

The Effect of Working Capital Turnover on the Performance of Coal Companies Listed on the Indonesia Stock Exchange in 2020-2022

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Abstract

Objective: The purpose of this study is to determine the effect of working capital turnover on the company's financial performance. In addition, to find out the elements included in working capital, namely cash turnover, receivables turnover, and inventory turnover to the company's financial performance.

Design/Methods/Approach: The research method is quantitative descriptive. The population of this study is 27 coal companies listed on the Indonesia Stock Exchange (IDX) for the 2020-2022 period. The sample of this study uses a sampling technique using the purposive sampling method and the number of samples obtained were as many as 16 companies. Data analysis techniques using the Statistical Product and Service Solutions (SPSS) program.

Findings: Working capital turnover and inventory turnover have a significant effect on financial performance. However, cash turnover and receivables turnover did not have a significant effect on financial performance.

Originality/Value: This study contains a complete list of publications on working capital turnover and their classification according to various attributes. This research study will be useful for researchers, finance professionals and others who examine the importance of working capital turnover and the conceptualization of corporate finance as a whole. The author intends to develop a Systematic Literature Review (SLR) method in detail on the topic of the relationship between working capital turnover and financial performance, along with elements that include previous working capital turnover published in academic journals.

Practical/Policy implication: The sample of this study is only on coal companies listed on the Indonesia Stock Exchange for the period of 2020-2022. Further research can test samples of companies in other manufacturing fields, such as State-Owned Enterprise (SOEs). Further research is suggested to add a longer period of research years. For companies, they can further optimize cash and receivables turnover so that they can be managed more effectively and efficiently to improve financial performance.

Keywords: cash turnover, inventory turnover, financial performance, receivables turnover, working capital turnover

JEL Classification: M4, M40, M41

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Introduction

Working capital is often referred to as "current capital" or "current assets" (Pitchai & Velu, 2024). This definition comes from the company's short-term cash cycle. The company's performance is measured based on the components of the cash conversion cycle (receivables, inventories and debt). Working capital refers to the management of current assets and current liabilities is very important because it affects the decisions of the company, which in turn affects its financial performance especially profitability (Louw et al., 2022; Umar & Al-Faryan, 2024; Wanzala & Obokoh, 2024). Aggressive working capital policies appear to improve financial performance; However, these results were not significant in all cases. In addition, a conservative working capital policy is based on large investments in current assets with high circulation. This policy will result in lower profits. There are risks and expectations of returns in investment policies. Each investment policy has associated costs and benefits, and each affects profitability (Olaiya & Adesoga, 2024; Vlismas, 2024).

Working capital can increase company profitability has received increasing attention from organizational management to academics. Working capital in a company is considered a source of life and one of the most important factors that contribute to the continuity of the company's work, where effective management of working capital is a necessary process to achieve the company's goals. Company management can manage profits and what sources of funds should be needed by the company as a party entrusted by investors and business people in making policies so that they are more cooperative in accordance with the expectations of the owner (Tripermata & Yeni, 2022).

One phenomenon that has occurred in recent years has seen Newcastle coal futures fall to around \$133 per tonne, reaching its lowest point <https://tradingeconomics.com/commodity/coal>. Coal is the main fuel used to generate electricity around the world. In May, the share of coal-fired power plants in China hit a record low of 53%, down from 60% the previous year, as renewable energy sources hit new highs. In contrast, coal-fired power generation in the US is projected to increase this year. and in 2025 compared to 2023 due to high natural gas prices. Coal futures are available for trading on the Intercontinental Exchange and the New York Mercantile Exchange. The standard contract of GC Newcastle registered with ICE weighs 1,000 metric tons. The coal prices displayed in Trading Economics are based on Over The Counter (OTC) and Contract For Difference (CFD) financial instruments. The largest producer and consumer of coal is China. Other largest coal producers include Indonesia, Australia, Russia, the United States, Colombia, South Africa and Kazakhstan.

In Indonesia, coal mining has been in operation since 1868 as the mining industry stands at the crossroads of sustainability and is experiencing a period of energy transition and soaring demand. The condition of the Indonesian economy that cannot be predicted by most companies is a challenge for business actors because the ups and downs of the economy affect most economic sectors. One of them is a sub-sector in the mining sector, namely coal mining. This sub-sector is one of the most important sectors because it is related to the search for coal from the ground, where the energy contained in coal can be used as fuel for iron extraction from iron ore and for cement production. This sub sector is one of the most important sectors because it is related to the search for coal from the ground, where the energy contained in coal can be used as fuel for iron extraction from iron ore and for cement production. The urgency of sustainable mining practices underscores the need for reporting accounting standards and ensures stakeholders can make informed decisions regarding working capital for companies seeking short term funding.

