# THE INFLUENCE OF PROFITABILITY AND LIQUIDITY RATIOS ON THE GROWTH OF PROFIT OF MANUFACTURING COMPANIES

## A STUDY OF FOOD AND BEVERAGES SECTOR COMPANIES LISTED ON INDONESIA STOCK EXCHANGE (PERIOD 2010-2012)

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**Abstract**

*The purpose of this research is to know how profitability and liquidity ratios influence the growth of profit of manufacturing companies sector food and beverages listed on Indonesia Stock Exchange period 2010-2012. The variables examined in this thesis are current ratio, quick ratio, cash ratio, gross profit margin, return on asset and return on equity as the independent variables and profit growth as the dependent variable. The collection of secondary data was done by taking it from the financial statements of manufacturing companies of food and beverages sector listed on Indonesia Stock Exchange during the period 2010-2012. The analysis method used is descriptive quantitative using the program of Eviews 7.0. The results of this research indicates that simultantly current ratio(CR) , quick ratio (QR), cash ratio, gross profit margin, return on assets, and return on equity have significant influence towards the growth of profit. Partially, all the six independent variables have no significant influence towards the growth of profit of manufacturing companies of food and beverages sector listed on Indonesia Stock Exchange during the period 2010-2012.*

*Keywords: Current Ratio, Quick Ratio, Cash Ratio, Gross Profit Margin, Return on Assets, Return on Equity, and Growth of Profit*

**INTRODUCTION**

The company has the main purpose in achieving a profit or produces profit. Profit is a reflection of the success in implementing the activities and operations of the company. The activities of the company affect the profit to be gained by the company. A good profit growth is growth in accordance with the development of the economy. With a good profit growth, survival and development of the company can be better. One of the ways that can be used in judging the profit growth is by analyzing the financial statements of the company.

This research aimed in comparing financial performance and financial condition of a similar company of given year. The right decision-making is important to be done by the users of the financial statements which provides information about the performance of the company. With the existence of financial ratio tools, company can measure the value of profit growth and measures the company's ability to meet it's short-term obligations.

In this research, coverage includes the manufacturing companies in the food and beverage sector, listed on the Indonesia Stock Exchange (IDX). Manufacturing companies was chosen because most of the companies listed on the Indonesia Stock Exchange were manufacturing company. While the food and beverage sectors were chosen because these sectors more attract investors to invest in the firms. This research is a form of replication and with the inconsistent results from several previous studies, researcher interested in conducting the research by changing and adding the independent variables that were used as a basis for examining the effect on a dependent variable.

**LITERATURE REVIEW**

**Financial Statements**

Financial statements according to Harahap (2013) are the media information summarizes all the company activities. Financial statements describe the information about the financial condition and the results of the operations of a company at a particular moment or period of time. Financial information is very important for users of financial reports in their different needs to make the right economic decisions. To obtain the information according to the objectives, the financial information must first be analyzed. In analyzing the financial statements required analysis financial statements tools. One technique that can be used in analyzing financial statements is to use the specific financial ratios.

**Financial Ratios**

Financial ratios according to Harahap (2013) are figures obtained from the comparison of one post to the other post financial reports that links relevant and significantly. By using financial

ratios the company's can predict profit growth, measuring the development of the company's performance and measure the company's ability in implementing and fulfilling the short term obligations. To find out if the financial condition of the company is dong well, company can compare the results of its ratio calculation of the previous years or compare it with the similar companies. In this research, the ratios used in analyzing the financial reports are the ratio of liquidity and profitability.

## *Liquidity Ratio*

According to Harahap (2013) liquidity ratio is the ability of company in fulfilling the short term liabilities. The ratio can be calcualted through the source of information about working capital consisting of current assets and current liablities. Analysis of liquidity ratio in this research is focused on current ratio, quick ratio and cash ratio. Current ratio useful for measuring the ability of companies to pay the short term with current assets possessed by the company. Quick ratio indicates the ability of the most liquid current assets were able to cover the current liabilities. Cash ratio is used to indicate the company's ability to pay liabilities that is due with the available cash in the company.

