Financial Ratios: Prediction of Changes in Profit Future on Islamic Banks

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ABSTRACT

This study aims to determine whether the current ratio, profit margin, total asset turnover is able to predict changes in future earnings at 33 Islamic Banks 2011-2013. The research data was tested using multiple linear regression analysis using SPSS version 21. The result is the data shows that the variable margin and total asset turnover significant positive effect on predicted changes in future earnings and current ratio variable positive effect was not significant in predicting changes in profit in the future. These results are very useful for Islamic Banks itself to constantly improve its financial performance with demonstrated their future earnings changes continuously. Positive income changes from year to year will be able to attract investors to invest in the stock Islamic Banks.

Keywords: Current ratio, profit margin, total asset turnover, profit change prediction, Islamic Banks.

I INTRODUCTION

The success of a company can be seen from the performance from year to year, in which the financial information was useful for planning and decision-making short-term and long-term needs to know the company's profit in the present and the future. Statement of Financial Accounting Concept (SFAC) states that the earnings information has a benefit in assessing management performance, helping to estimate the earnings capacity of a representative in the long term, it forecast earnings and assess risks in the investment. Profit forecast is also affected by the financial ratios include current ratio, profit margin and total asset turnover. The current ratio is a ratio to measure a company's ability to pay short-term obligations or debt immediately due when billed as a whole. That is, the amount of liquid assets available to cover short-term liabilities that is due soon. Syamsudin and Primayuta (2009), Asmar (2014), Napatilova (2014), said variable current ratio of positive and significant in predicting earnings changes in the future, otherwise Parawiyati and Baridwan (1998), Taruh (2012), Rosahayu, et al (2014) said the current ratio positive effect was not significant in predicting future earnings changes.

The profit margin (net profit margin) which is one of the profitability ratios. This ratio illustrates the magnitude of the net profit earned by the company on each sale (Darsono and Ashari, 2005: 56). Parawiyati and Baridwan (1998), Taruh (2012), Adisetiawan (2012) and Napatilova (2014) state variable profit margin significant positive effect in predicting future earnings changes. Different Syamsudin and Primayuta (2009), Asmar (2014) which states that the profit margin positive effect was not significant in predicting future earnings changes. Total asset turnover ratio is used to measure all assets owned by the company turnover and measured how the amount of expenditures obtained from each rupiah assets (Kashmir, 2012: 185). Total asset turnover ratio of activity is used to measure the extent a company's effectiveness in using its resources in the form of assets. Napatilova (2014), Syamsudin and Primayuta (2009) total asset turnover variable states significant positive effect in predicting future earnings changes. Different, Parawiyati and Baridwan (1998), Adisetiawan (2012), Taruh (2012), Asmar (2014) which states total asset turnover positive effect was not significant in predicting future earnings changes.

II DEVELOPMENT HYPOTHESIS

A. Effect of the Current Ratio to Predicts Profit Changes in Future

The current ratio is a ratio to measure a company's ability to pay short-term obligations or debt immediately due when billed as a whole (Kashmir, 2012). That is, how many assets are available to cover short-term liabilities that is due soon. Asmar (2014), Napatilova (2014), Syamsudin and Primayuta (2009) states that the current ratio is able to predict changes in future earnings.

H1: The current ratio positive effect on predict profit changes in future

B. Effect ofProfit Margin to Predicts Profit Changes in Future

Profit margins in this study using NPM (Net Profit Margin). NPM ratio illustrates the magnitude of the net profit earned by the company on each sale (Darsono and Ashari, 2005: 56). The greater the net profit margin then the performance of the company will be more productive, so it will increase the confidence of investors to invest in the company. This ratio indicates how much percentage of the net profit earned from each sale. Adisetiawan (2012) and Napatilova (2014) states that the positive effect on profit margin, so this variable was able to predict changes in future earnings.