This study focuses on determining the effect of working capital turnover on the financial performance of companies in Indonesia, especially in the context of the coal industry. In addition, to find out the elements included in working capital, namely cash turnover, receivables turnover, and inventory turnover to the company's financial performance. The importance of working capital and its relationship to financial performance is not new in the Company's financial literature. Several other articles explain that effective working capital management has a positive impact on profitability (Briones & Camino-Mogro, 2024; Vlismas, 2024). However, other articles show that working capital has a negative impact on a company's profitability (Anton & Afloarei Nucu, 2021). The difference in research results shows that there is a gap that requires further study to see the impact of working capital on profitability from various perspectives and different industries. The formulation of this research question is whether working capital affects the financial performance of coal companies listed on the Indonesia Stock Exchange for the 2020-2022 period? Therefore, this study aims to provide a broader view of the influence of working capital on financial performance with the selected measurement being profitability. The method used in this study is a quantitative research method with SPSS analysis tools. The results are expected to provide a better

understanding of the financial performance of coal companies in Indonesia based on the 2020-2022 observation year period.

Literature Review and Hypotheses Development

Transaction Cost Theory

According to Ronald Coase (1937), the transaction cost of coordinating production through the market exchange, given imperfect information, is greater than within the firm. Transactions cost repeatedly or long, then the company needs to be continuous regarding the profit information from the trade, which will further increase the transaction cost. The company engages in long-term contracts with suppliers through long-term contracts to minimize costs or maximize the value of proprietary or financial assets (Williamson, 2010).

Working Capital

Working capital is the arithmetic difference between two balance sheet aggregated accounts: current assets and current liabilities (Sagner, 2010). The management of working capital is concerned with the management of assets such as cash, marketable securities, accounts receivable, investor prepaid expenses, and the current assets: also, liabilities such as accounts payable, wages payable, and accruals (Bhalla, 2014). Working Capital is a measure of both a company's efficiency and its short-term financial health (Ismail, 2017). The most popular indicator of working capital turnover measurement is the Cash Conversion Cycle (CCC) used in studies such as (Pratap Singh & Kumar, 2014).

$$CCC = \text{number of days inventories} + \text{number of days accounts receivable} \\ - \text{number of days accounts payable}$$

Cash Turnover

Cash is a medium of exchange which is also used as a measure in accounting and in the balance sheet, cash is the most current asset, in the sense that it changes the most frequently (Baridwan, 2014). Another definition states that cash turnover is a comparison between sales and the average cash amount. Cash turnover rate is a measure of the efficiency of cash use carried out by the company. Cash turnover is a measure of the efficiency of cash used by companies because the cash turnover rate describes the speed of return of cash invested in working capital. Cash turnover is the ability of cash to generate income so that it can be seen how many times the cash revolves in one period (Riyanto, 2011). The following formula can be used to determine cash turnover (Eryatna et al., 2021).

$$\text{Cash Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Cash Balance}}$$

Receivables Turnover

Accounts receivable is of importance to any organization which has to attain its objective of profit maximization (Charles & Tibbs, 2019). Meanwhile, the definition of overall receivables turnover is the relationship between net sales and receivables, calculated by dividing net sales by net receivables on average. Receivables turnover is a measure of the speed at which customers come to make payments thereby reducing the amount owed. It is important to underline that delayed receivables payments become the basis for bad debts which ultimately negatively impacts the company's financial performance (Charles & Tibbs, 2019). The higher the accounts receivable turnover, the better. otherwise, the slower the receivable turnover, the worse. Thus, receivable turnover rate depends on the payment terms provided by the company. The following formula can be used to calculate receivable turnover (Eryatna et al., 2021).

$$\text{Receivables Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Net Account Receivable}}$$