## *Profitability Ratio*

According to Harahap (2013) profitability ratio describe the ability of company to gain profit through all the capability and existing resources such as sales activities, cash flow, capital, number of employees, how many branches, and others. To be able to sustain life, the company should get a profit. Analysis of the profitability ratio in this research is focused on gross profit margin, return on assets, and return on equity. Gross profit margin indicates how large a percentage of net income earned from any particular sale. Return on assets is used to measure the company's ability in generating profit from assets that are used. While the return on equity shows the company's ability to deliver return on investment shareholders so it shows what percentage obtained net profits when measured from capital owners.

## Review of Previous Research

There have been many researches on the influence of profitability and liquidty ratios towards the growth of profit. Example Syafrina (2010) using the F test and found that current ratio and return on equity have simultaneous influenced towards the growth of profit. But based on the results of the t test didn't find any ratios that influenced the growth of profit. Ningsih (2011) found that four financial ratios that influenced the growth of profit significantly consists of current ratio, return on

assets, return on equity and gross profit margin. While partially only current ratio influenced significantly to the growth of profit.

Setiawan (2012) did some research and found out that cash ratio and return on assets influenced the growth of profit. While partially only return on assets influenced on the growth of profit. Fahmi and Abdullah Taman (2013) found that significantly current ratio and quick ratio influenced negative not significant on the growth of profit. While simultaneously both ratios influenced positively to the growth of profit. And the results of Alviani (2013) showed that only return on assets in partial influenced positively towards the growth of profit.

**Conceptual Framework**

Figure 1. Conceptual Framework
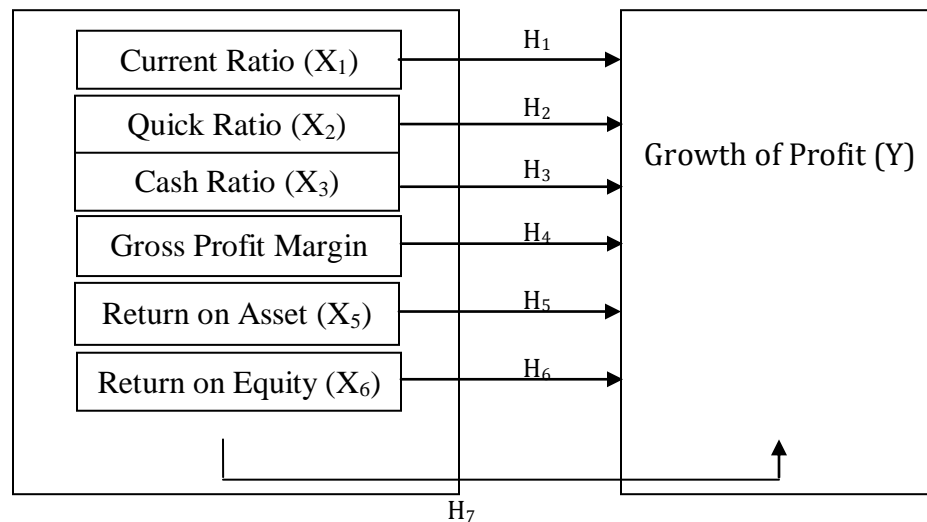


**Hypotheses**

1. $H_1$ : Current ratio influential on the growth of profit of manufacturing companies sector food and beverages listed on the Indonesia Stock Exchange period 2010-2012.
2. $H_2$ : Quick ratio influential on the growth of profit of manufacturing companies sector food and beverages listed on the Indonesia Stock Exchange period 2010-2012.
3. $H_3$ : Cash ratio influential on the growth of profit of manufacturing companies sector food and beverages listed on the Indonesia Stock Exchange period 2010-2012.
4. $H_4$ : Gross Profit Margin influential on the growth of profit of manufacturing companies sector food and beverages listed on the Indonesia Stock Exchange period 2010-2012.