H2: The profit margin positive effect on predict profit changes in future

C. Effect of Total Assets Turnover to Predicts Profit Changes in Future

Total asset turnover ratio is used to measure all assets owned by the company turnover and measured how the amount of expenditures obtained from each rupiah assets (Kashmir, 2012). Total asset turnover itself is the ratio of sales to total assets measure the efficiency of use of the asset as a whole. If the ratio is low it is an indication that the company is not operating at sufficient volume to capacity investment. Napatilova (2014), Syamsudin and Primayuta (2009) state variable total asset turnover positive effect in predicting future earnings changes.

H3: Turnover of total assets positive effect onpredict profit changes in future

III RESEARCH METHOD

This study used a sample of Islamic Banks (BUS) 2011-2013 that as many as 11 Islamic Banks annually. The variables in this study will be tested using multiple linear regression analysis (Ghozali, 2013), the regression equation as follows:

$$\mathbf{CP = a + b_1CR + b_2PM + b_3TTA}$$

Description:

CP = Change Profit
A = Constant
B = Coefficient of regression equation
CR = Current Ratio
PM = Profit Margin
TTA = Turnover Total Assets

IV DISCUSSION

Effect of the Current Ratio to Predicts Profit Changes in Future

The current ratio is not significant positive effect on future profit forecasts, with significant value 0.617> 0.05. meaning that the size of the current ratio can not affect the size of future profit forecasts. This ratio indicates how many assets are available to cover short-term liabilities that is due soon, so that the company can mngukur level of security (margin of safety). Low current ratio is usually considered to indicate the occurrence of problems in liquidity, but conversely if too large current ratio shows that the management of current assets less good because it shows the amount of idle funds, which in turn can reduce the ability of corporate profits. The results of this study support Rosahayu, et al (2014) which states that the current ratio positive effect was not significant to forecast future earnings, contrast a study Asmar (2014), Narpatilova (2014), Syamsudin and Primayuta (2009) which states that the current ratio effect positively significant to forecast future earnings.

Effect ofProfit Margin to Predicts Profit Changes in Future

Profit margins are significant positive effect on future profit forecasts, this result proved by the significant value 0.029 <0.05. That is, management can see the focus of the magnitude of net income that can be generated from sales can be generated by shareholders. Profitability showed as the profitability of own capital or often referred to as business profitability. The higher this ratio, the better because it gives a greater rate of return on shareholders. The higher the income, the profit or corporate profits increased, so that the profit growth also increased (Wibowo, 2011). These results are consistent with research Adisetiawan (2012) and Narpatilova (2014) which states that the results of the profit margin significant positive effect on earnings forecast future, otherwise differ with Asmar (2014), Syamsudin and Primayuta (2009) which states margin positive effect was not significant to forecast future earnings.

Effect of Total Assets Turnover to Predicts Profit Changes in Future

Turnover of total assets has positive influence on the future profit forecasts, this result proved by the significant value 0.025 <0.05, meaning that the size of the asset turnover can affect the size of future profit forecasts. This ratio to measure the ability of funds that are embedded in the sale of spins in a certain period or liquidity of sales and selling their tendency to generate cash. The ratio of good report or productive activity for the company, if the ratio activity ratio greater than 1, if slow-moving show that sales held is too small compared with the ability to assets. That is, the higher the turnover rate of assets, the company's ability to sell the product gets higher, so the impact on profit and profit growth. The results of this study support Napatilova (2014), Syamsudin and Primayuta (2014), showed that the asset turnover significant positive effect on earnings forecast future, otherwise do not support research Asmar (2014) and Setiawan (2012) which stated asset turnover positive effect not significantly to forecast future earnings.

V CONCLUSION

Based on the research that has been done, it can be concluded variables capable of predicting profits in the future in the banking company is a variable margin and total asset turnover, while the variable current ratio of not being able to predict future earnings. The results of this study support the research Narpatilova (2014) which states that the profit margin and total asset turnover significant positive effect on future earnings forecast. While this study does not support the results Asmar (2014) which states that the profit margin and total asset turnover is not significant positive effect on future earnings forecast. Limitations of this study are the small or low ability of independent variables in explaining the dependent variable by 0.19. That is, the independent variable (the current ratio, profit margin and total asset turnover) can explain the dependent variable (change prediction profit) by 19% while the rest is explained by other variables.

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