Inventory Turnover

Inventory turnover determines how many times inventory is sold or replaced with new inventory in a year, and provides several measurements regarding the liquidity and ability of a company to convert its inventory into money appropriately (Suharli, 2006). The inventory turnover ratio is used to measure the rate at which old inventory is replaced with new inventory after leaving the warehouse (Binsaddig et al., 2023). Additionally, the receivables turnover ratio evaluates how long it takes to collect an organization's receivables within a given period of time. According to Weygandt, Kimmel, Kieso (2019), Inventory

turnover measures the number of times on average the inventory is sold during the period. Its purpose is to measure the liquidity of the inventory. Inventory turnover can be computed by using the formula below (Eryatna et al., 2021).

$$\text{Inventory Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Inventory}}$$

Financial Performance

Financial performance is determined by availability of capital (Kamau, 2024). The measure of the success of management in managing the company's finances is reflected in the increase in the company's value. The indicator of an increase in the value of the company used in this study is Return on Assets (RoA) over a certain period and/or its financial performance is better when compared to the average financial ratio of the industry (Tripermata & Yeni., 2022).

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

The development of the hypothesis is as follows.

The results of research conducted by (Sogomi et al., 2024; Wanzala & Obokoh, 2024) stated that the turnover of working capital has a positive and significant effect on financial performance. Based on the theory and previous research, the hypothesis of this study can be formed as follows.

H1 : Working capital turnover affects financial performance.

The results of research conducted by Eryatna et al., (2021) stated that cash turnover had no effect on financial performance. Based on the theory and previous research, the hypothesis of this study can be formed as follows.

H2 : Cash turnover affects financial performance.

The results of research conducted by Eryatna et al., (2021) stated that receivables turnover had no effect on financial performance. Based on the theory and previous research, the hypothesis of this study can be formed as follows.

H3 : Receivables turnover affects financial performance.

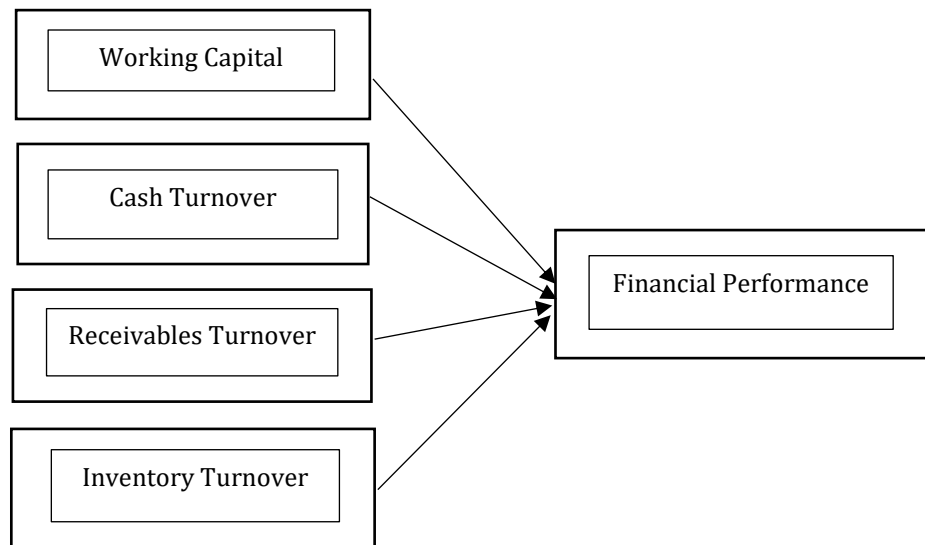
The results of research conducted by Eryatna et al., (2021) stated that the inventory turnover has a positive and significant effect on financial performance. Based on the theory and previous research, the hypothesis of this study can be formed as follows.

H4 : Inventory turnover affects financial performance.

The results of research conducted by Sogomi et al., (2024) stated that the inventory turnover has a positive and significant effect on financial performance. Based on the theory and previous research, the hypothesis of this study can be formed as follows.

H5 : Working capital turnover, cash turnover, receivables turnover, and inventory turnover affects financial performance.

The framework is as follows:



Picture 1. framework

Method

The research method is quantitative descriptive. The population of this study is 27 coal companies listed on the Indonesia Stock Exchange (IDX) for the 2020-2022 period (www.idx.co.id). Meanwhile, the sample of this study uses a sampling technique using the purposive sampling method. Thus, the sample that meets the criteria is really representative of 16 coal companies listed on the IDX (Sugiyono, 2021). Data analysis techniques using the Statistical Product and Service Solutions (SPSS) program. This study uses the operational definition of variables as follows.