5. $H_5$ : Return on asset influential on the growth of profit of manufacturing companies sector food and beverages listed on the Indonesia Stock Exchange period 2010-2012.

6. $H_6$ :Return on equity influential on the growth of profit of manufacturing companies sector food and beverages listed on the Indonesia Stock Exchange period 2010-2012.

7. $H_7$ : Current Ratio, Quick Ratio, Cash Ratio, Gross Profit Margin, Return on Assets, and Return on Equity influence simultaneoustly on the growth of profit of manufacturing companies sector food and beverages listed on the Indonesia Stock Exchange period 2010-2012.

## RESEARCH METHODOLOGY

### Research Design

This research uses a type of associative causal research. Causal research is research that aims to analyze the relationship between one variable with another variable or how can a variable influence other variables.

### Operational Boundaries

Operational limitations are carried out so this research does not spread from the research objectives that have been determined. Therefore, the researcher limited the research as follows:

1. The research period is period of 2010-2012.

2. The variables examined in this research are current ratio, quick ratio, cash ratio, gross profit margin, return on assets, and return on equity on the growth of profit.

### Measurement of Research Variables

Table 1. Measurement of Dependent & Independent Variables

| Variable | Symbol | Formula | Scale |
|---|---|---|---|
| Growth of Profit | Y | $\dfrac{Net\ Income_t - Net\ Income_{t-1}}{Net\ Income_{t-1}}$ | Ratio |
| Current Ratio | $X_1$ | $\dfrac{Current\ Assets}{Current\ Liabilities}$ | Ratio |
| Quick Ratio | $X_2$ | $\dfrac{Current\ Assets - Inventory}{Current\ Liabilities}$ | Ratio |
| Cash Ratio | $X_3$ | $\dfrac{Cash}{Current\ Assets}$ | Ratio |
| Gross Profit Margin | $X_4$ | $\dfrac{Net\ Sales - Cost\ of\ Goods\ Sold}{Sales}$ | Ratio |
| Return on Asset | $X_5$ | $\dfrac{Net\ Income}{Total\ Assets}$ | Ratio |
| Return on Equity | $X_6$ | $\dfrac{Net\ Income}{Shareholders\ Equity}$ | Ratio |

**Populations and Sample**

The population of this research is all the manufacturing companies sector food and beverage listed on the Indonesia Stock Exchange period 2010-2012 with a total of 16 companies. The sample criteria's used in this research are :

1. Manufacture companies sector food and beverage listed on the Indonesia Stock Exchange period 2010-2012.

2. The manufacturing companies have a complete financial statements and have been audited in the period 2010-2012.

3. The manufacturing companies have positive net income in the period 2010-2012.

Based on the above criterias, the number of the sample in this research consisted of 12 companies.

**Types of Data**

Types of data used in this research are:

1. Secondary data, research data obtained by researcher indirectly through an intermediary media (obtained and recorded by others). This data is generally in the form of evidence, records or historical reports that have been arranged in archives (documentary data), published and unpublished. The source of data for this research were taken from Indonesia Stock Exchange website, www.idx.co.id in the form of the financial statements of the company.

2. Quantitative data, data collected in a scientific study that systematically against the parts and phenomenon as well as the relationships. Data or evidence is based on the numbers. Quantitative data in this research is in the form of financial statements of manufacturing companies (sector food and beverage) that listed on the Indonesia Stock Exchange for period 2010-2012.

**Data Collection Method**

A method of collecting data on this research uses the technique documentation, by collect the data in the form of the financial statements of the manufacturing companies sector food and beverages period 2010-2012 that has been published. Data is collected from the official website of the Indonesia Stock Exchange, namely www.idx.co.id.

