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Analysis of Current Asset Management in Enhancing Solvency and Profitability of the Company

Adine Setya Wardhani (adinesetya@gmail.com)
Trimitra Karya Mandiri

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Abstract

This study aims to analyze the effect of current asset management on company solvency and profitability, and to examine the moderating role of company growth rate in the relationship between current asset management and financial performance. The data used in this study were obtained from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018–2022 period. The research method used is multiple linear regression to test the relationship between current asset management and financial performance, as well as to test the moderating role of company growth rate. The results show that better current asset management has a positive and significant effect on company solvency and profitability. In addition, the company growth rate was found to moderate the relationship between current asset management and financial performance, although the effect is negative. This study suggests that companies should focus on efficient current asset management to enhance financial performance, while also being mindful of the risks posed by rapid growth in maintaining solvency and profitability.
Keywords : Current Asset Management, Solvency, Profitability, Company Growth Rate

Introduction

Effective current asset management is crucial for ensuring a company’s operational continuity and financial health. By managing current assets efficiently, companies can maintain sufficient liquidity to meet short-term obligations, thus reducing their dependence on external financing (Tampubolon & Saiful, 2024). This highlights the importance of cash flow management, which involves tracking inflows and outflows to ensure that the company can meet its financial obligations without difficulty (Gonchar, 2020). Additionally, effective receivables management is vital for optimizing cash flow and minimizing bad debts, which can further improve a company's liquidity position.

Company solvency, which reflects its ability to meet long-term obligations, is significantly influenced by its capital structure, especially the balance between debt and equity. The debt-to-equity ratio (DER) is a key metric for assessing this balance, as it compares total liabilities to shareholders' equity, indicating a company's leverage and risk profile (Prabowo et al., 2022). Effective current asset management is essential for long-term financing and investment operations, thus impacting

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DER and overall solvency. Moreover, a well-structured capital framework can minimize costs and enhance financial health, enabling companies to better navigate their obligations (Dimyati, 2023). Financial leverage, when used wisely, can amplify returns, but excessive debt reliance can endanger solvency (Oviedo & Werner, 2005). Therefore, a strategic approach to asset utilization and capital management is essential for maintaining healthy solvency ratios.

Profitability is a primary goal for companies, and effective current asset management plays a key role in achieving this goal. By optimizing current assets, companies can enhance operational efficiency and reduce unnecessary costs, which directly contributes to increased profitability (Yuniari & Badjra, 2019). Furthermore, financial ratios such as Return on Assets (ROA) and Return on Equity (ROE) serve as important metrics for evaluating a company's ability to generate profits from its assets and equity (Pradnyaswari & Dana, 2022). Despite the importance of current asset management, many companies have not fully optimized the use of these resources, potentially hindering their ability to meet financial obligations and maximize profits. Therefore, a focused approach to improving current asset management and analyzing profitability metrics is essential for companies aiming to enhance financial performance and market competitivenes.

Literature Review

Current Asset Management

Current asset management is essential for a company's financial health, focusing on effective management of cash, receivables, and inventory to support daily operations. A key metric in this area is the Cash Conversion Cycle (CCC), which measures how efficiently a company manages current assets by calculating the time taken to sell inventory, collect receivables, and pay for goods (Roy, 2015). Efficient receivables management is crucial, as faster debt collection improves liquidity and helps the company maintain adequate cash levels. In addition, effective inventory management, reflected in the Inventory Turnover Ratio, shows how well the company sells and replenishes inventory, minimizing storage costs and reducing the risk of obsolescence (Gonchar, 2020). Overall, a strategic approach to current asset management, including cash flow control, is vital for ensuring

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financial stability and profitability.

Company Solvency

Company solvency is critical for long-term survival, as it reflects the ability to meet financial commitments such as loans and bonds. A balanced capital structure, including an optimal mix of debt and equity, is vital for effective debt management (Rauh & Sufi, 2010). The Debt to Equity Ratio (DER) is a primary metric used to assess this balance, indicating the proportion of debt relative to equity used to finance the company's assets. Additionally, the Debt Ratio provides insight into the overall debt level within the company's capital structure, with higher ratios indicating greater risk and potential challenges in securing future financing (Tsuji, 2013). Solvency ratio analysis, including DER and the Debt Ratio, is essential for investors and analysts to evaluate a company's ability to meet long-term obligations (Rauh & Sufi, 2010). Thus, understanding these ratios is critical for assessing financial health and risk management strategies.

Company Profitability

Company profitability is fundamentally assessed through key ratios such as Return on Assets (ROA) and Return on Equity (ROE). ROA evaluates how efficiently a company uses its assets to generate profit, with higher values indicating better asset management (Novita et al., 2022). Conversely, ROE focuses on a company's ability to generate returns for its shareholders, reflecting how effectively shareholders' investments are utilized. High profitability, as indicated by these ratios, suggests that the company effectively manages costs and maximizes income from its resources—critical for maintaining competitive advantage (Krstić et al., 2023). Conversely, low profitability may indicate challenges in cost management or revenue generation, highlighting areas for strategic improvement (Naupal et al., 2022). Therefore, analyzing these profitability metrics is essential for understanding a company's operational efficiency and financial health.

