or not. If the variance of the residua one observation to another observation remains then it is called homoscedasticity. A good regression model is no heteroscedasticity. From table 4.3 the value of variable significance of liquidity / Current Ratio 0,216, significance of solvability variable (DAR) 0.147, activity variable (TATO) 0,174, profitability variable (ROA) 0, 575 and variable PER 0, 695. The significance value of the five independent variables is greater than  $\alpha = 0.05$  means the regression model that does not occur heteroscedasticity. Company size (SIZE) as control variable value of significance 0.752, greater than  $\alpha = 0.05$  means regression model that does not occur heteroscedasticity.

Table 3: Test of Heteroskedastisitality

Variable	T	Sig	Conclusion
(Constant)	4.477	0.000	
ΔCR	1.254	0,216	None
ΔDAR	-1.475	0.147	None
ΔTATO	-1.381	0.174	None
ΔROA	-0.565	0.575	None
ΔPER	-0.396	0.694	None
SIZE	-0.319	0.751	None

#### 4.1.4 Multicollinearity Test

The purpose of multicollinearity test is to know whether the regression model found a correlation between independent variables (independent) or not. The valuable model should not have a correlation between independent variables (no multicollonierity). If the VIF value is less than 10, then there is no multicollinearity to the data being tested. In the contrary, if the VIF value is greater than 10, it means multicollinearity to the data being tested. From the results of multicollinearity test in table 4.4 can be known that VIF value CR 1.067 variable, DAR variable 1.449, TATO variable 1.495, ROA variable 1,191 and variable PER 1,193. VIF value of Size variable as control variable 1,034. VIF value of the five independent variables and one control variable is smaller than 10 so it can be said that the model that is no multicollinearity between these variables.

From multicollinearity test results that value tolerance values CR 0.937 variables, DAR variable 0.690, TATO variable 0.669, ROA variable 0.840, and variable PER 0.838. The tolerance value of the

Size variable that is used as the control variable is 0.967. It values the five independent variables and one control variable is greater than 0.1 so it can be said that the model that does not have multicollinearity among variables.

Table 4: The Test Multikolinarity

Variable	Tolerance	VIF	Conclusion
CR	0,937	1,067	None
DAR	0,690	1,449	None
TATO	0,669	1,495	None
ROA	0,840	1,191	None
PER	0,838	1,193	None
SIZE	0,967	1,034	None

## 4.2 Hypothesis Testing

### 4.2.1 Multiple Linear Regression Equation

Based on the calculation of SPSS that appears in table 4.5 regression equation as follows:

$$Y = 0,137 + 0,043 \text{ CR} - 0,206 \text{ DAR} - 0,739 \text{ TATO} + 0,974 \text{ ROA} - 0,079 \text{ PER} - 0,013 \text{ SIZE} + e$$

From the analysis results can be seen that the independent variables that have a positive effect on profit growth is Current Ratio with coefficient of 0.043 and Return On Assets with coefficient 0.974. This means that when the Current Ratio, and Return on Total Assets increases then profit growth also increases. While the independent variables that negatively affect the profit growth is Debt Assets Ratio with coefficient 0.206, Total Assets Turn Over with coefficient 0.739 and Price Earning Ratio with coefficient 0.974. This means that if the Debt Assets Ratio, Total Assets Turn Over and Price Earning Ratio decrease then the profit growth increases. Company size (Size) as control variable negatively affects profit growth with coefficient 0,013.

Table 5: Summary of Hypothesis Test Results

Variable	b	Tmeasure	Sig	Conclusion
Constans	0,137			None
CR	0,043	1,278	0,207	None
DAR	-	-1,414	0,164	Influence
TATO	0,206	-3,642	0,001	Significantly
ROA	-	18,745	0,000	Influence
PER	0,739	-1,075	0,288	Significantly
SIZE	0,974	-0,216	0,830	None
	-			None
	0,079			Influence
	-			Significantly
	0,013			
Fhitung		68,322	0,000	
R2			0,882	

### 4.2.2 Individual Parameter Significant Test (Test -t Statistic)

The t test is used to know the partial significance of the independent variables: Current Ratio (X1), Debt Assets Ratio (X2), Total Assets Turn Over (X3), Return On Assets (X4) and Price Earning Ratio (X5) namely: Profit Growth ( $\Delta Y$ ).

From table 5 above is known magnitude influence of each independent variable to the dependent variable is as follows:

- 1) Test the hypothesis of the influence of Current Ratio on profit growth.

From result of calculation of significance t for variable of Current Ratio equal to  $0,0207 > \alpha$  (0,05). This means that the Current Ratio in parsial no significant effect on profit growth with the size of the company as a control variable.

- 2) Test the hypothesis Debt Assets Ratio to profit growth.

From the calculation results significance t for the variable Debt Assets Ratio of  $0,164 > \alpha$  (0,05). This means that Debt Assets Ratio has no significant effect to profit growth with firm size as control variable.

- 3) Hypothesis test Total Assets Turn Over on profit growth

From the calculation results t significance for the variable Total Assets Turn Over Ratio of  $0,001 < \alpha$  (0,05). This means Total Assets Turn Over has a significant effect on profit growth with firm size as a control variable.

- 4) Test the hypothesis Return On Assets to profit growth

From the calculation results significance t for the variable Return On Assets of  $0,000 < \alpha$  (0,05). This means Return On Assets has significant effect to profit growth with firm size as control variable.