**Methods of Data Analysis**

Overall the data examined in this research is to be able to give an answer of the problem formulation that has been determined in this research. The data in this research is data panel

that combined time series data and cross section data. Analysis tool that is used to manipulate the data panel is the program *Software Eviews 7*.

## Descriptive Analysis

To obtain the overall picture about the variables used in this research, first implemented an analysis in descriptive statistics which include the value of the average (mean), median, maximum and minimum values and the standard deviations.

## Multiple Linear Regression

The method of data analysis used in this research is the technique of multiple linear regression analysis. This analysis was conducted to determine the influence of an independent variables on the dependent variable.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + e$$

Where:

Y = profit growth

$\beta_0$ = constanta

$X_1$ = *current ratio*

$X_2$ = *quick ratio*

$X_3$ = *cash ratio*

$X_4$ = *gross profit margin*

$X_5$ = *return on asset*

$X_6$ = *return on equity*

$B_1, \beta_2, ... \beta_6$ = A coefficient variable *independent*

e = error

## Testing and Selection of Models

The data used in this research is data panel. According to Juanda (2012) data panel is the combination of time series data with cross section data. In other words, data panel is the data obtained from the cross section data observed over and over on individual units (object) that is the same at different times.

There are two types of residual data modeling panel used in the selection of the model by the method of Generalized Least Squares (GLS), namely (1) Fixed Effects Models (FEM) and (2) Random Effects Models (REM).

### Fixed Effect Model

According to Widarjono (2013) fixed effect model technique is the technique to estimate panel data using dummy variables to capture the intersep differences. Fixed effect is based on the differences between companies but intersep is the same between the time (time-invariant). In addition, this model also assumes that the regression coefficient (slope) remained between companies and between time. According to Juanda (2012) the method of panel data regression with Least Square Dummy Variable (LSDV) is as follows :

$$Y_{it} = \beta_{0i} + \beta_1 X_{1it} + \beta_2 X_{2it} + U_{it}$$

Where :

i = 1,2,3 (Number of companies, which is company A, B, and others)

t = 1,2,3,4 (Number of years, which is 2010-2012)

### Random Effect Model

Random effect model used to estimate data panel where variable disorder maybe interconnected between time and between individuals. Random effect model comes from the understanding that a variable disorder consists of two components which are first variable disorder thoroughly that is combination of time series and cross section and second variable disorder individually. According to Ariefianto (2012) random effect model used when unobserved effect can be assumed not correlate with one / more independent variables. If on the fixed effect model, the differences between individuals and or time is reflected through the intercept, then model random be accommodated, through error. According to Juanda (2012) the form of random effect model can be described in the following equation :

$$Y_{it} = \alpha_i + \beta_1 X_{1it} + \beta_2 X_{2it} + \varepsilon_i + u_{it}$$
$$Y_{it} = \alpha_i + \beta_1 X_{1it} + \beta_2 X_{2it} + w_{it}$$

Where :

$$w_{it} = \varepsilon_i + u_{it}$$

Component $w_{it}$ consist of two components, namely as a component error from each cross section and as an error that is a combination of error of the time series and cross section. Based on it, random effect model is also known as error components model (ECM). The general assumptions of the ECM are :

$$\varepsilon_i \sim N (0, \sigma^2\varepsilon )$$
$$u_{it} \sim N (0, \sigma^2_u)$$

$E(\varepsilon_i, u_{it}) = 0 \; E(\varepsilon_i, \varepsilon_j) \; (i \neq j)$

$E(u_{it} \; u_{is}) = E(u_{it} \; u_{jt}) = E(u_{it} \; u_{js}) = 0 \; (i \neq j \; ; \; t \neq s)$

Individual components of the error is not correlated with each other and no autocorrelation in the data both cross-unit data and time series.