Table 1. The Operational Definition of Variables

No.	Variables	Definition	Measurement	Scala
	a	b	c	d
1.	Working Capital	Working Capital is a measure of both a company's efficiency and its short-term financial health (Ismail, 2017).	CCC = number of days inventories + number of days accounts receivable - number of days accounts payable	Ratio
2.	Cash Turnover	Cash turnover is the ability of cash to generate income so that it can be seen how many times the cash revolves in one period (Riyanto, 2011).	Cash Turnover Ratio = $\frac{\text{Net Sales}}{\text{Average Cash Balance}}$	Ratio
3.	Receivables Turnover	Receivables turnover is a measure of the speed at which customers come to make payments thereby reducing the amount owed. It is important to underline that delayed receivables payments become the basis for bad debts which ultimately negatively impacts the company's financial performance (Charles & Tibbs, 2019).	Receivables Turnover Ratio = $\frac{\text{Net Sales}}{\text{Average Net Account Receivable}}$	Ratio
4.	Inventory Turnover	Inventory turnover determines how many times inventory is sold or replaced with new inventory in a year, and provides several measurements regarding the liquidity and ability of a company to convert its inventory into money appropriately (Suharli, 2006).	Inventory Turnover Ratio = $\frac{\text{Net Sales}}{\text{Average Inventory}}$	Ratio
5.	Financial Performance (RoA)	Financial performance is determined by	ROA = $\frac{\text{Net Income}}{\text{Total Assets}}$	Ratio

availability of capital
(Kamau, 2024).

Source: Data processed, 2024

Result and Discussion

To obtain results and discussion, this study uses data analysis techniques including descriptive statistical tests, classical assumption tests, hypothesis tests, t tests, and F tests. The Results and Discussion section encompasses a comprehensive depiction of the primary findings of the research. It is advisable for the writer to emphasize the key and significant results, rather than relying solely on tabulated data.

The data of this research was processed with Microsoft Excel. Furthermore, the data is applied to the SPSS version 20 program. The results of data processing of this study used a descriptive statistical analysis test. The variables analyzed in this study are working capital turnover (cash turnover, receivables turnover, and inventory turnover) on the company's performance in coal companies listed on the Indonesia Stock Exchange in 2020-2022.

Based on table 1, it shows that the data used in this study are in accordance with each variable and the number of samples, including the following.

- a. Working capital turnover (X1) has the smallest or minimum value of -4.39 and the largest or maximum value of 11.63 with an average value of 5.8715, and a standard deviation of 3.62839.
- b. Cash turnover (X2) has the smallest or minimum value of -8.37 with the largest or maximum value of -17.97, an average value of 9.0669, and a standard deviation of 2.68912.
- c. Receivables turnover (X3) has the smallest or minimum value of 1.00 with the largest or maximum value of 13.80, an average value of 7.0492, and a standard deviation of 2.90987.
- d. Inventory turnover (X4) has the smallest or minimum value of 2.98, the largest value or maximum value of 15.80 with an average value of 7.8892, and a standard deviation of 3.40764.
- e. Financial Performance (Y) memiliki nilai terkecil atau minimum sebesar -5.37 nilai terbesar atau maksimum 19.00 dengan nilai rata-rata sebesar 2.0001 dan deviasi sebesar 4.54994.

Table 1. Descriptive Statistical Test

	N	Minimum	Maximum	Mean	Std. Deviation
Working Capital Turnover	48	-4.39	11.63	5.8715	3.62839
Cash Turnover	48	-8.37	-17.97	9.0669	2.68912
Accounts Receivable Turnover	48	1.00	13.80	7.0492	2.90987
Inventory turnover	48	2.98	15.80	7.8892	3.40764
Financial Performance	48	-5.37	19.00	2.0001	4.54994

Source: Data processed, 2024

Based on table 2, the results of the summary model are shown as follows.

- a. Constant of -5,747 means that without the variables of working capital turnover (x1), cash turnover (x2), receivables turnover (x3), inventory turnover (x4), then, financial performance (Y) or no change, then the financial performance is -5,747.
- b. The regression coefficient for the working capital turnover variable (x1) is 0.437, meaning that if the working capital turnover (x1) is increased by one unit, it causes financial performance (Y) to be 0.437. Meanwhile, the other variables are fixed.
- c. The regression coefficient for the cash turnover variable (x3) is -0.095, meaning that if the receivables turnover is increased by one unit, it causes financial performance (Y) to be -0.095. Meanwhile, the other variables are fixed.
- d. The regression coefficient for the receivables turnover variable (x3) is -0.095, meaning that if the receivables turnover is increased by one unit, it causes financial performance (Y) to be -0.095. Meanwhile, the other variables are fixed.
- e. The regression coefficient for the inventory turnover variable (x4) is 0.741, meaning that if the working capital turnover is increased by one unit, it causes financial performance (Y) of 0.741. Meanwhile, the other variables are fixed.