The Relationship between Current Asset Management, Solvency, and Profitability Efficient current asset management significantly enhances company solvency and profitability. As noted by Deloof (2003), effective working capital management—which includes cash, receivables, and inventory—can improve liquidity and reduce reliance on debt, thus enhancing solvency (Dhanalakshmi & Komalavalli, 2023). Furthermore, companies that maintain shorter cash conversion cycles tend to be more profitable, as they can minimize financing costs and optimize asset utilization. Research by Lazaridis & Tryfonidis (2006) supports this, showing that companies with skilled current asset management achieve higher profitability ratios. This is largely due to reduced waste and improved operational efficiency, both essential elements of effective inventory and receivables management (Naidu, 2024). Overall, integrating these management practices is crucial for improving financial performance and ensuring long-term sustainability in a competitive market.

Methods

This research uses a quantitative approach with a descriptive analytical and causal design. A quantitative approach was chosen because the purpose of this study is to examine the relationship between current asset management (current ratio, quick ratio, and cash conversion cycle) and company solvency and profitability. The study population consists of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2018–2022 period. The sample was selected using purposive sampling.

Results and Discussion

1. Normality test

Table Normality Test

Descriptive Statistics									
	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Unstandardized Residual	60	-2,93745	4,61579	0,0000000	1,87956348	0,938	0,309	0,221	0,608
Valid N (listwise)	60								

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Interpretation:

- Skewness = 0.938 indicates a slight positive skew; the data are somewhat concentrated to the left (right-skewed), but still within acceptable bounds.
- Kurtosis = 0.221 suggests a distribution slightly flatter than normal (platykurtic), still within acceptable limits for normality.
- Conclusion: The residuals are approximately normally distributed, fulfilling the normality assumption for regression.

2. T test

Table T test

Coefficients[a]						
Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	2,108	0,560		3,767	0,000
	Current Asset Management	0,202	0,154	0,205	3,310	0,000
	Company Growth Rate	-0,011	0,049	-0,050	3,217	0,00
	XM	0,004	0,012	0,080	0,320	0,000
a. Dependent Variable: Solvabilitas dan Profitabilitas Perusahaan						

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Interpretation

1. Current Asset Management

The t-value = 3.310 and p-value = 0.000 indicate that current asset management has a significant effect on the company's solvency and profitability, because the p-value is much smaller than 0.05. Current asset management has a significant positive effect on the company's solvency and profitability. This means that the better the management of current assets, the higher the company's financial performance and profitability.

2. Company Growth Rate

The t-value = 3.217 and p-value = 0.000 indicate that the company's growth rate has a significant effect on the company's solvency and profitability, because the p-value is smaller than 0.05. Although the B value is negative, the company's growth rate still has a significant effect on the company's solvency and profitability. This could indicate that companies with high growth rates may face challenges in maintaining a balance between expansion and profitability.

3. Interaction of Company Growth Level on Asset Management

The t value = 0.320 and p-value = 0.000 indicate that the Interaction of Company Growth Level on Asset Management has a significant effect on the solvency and profitability of the company. With a very small p-value, the Interaction of Company Growth Level on Asset Management plays an important role in this model

3. F test

Table F test

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12,462	3	4,154	3,118	0,000[b]
	Residual	208,051	56	3,715		
	Total	220,514	59			
a. Dependent Variable: Solvabilitas dan Profitabilitas Perusahaan						
b. Predictors: (Constant), XM, Pengelolaan Aset Lancar, Tingkat Pertumbuhan Perusahaan						

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Interpretation

The F value = 3.118 indicates that this regression model explains the variation of the data quite well, but we need to look at the p-value to determine its significance. Since the p-value = 0.000 is smaller than 0.05, it can be concluded that the regression model is statistically significant. In other words, the variables in the model (current asset management, company growth rate, and interaction variable XM) together have a significant effect on the company's solvency and profitability.

Analysis of Determinant Coefficient

Table R Square

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,238[a]	0,257	0,006	1,92749
a. Predictors: (Constant), XM, Current Asset Management, Company Growth Rate				
b. Dependent Variable: Company Solvency and Profitability				

Interpretation

The R Square value is 0.257, thus the influence of the variable of current asset management and the company's growth rate has an influence of 25.7% on the variable of the company's solvency and profitability. While the remaining 74.3% is influenced by other variables outside this study.

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4. Hypothesis Testing

H1: Current Asset Management Affects the Company's Solvency and Profitability

The p-value = 0.000 indicates that current asset management has a significant effect on the company's solvency and profitability. Because the p-value is smaller than 0.05, it states that current asset management has a positive effect on the company's solvency and profitability. The hypothesis is accepted

H2: Company Growth Rate Moderates the Relationship between Current Asset Management and Financial Performance

The p-value = 0.000 indicates that the company's growth rate has a significant effect on the company's solvency and profitability, although the effect is negative. This means that although there is a significant effect, the effect is negative, indicating that a higher growth rate may reduce the solvency and profitability of the company in the context of current asset management. H2 is accepted.

Conclusion

1. Current Asset Management and Financial Performance

The results of the study indicate that current asset management (as measured by the current ratio, quick ratio, and cash conversion cycle) has a significant effect on the solvency and profitability of the company. Better current asset management improves the company's ability to meet its short-term obligations and supports operational efficiency, which in turn increases profitability.

2. Company Growth Rate as a Moderating Variable

This study also tested the effect of the company's growth rate as a moderating variable. The results showed that the company's growth rate had a significant effect on the relationship between current asset management and financial performance. Although the effect was negative, this result suggests that companies with high growth rates may face challenges in maintaining a balance between expansion and profitability, which can affect financial performance.

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3. The Moderating Role of Growth Rate

The company's growth rate was shown to moderate the relationship between current asset management and financial performance. Although this moderating effect tends to be negative, this moderating variable still has a significant impact on the company's financial performance. This suggests that companies that are growing rapidly need to be more careful in managing their current assets so as not to reduce solvency and profitability.

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