## Haussman Test

Haussman test is a statistical test to select the model of fixed effects or random effects in analyzing the data. According to Widarjono (2013) hypothesis used in the specification Haussman test is as follows :

$H_0$ : *Random effect model*

$H_1$ : *Fixed effect model*

Testing haussman follows a statistical distribution chi square with degree of freedom as many as k where k is the number of independent variables. If there is a rejection of hypothesis zero where the value of statistics haussman greater than the critical value (the value of the table chi square) then model fixed effect used, vice versa.

## A Classic Assumption Test

A classic assumption test done to test the appropriateness of the method of Generalized Least Squares (GLS). A classic assumption test must be met at multiple linear regression analysis based on Ordinary Least Squares (OLS). Therefore, the test of autocorrelation, multicollinearity, heterokedastisitas and normality do not need to be performed on data penel with GLS method. According to Widarjono (2013) panel data with GLS methods has several advantages, namely:

1. Data panel is a combination of two data which are time series and cross section which able to provide  more data so it will produe greater degree of freedom.

2. Combining information from data time series and cross section can overcome problems that arise when there is a problem in the removal of variables (ommited-variabel).

Other advantages of regression data panel according to Ajija (2011) are:

1. Panel data able to calculate heterogeneity in individuals explicitly by allowing a variable specific individuals;
2. The ability to control heterogeneity, make the data panel which can be used to test models of complex behavior.
3. Data panel based themselves on cross-section observation that is repeated (time series ) thus, data panel methods suitable to use as a study of dynamic adjustment.

4. A high number of observation have an implication on data which more informative, more variatif, and kolinieritas (multiko) between decreasing data, and more high of degrees of freedom (degree of freedom/df) so it can be obtained more efficient estimation results.

5. Data panel can be used to study the models of complex behavior.

6. Data panel can be used to minimize the bias that may be caused by aggregation of data individuals.

With the advantages of panel data, then a classic assumption test should not be performed in this study according to Ajija (2011). Test of normality is also not done because based on the empirical experience of some statistical experts, data that has more than 30 numbers (n>30), then it can be assumed to be normal distribution. Where is the number of observations or n in this research is 36.

**Hypothesis Testing**

The hypothesis research tested to assess the effect of the independent variables on the dependent variable. Testing is done by testing the analysis f and analysis t to know whether each of the independent variables individually or simultaneously influennce on the growth of profit.

**A Coefficient Determination Test ($R^2$)**

According to Widarjono (2013) test coefficient of determination ($R^2$) is carried to see proportion or the presentation of total variance of a dependent variable y described by the independent variables x. The value of the coefficient determination situated between 0 and 1. The more the number approach 1 or 100 % then the better because it can explain the actual data or the greater the influence of the independent variables towards dependent variable. The difference in the numbers or the rest is explained by residual variables namely variables outside of the model that are not included in the model.

**Simultaneous Significance Test (F Test)**

According to Ariefianto (2012) F test is done to see if some of the parameters of the regression simultaneously meet a hypothesis. This test is performed by comparing the significance of the comparison with the following criterias:

1. Make the zero hypothesis ($H_0$) and an alternative hypothesis ($H_a$) as follows :

   $H_0 : \beta_1 = \beta_2 = ... = \beta_k = 0$

   $H_a$ : at least one of the $\beta_k \neq 0$ where $k = 1,2,3,..., k$

2.  To calculate F with the formuka :

$$F_{count} = \frac{R^2/(k-1)}{(1-R^2)/(n-k)}$$

Where :

k = Total of independent variables

n = Total of observations

The value of f critical based on the size of α and df where the amount determined by numerator ( k-1 ) and df to denominator ( n-k ).

3.  The decision is determined by :
    - If $F_{count}$ > F $_{critical}$, then we reject $H_0$, and
    - If F $_{count}$ < $F_{critical}$, then failed to reject $H_0$.

    Where $H_0$ and $H_{a\ ia}$ is as follows :
    - $H_0$ : no influence between current ratio, quick ratio, cash ratio, gross profit margin, return on assets, and return on equity simultaneously on the growth of profit.
    - $H_a$: there is an influence between current ratio, quick ratio, cash ratio, gross profit margin, return on assets, and return on equity simultaneously on the growth of profit.