Next, based on table 2, the value of the determination coefficient R Square (R²) is 0.397, which indicates the contribution of independent variables, namely the variables of working capital turnover (X1), cash turnover (X2), receivables turnover (X3), and inventory turnover (X4), to the dependent variable, namely financial performance (Y) of 39.7%, while the remaining 60.3% is influenced by other variables that have not been researched or are not included in the regression in this study.

The magnitude of the t-table with the provision $\alpha = 0.05$ and $dk = (n-k)$ or $(48-4) = 44$, so that the table value = 2.584 is obtained, then each variable can be known as follows.

- a. The working capital turnover has a t- count of 2,788 with a sig. 0.008. Hypothesis decision-making provisions are accepted. If the t-count value > t-table, or if it is significant < 0.05. The research results obtained a t-count value > t-table 2.788 > 2.584. Thus, the significance value is 0.008 < 0.05, then working capital turnover has a significant effect on financial performance.
- b. The cash turnover has a t-count of 1.061 with a sig. -0.631. Hypothesis decision-making provision is rejected. If the t-count value > t-table, or if it is significant < 0.05. The results of the study obtained a t-count value < t-table 1.061 < 2.584. Thus, the significance value is 0.213 > 0.05, then receivables turnover has no effect on working capital turnover.
- c. The receivables turnover has a t-count of -0.472 with a sig. 0.639. Hypothesis decision-making provision is rejected. If the t-count value > t-table, or if it is significant < 0.05. The results of the study obtained a t-count value < t-table -0.472 < 2.584. Thus, the significance value is 0.639 > 0.05, then receivables turnover has no effect on working capital turnover.
- d. The inventory turnover has a t-count value of 4,601 with a sig. 0.000. Hypothesis decision-making provision is accepted, if the t-count value > t-table, or if it is the significance < 0.05. The results of the study obtained a t-count value > t-table 4,601 > 2.584. Thus, the significance value is 0.000 < 0.05, then inventory turnover affects working capital turnover.

Based on figure 2 above, it can be seen that the dots are randomly spread and scattered above and below the number 0 on the Y axis so that it can be concluded that there is no heteroscedasticity.

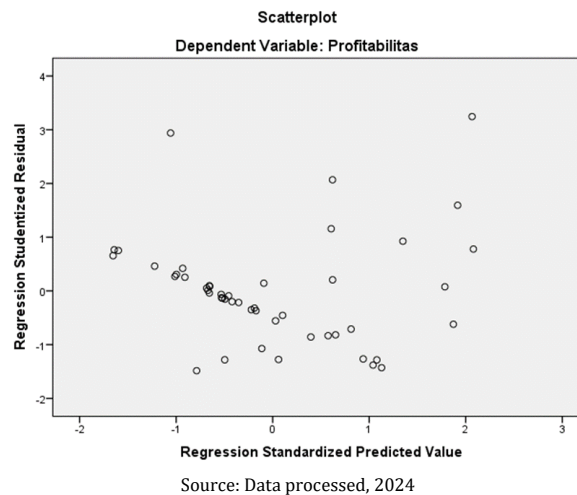


Figure 1. Heteroscedasticity Test Results

Based on the results of the calculation of the F test, an F-count of 9,650 was obtained. To determine the value of F-table with a significant level of 5%, and degree of freedom (df) = (n-k) obtained $df = 48 - 4 = 44$, then the result for F-table with a value of 2.812 can be obtained. Thus, the results of the calculation of $F_{\text{hitung}} > F_{\text{table}}$ $9,650 > 2,812$ by obtaining a sig value of $0.000 < 0.05$, then the turnover of working capital (X1), cash turnover (X2), turnover of receivables (X3), and inventory turnover (X4), have a significant effect on the financial performance (Y) of Coal Companies listed on the Indonesia Stock Exchange in 2020-2022.