- 5) Test the hypothesis Price Earning Ratio to profit growth

From the calculation results significance t for Price Earning Ratio variable of  $0,288 > \alpha$  (0,05). This means Price Earning Ratio has no significant effect to profit growth with firm size as control variable

### 4.2.3 Test F

From the results of statistical calculations that are applied SPSS show in table 5 obtained F value count of 68.322 with a significance level of 0.000. The resulting significance value of F is smaller than  $\alpha =$

0.05. This means that the variable Current Ratio, Debt Assets Ratio, Total Assets Turn Over, Return On Assets, Price Earning Ratio and Size control variables simultaneously significantly influence the profit growth variable.

#### 4.2.4 Coefficient of Determination (R<sup>2</sup>)

From the calculation results with SPSS program that appears in table 5 can be seen that the coefficient of determination that can be seen from Adjusted R Square, obtained for 0.882. This means that 88.2% of profit growth can be explained by the variable Current Ratio, Debt Assets Ratio, Total Assets Turn Over, Return On Assets, Price Earning Ratio and Size in this study, while the remaining 11.8% that is explained by other variables that are not investigated in this study.

### 4.3 Discussions

Individual test result by using t test shows that there are only two variables that is growth of Total Assets Turn Over and Return on Assets which have significant effect to profit growth of company that is incorporated in LQ 45 Index 2013-2016.

The results of this study indicate the growth of Total Assets Turn Over significantly affect to the profit growth of companies that are incorporated in the LQ 45 Index 2013-2016. It can be assumed that the asset turnover of the company in generating profit is very effective. It means that Total Assets Turnover has a positive influence on the Profit Growth. The faster the asset turnover rate reflects to the net profit generated that will increase as the company that has been able to utilize the assets to increase sales that affect the income . Thus, the more effective asset turnover of the company or the management of assets capable of producing high performance companies that can increase corporate profits and impact on increasing the return rate (return) in the investor. Besides, the results of this study are in line with the results of Gunawan and Wahyuni (2013) that state that there is significant influence of Total Assets Turnover on Profit Growth at Trading companies that are listed in Indonesia Stock Exchange period 2006-2011. Furthermore, the results of this study are in line with the results of Mahaputra (2012) states that there is a significant influence of Total Assets Turnover on Profit Growth at manufacturing companies that are listed on IDX. Moreover, the results of this study are in line with the results of Susanti's (2014) research which states Total Assets

Turnover partially significant effect on future earnings growth in automotive companies in IDX.

According to the theory of Horne and Wachowicz (2005 : 221) state that Total Assets Turnover describes the relationship of net sales with total assets. It indicates the capability of funds that are embedded in the overall rotating asset in a given period or the capability of the capital invested to generate a "Revenue". The results of this study are not in line with research conducted by Adisetiawan (2012) which states Total Assets Turnover has no significant effect on profit growth in trading companies in IDX.

In the aspect on ROA, the results of this study indicate the growth of Return on Assets significantly influence the profit growth of companies that are incorporated in the LQ 45 Index 2013-2016. Besides, the results of this study can be assumed that every one dollar assets invested in companies that are incorporated in the LQ45 Index effectively generate profits. Positive Return On Assets (ROA) shows that the total assets that are used for the company's operations that are able to provide profits for the company. In the contrary, if the negative ROA shows the total assets that do not give a profit. Furthermore, the results of this study are in line with research that is conducted by Susanti (2014)) which states Return on Assets partially significant effects on profit growth in automotive companies in IDX.

Individual test result of using t test is found that the variable that influence is not significant to the profit growth of companies that are incorporated in Index LQ 45 is variable growth Current Ratio, growth Debt Asset Ratio and growth Price Earning Ratio.

Besides, in the Current Ratio aspect has no significant effect on profit growth in companies incorporated in the LQ45 Index. This means that the company's ability to meet its short-term liabilities does not guarantee the availability of working capital to support the company's operational activities so that the profit to be achieved is not as expected. This means that investments in current assets are too great that could be due to the company's trial. Liquidity levels that are too high will have an adverse effect on profit growth because current assets generally result in lower returns than fixed assets. Then, the result of this research is in line with research of Gunawan and Wahyuni (2013) which state that Current Ratio has no significant effect on Profit Growth in Trading Company registered in IDX period 2006-2011. Meanwhile, the result of this study is not in line with the research Mahaputra (2012) which shows that the current ratio has a significant influence on profit growth.

Moreover, in the side of Debt Asset Ratio has an insignificant effect on profit growth in companies incorporated in the LQ45 Index. This indicates that investment in the wealth of companies that are incorporated in the LQ45 Index is more financed from external sources of financing / from debt. The source of financing from outside the company / from the debt impacts the increase of interest expense that is to be paid by the company so this gives an impact on the decrease of company's profit. This could mean the inability of the Debt To Assets Ratio influences profit growth that may happen because the investment in the wealth of the company fund is not able to cover the entire interest expense that is to be paid by the company. Thus, it can result in a decrease in profits that have been earned even the company could lose. In other words, the results of this study are in line with the research of Gunawan and Wahyunu (2013). In the contrary, the results of research Safitri (2016) has a significant influence on profit growth of PT. Kalbe Farma tbk.

In addition, the aspect of PER has an insignificant effect on profit growth in companies that are incorporated in the LQ45 Index. This can be assumed that the PER of LQ45 Index that is increased but it is not followed by increasing investor confidence in the future of the company so it does not aim the increase of share price of companies that are incorporated in LQ 45 Index.

## 5 CONCLUSION

It can be concluded that the changes of CA, DAR, and PER have not significant effect on profit growth with the firm size as control variable. Meanwhile, the changes of TATO and ROA have a significant effect on profit growth with firm size as control variables. Hence, the changes in CR, DAR, TATO, ROA, and PER that relates to Size control variables simultaneously have a significant effect on profit growth

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