**Significance Partial Test (t Test)**

According to Ariefianto (2012) t test is done to see a parameter regression is in accordance with the hypothesis. Criteria statistics t test (t-stat) is compared with the value of the critical or by counting the p-value.

By using eviews, value can be calculated, therefore no need to search the critical value at the table. The procedure's for the t test is as follows:
- If the *p value* > α = 0.05 then the variable does not have a significant impact.
- If the *p value* < α = 0.05 then the variable have a significant impact.

**RESULTS AND DISCUSSION**

**Statistics Descriptive**

Table 2. Output of Statistics Descriptive

Date: 05/26/14
Time: 12:30
Sample: 2010 2012

|  | X1 | X2 | X3 | X4 | X5 | X6 | Y |
|---|---|---|---|---|---|---|---|
| Mean | 1.720.79 | 1.263.97 | 0.258257 | 0.307129 | 0.440274 | 0.131233 | 0.99332 |
| Median | 1.708.82 | 1.192.00 | 0.196130 | 0.316977 | 0.382367 | 0.097565 | 0.93977 |
| Maximum | 1.941.60 | 1.414.65 | 0.398990 | 0.398695 | 0.570458 | 0.214282 | 2.223.13 |
| Minimum | 1.511.96 | 1.185.27 | 0.179650 | 0.205716 | 0.367999 | 0.081851 | -0.18291 |
| Std. Dev. | 0.215072 | 0.130530 | 0.122157 | 0.096866 | 0.112971 | 0.072351 | 1.203.91 |
| Skewness | 0.101969 | 0.704996 | 0.692657 | -0.184828 | 0.694261 | 0.669769 | 0.08156 |
| Kurtosis | 1.500.00 | 1.500.00 | 1.500.00 | 1.500.00 | 1.500.00 | 1.500.00 | 1.500.00 |
| Jarque-Bera | 0.286449 | 0.529759 | 0.521137 | 0.298331 | 0.522249 | 0.505545 | 0.28457 |
| Probability | 0.866560 | 0.767298 | 0.770613 | 0.861427 | 0.770185 | 0.776645 | 0.86737 |
| Sum | 5.162.39 | 3.791.93 | 0.774770 | 0.921388 | 1.320.82 | 0.393698 | 2.979.98 |
| Sum Sq. Dev. | 0.092512 | 0.034076 | 0.029845 | 0.018766 | 0.025525 | 0.010469 | 2.898.84 |
| Observations | 3 | 3 | 3 | 3 | 3 | 3 | 3 |

The descriptive results show all the average (mean) values are positive for Current Ratio which is 1.720.798; Quick Ratio is 1.263.979; Cash Ratio is 0.258257; the Gross Profit Margin is 0.307129; Return on Assets is 0.440274; Return on Equity is 0.131233 and The Growth of Profit is 0.993329.

Variable Return on Assets has the lowest maximum value of 0.214282 and the highest maximum value is The Growth of Profit amounted to 2.223.133. While the lowest for the minimum value of -0.182918 is The Growth of Profit and the highest minimum values occur at Current Ratio of 1.511.963.

The highest standard deviation values of all variables is The Growth of Profit which is 1.203.919 and the lowest standard deviation is Return on Equity amounted to 0.072351. Thus, based on the results of the descriptive analysis it showed generally all variables has the positive descriptive statistics values.