Table 2. Model Summary

	Coefficients	Model				
		R Square	t	p	F	p
Constant	-5.747		-3.214	.002		
Working Capital Turnover (X1)	.437	.397	2.788	.008	9.650	.000
Cash Turnover (X2)	.215		1.061	.213		
Accounts Receivable Turnover (X3)	-.095		-.472	.639		
Inventory turnover (X4)	.741		4.601	.000		

Source: Data processed, 2024

$$Y = -5.747 + 0.437 X1 + 0.215 X2 - 0.095 X3 + 0,741 X4$$

Hypothesis 1 (H1) states that working capital turnover has an effect on financial performance. From the results of this study, a significance value of $0.008 < 0.05$ was obtained, so it can be concluded that H1 is accepted. Thus, the turnover of working capital has a significant effect on financial performance. The turnover of working capital fluctuates every year. The greater the turnover of working capital determines the sales volume and profit of a company. The more products produced by the company, the more profits the company generates. The high turnover of working capital results in high profits generated by the company so that the company experiences increasing growth. The existence of this incident makes the turnover of working capital high. Thus, the turnover of working capital in the sales activities of 16 Coal Companies with the period of 2020-2022, so that the high turnover of working capital guarantees an increase in profits for the company. The results of this study are in line with the results of Sogomi et al., (2024).

Hypothesis 2 (H2) states that cash flow affects financial performance. The results of this study obtained a significance value of $0.213 < 0.05$, so it was concluded that H2 was rejected. Thus, cash flow does not have a significant effect on financial performance. This indicates a low cash turnover rate, so the company has not optimized cash management efficiently and can reduce the company's profit. The results of this study are in line with the results of Eryatna et al., (2021).

Hypothesis 3 (H3) states that the turnover of receivables has no effect on financial performance. From the results of this study, a significance value of $0.639 < 0.05$ was obtained, so it can be concluded that H3 was rejected. Thus, the turnover of receivables does not have a significant effect on financial performance. This indicates that the amount of receivables that is too high can reduce financial performance because a small amount of receivables means that credit sales are carried out less, so that sales volume will also decrease, resulting in a further decline in financial performance. Low receivables turnover rates take a long time to be collected in cash. The company's credit sales are also small, causing the company's sales and profits to decrease. The results of this study are in line with the results of Eryatna et al., (2021).

Hypothesis 4 (H4) states that inventory turnover affects financial performance. The results of this study obtained a significance value of $0.000 < 0.05$, so it was concluded that H4 was accepted. Thus, inventory turnover has a significant effect on financial performance. This indicates that the inventory turnover from year to year meets the amount quite well. Large inventory turnover tends to be able to produce financial performance, in this case high corporate profits. The results of this study are in line with the results of Eryatna et al., (2021).

Hypothesis 5 (H5) states that cash turnover, receivables turnover, and inventory turnover have a significant effect on financial performance. The results of this study obtained a significance value of $0.000 < 0.05$, so it was concluded that H5 was accepted. The high and low profit of the company is influenced by many factors, such as working capital turnover, cash turnover, receivables turnover and inventory turnover. High profits will support operational activities to the maximum. Thus, the company's financial performance has improved from year to year. In essence, the company is obliged to present information, financial records or descriptions, both past, current and future financial conditions for the survival of the company. The results of this study are in line with the results of Sogomi et al., (2024).

Conclusion and future direction

Based on the results of research that has been obtained from the data processing of Coal Companies listed on the Indonesia Stock Exchange for the 2020-2022 period, the following conclusions can be drawn.

- a. Working capital turnover has a significant effect on financial performance.
- b. Cash turnover does not have a significant effect on financial performance.
- c. Receivables turnover does not have a significant effect on financial performance.
- d. Inventory turnover has a significant effect on financial performance.

Future directions refer to potential areas of research that can be explored based on the findings and Limitation of this study. It does not include the current debt variable to test financial performance. Future research can complement the working capital test on financial performance by including current debt variables to be able to better understand the conceptualization of company finance.

Implication

Meanwhile, the implications of this study are as follows.

- a. The sample of this study is only on coal companies listed on the Indonesia Stock Exchange for the period of 2020-2022. Further research can test samples of companies in other manufacturing fields, such as State-Owned Enterprise (SOEs).
- b. Further research is suggested to add a longer period of research years.
- c. For companies, they can further optimize cash and receivables turnover so that they can be managed more effectively and efficiently to improve financial performance.

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Conflict of Interest

The author conducted this research study as a material for the development of science in the field of financial accounting.

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