**Multiple Linear Regression Estimation Results**

Table 3. The Multiple Linear Regression Estimation

| Dependen Variabel : Pertumbuhan Laba (Y) Periode 2010-2012 | | |
|---|---|---|
| **Variabel** | **Fixed Effects** | **Random Effects** |
| C | -3.223.297 | 1.131.561 |
| X1? | -0.195829 | -0.459921 |
| X2? | 1.474.354 | 0.017390 |
| X3? | -2.326.834 | 0.796873 |
| X4? | -0.529503 | -2.161.321 |
| X5? | 5.146.219 | -1.314.952 |
| X6? | 1.460.191 | 6.562.733 |

Both models of fixed effects and random effect are used to show which model is the best to used to estimate the factors affecting the growth of profit of manufacturing companies sector food and beverage listed on the Indonesia Stock Exchange period 2010-2012. The result shows that the best model to used is random effects. Multiple linear regression results with the method (REM) is as follows:

*Y = 1.131.561 + (-0.459921) (X1) + 0.017390 (X2) + 0.796873 (X3) + (-2.161.321) (X4)*
*+ (-1.314.952) (X5) + 6.562.733 (X6)*

**Haussman Test**

Table 4. Output of Haussman Test

| Correlated Random Effects - Hausman Test Pool: RE Test cross-section random effects | | | |
|---|---|---|---|
| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
| Cross-section random | 4.583596 | 6 | 0.5982 |

Based on the result of the Haussman tests, probability of the Chi Square statistics is worth 0.5982. The hypothesis in this test as follows :

$H_0$ = *Random Effect Model*

$H_1$ = *Fixed Effect Model*

Known the number of k or the degree of freedom is 6 at the level 5 %, then the value of the table chi squares is 12.59. The result also obtained pro.cross section random of 0.5982 that

is larger than alpha 0.05 so the researcher received hypothesis zero which mean the best model to used is random effect model. The output of random effect model is shown below:

Table 5. Ouput of Random Effect Model

Dependent Variable: Y?
Method: Pooled EGLS (Cross-section random effects)
Sample: 2010 2012                                       Included observations: 3
Cross-sections included: 12
Total pool (balanced) observations: 36
Swamy and Arora estimator of component variances

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 1.131561 | 0.892411 | 1.267982 | 0.2149 |
| X1? | -0.459921 | 0.980895 | -0.468879 | 0.6427 |
| X2? | 0.017390 | 1.271224 | 0.013680 | 0.9892 |
| X3? | 0.796873 | 0.986455 | 0.807815 | 0.4258 |
| X4? | -2.161321 | 2.867927 | -0.753618 | 0.4572 |
| X5? | -1.314952 | 2.772210 | -0.474334 | 0.6388 |
| X6? | 6.562733 | 8.792995 | 0.746359 | 0.4615 |
| Random Effects (Cross) | | | | |
| _ADES—C | 0.024189 | | | |
| _AISA—C | 0.012774 | | | |
| _CEKA—C | -0.016451 | | | |
| _DLTA—C | -0.012053 | | | |
| _ICBP—C | 0.041764 | | | |
| _INDF—C | -0.021340 | | | |
| _MLBI—C | -0.010623 | | | |
| _MYOR—C | 0.002472 | | | |
| _ROTI—C | -0.012652 | | | |
| _SKLT—C | -0.007966 | | | |
| _STTP—C | -0.007256 | | | |
| _ULTJ—C | 0.007142 | | | |

| Effect Specification | | S.D. | Rho |
|---|---|---|---|
| Cross-section random | | 0.142628 | 0.0102 |
| Idiosyncratic random | | 1.405273 | 0.9898 |

| Weighted Statistics | | | |
|---|---|---|---|
| R-squared | 0.075253 | Mean dependent var | 0.541379 |
| Adjusted R-squared | -0.116073 | S.D. dependent var | 1.297301 |
| S.E. of regression | 1.370526 | Sum squared resid | 54.47188 |
| F-statistic | 0.393324 | Durbin-Watson stat | 1.797626 |
| Prob(F-statistic) | 0.877212 | | |

| Unweighted Statistics | | | |
|---|---|---|---|
| R-squared | 0.076902 | Mean dependent var | 0.549681 |
| Sum squared resid | 54.85317 | Durbin-Watson stat | 1.785130 |

**The Result of Classic Assumption Test**

The testing of assumption was not done in this research because the method used is the Generalized Least Squares (GLS). Based on previous discussion, panel data have the advantages of not doing a classic assumption test.

**The Results of Coefficient Determination Test ($R^2$)**

The result of random effects model (REM) showed that the value of the coefficients determination (r2) is 0.075253. Therefore, 7.5253% variation or the changing to the growth of profit explained by the all independent variables, which are quick ratio, cash ratio, gross profit margin, return on asset and return on equity towards manufacturing companies sector foods and beverages listed on the Indonesia Stock Exchange. While the rest of 92.4747% described by variables and other factors that is not included in the research model.

**The Results of F Test**

Based on the results of the f test seen that the value of f is worth 0.393324. These statistics can be compared with f-tabel n = 36, df (k) = 6, and α = 5 % with the result is 2.42. Therefore, it obtained the result of f-statistik which is 0.393324>2.42. Based on these results, it can be concluded that $h_0$ rejected ($h_a$ received ). It showed that all the independent variables which are quick ratio, cash ratio, gross profit margin, return on equity and return on asset influence simultaneously towards the growth of profit.

**The Results of t Test**

The results of current ratio (X1) on the growth of profit are -0.468879 for t-statistics value while the p-statistics value is 0.6427. The result of the probability is larger compared with the level of α = 5 %. It means partially current ratio have no significant impact on the growth of profit and having a positive relationship.

The results of quick ratio (X2) on the growth of profit are 0.013680 for t-statistics value while the p-statistics value is 0.9892. The result of the probability is larger compared with the level of α = 5 %. It means partially quick ratio have no significant impact on the growth of profit and having a positive relationship.

The results of cash ratio (X3) on the growth of profit are 0.807815 for t-statistics value while the p-statistics value is 0.4258. The result of the probability is larger compared with the level of α = 5 %. It means partially cash ratio have no significant impact on the growth of profit and having a positive relationship.

The results of gross profit margin (X4) on the growth of profit are -0.753618 for t-statistics while the p-statistics value is 0.4572. The result of the probability is larger compared with the level of α = 5 %. It means partially gross profit margin have no significant impact on the growth of profit and having a positive relationship.

The results of return on asset (X5) on the growth of profit are -0.474334 for t-statistics while the p-statistics value is 0.6388. The result of the probability is larger compared with the level of α = 5 %. It means partially return on asset have no significant impact on the growth of profit and having a positive relationship.

The results of return on equity (X6) on the growth of profit are 0.746359 for t-statistics while the p-statistics value is 0.4615. The result of the probability is larger compared with the level of α = 5 %. It means partially return on equity have no significant impact on the growth of profit and having a positive relationship.

## CONCLUSIONS

Current ratio, quick ratio, cash ratio, gross profit margin, return on assets and return on equity partially did not influence significantly on the growth of profit of manufacturing companies (sector food and beverage) listed on the Indonesia Stock Exchange (IDX) period 2010-2012. Simultaneously current ratio, quick ratio, cash ratio, gross profit margin, return on assets and return on equity together influence significantly on the growth of profit of manufacturing companies (sector food and beverage) listed on the IDX period 2010-2012.

## LIMITATIONS OF THE RESEARCH

1. The research period is limited to the period of 2010-2012 only.
2. The variables examined in this research are current ratio, quick ratio, cash ratio, gross profit margin, return on assets, and return on equity on the growth of profit.

## RECOMMENDATIONS

1. The company is advised to use financial ratios to measure the level of corporate profit growth to know the condition of the company which can eventually affect the investors in investing.
2. The investors suggested doing the analysis of the company's financial statements by using financial ratios that related to the growth of profit so it can determine the amount of investment in the future.
3. For further researchers who wants to do similar research, it is suggested you should increase the number of samples used, extend the period of time and add others variable independent in order to provide a more accurate conclusion.

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