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# THE INFLUENCE OF LIQUIDITY, ASSET GROWTH, ACTIVITY RATIO, AND LEVERAGE ON THE COMPANY-GOING CONCERN

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**Abstract**

Profitability is an essential element to be able to maintain the company's going concern. This study aims to determine the effect of liquidity, asset growth, leverage, and activity ratio on a company's going concern proxied by Return on Asset (ROA), which is one of the profitability ratios. This study uses secondary data from the company's annual financial statements published by the Indonesia Stock Exchange (IDX). The population in this study is property and real estate companies listed on the IDX from 2017 to 2021. Furthermore, this study used a purposive sampling technique, resulting in 41 companies being used as research samples. Then the hypothesis is tested using Partial Least Square (PLS) analysis. The results of hypothesis testing show that liquidity and leverage have a negative and significant effect on the company's going concern. The ratio of activities has a positive and significant effect on the company's going concern. Meanwhile, asset growth has a positive and insignificant effect on the company's going concern.

***Keywords :*** *Going Concern, Profitability, Liquidity, Asset Growth, Leverage, Activity Ratio.*

## Introduction

Companies in the property, real estate, and building construction sectors are critical in economic recovery because they can absorb a lot of labor and increase the Gross Domestic Product (GDP) value (Utami & Lantu, 2014). However, companies in the property, real estate, and building construction sectors are the most vulnerable sectors in the macro industry (Erol, 2019). It is because the fluctuations in interest rates, inflation, and exchange rates will ultimately affect people's purchasing power; this causes companies that are very sensitive to the ups and downs of the economy (Li & Wang, 2017). In the third quarter of 2022, the property companies' growth performance fell by 14% from the previous quarter. The cause is a significant decline in property unit sales due to the Covid-19 pandemic and the threat of recession in 2023 (Hidayat, 2022).

All businesses, include it real estate, or the construction industry, should have a primary goal of maintaining corporate sustainability in the long term or called by the company's going

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concern. It can be achieved by achieving a predetermined profit target. An important element to ensure and measure the company's going concern is profit (Isaac et al., 2015). A higher company's ability to generate profits (profitability) indicates operational efficiency and indicates that the company is performing well (Damayanty et al., 2020).

A company's profitability is one way to assess the extent to which the company can get more feedback from asset, equity and investment for the company's going concern. Profitability is also a consideration for investors in providing funds, when the company is able to generate positive sales, the company will get profits which later the profits are used for the welfare of investors, employees, as well as improving the quality of the products to be produced and making new investments. Therefore, the company's management is required to be able to achieve the targets which is set by the company in order to achieve the company's goals in generating large profits for the sustainability of the company's life or the company's going concern.

To generate maximum profit, several factors that need to be considered are leverage, liquidity, activity ratio, and company growth in terms of assets or company value. By paying attention to these factors, it is hoped that the company can create a strong foundation for business activities to build the company's going concern. In this study, a company's going concern is represented by profitablity ratio that is Return on Asset (ROA).

Based on the background described, this study was conducted to prove whether liquidity, asset growth, activity ratio, and leverage affect the company's going concern. This study is expected to be a reference material for future researchers on the effect of liquidity, asset growth, activity ratio, and leverage on the company's going concern.

## Literature Review

### *Company's Going Concern*

According to Lombardi (2021), the company's going concern is a statement that said the company would continue to operate for a long enough period to realize its goals, responsibilities, and activities. It can also be interpreted that an entity is considered capable of maintaining its business for a long time. In this study, the company's going concern is proxied by the profitability ratio, namely, Return on Asset (ROA). According to (Li et al., 2019), ROA is the ratio that can measure a company's ability to make a profit from the assets it uses. Assets are all the wealth of a company that comes from its capital or third-party capital, which the company converts into corporate assets that can help the company's going concern.

### *The Influence Of Liquidity Ratio On The Company's Going Concern*

The Current Ratio is one of the ratios contained in the liquidity ratio. The current ratio is used to measure a company`s ability to pay short-term obligations that will mature at the time of being billed in the entirety of its current assets. An increase will follow the higher profitability in the company's liquidity, so the higher profit will increase its ability to pay off its obligations at maturity. Good liquidity will bring an extended going concern for the company (Incekara & Centikaya, 2019). However, if the results of measuring high ratios, it is not necessarily that the company's condition is good; This result was suitable with the study by Lie et al (2016), stating that liquidity has a significant adverse effect on the company's profitability which affects the going concern of the company.

**H1: Liquidity negatively and significantly affects the company's going concern.**

***The Influence Of Asset Growth On The Company's Going Concern***

The company used assets in the their operational activities. The company will produce larger assets and more excellent operating results. Asset growth is a change (increase or decrease) of the total assets contained in the company. Asset growth can be change or growth in total assets in a year, high asset growth makes the company increase from its external funding sources (Iclssee, 2022). According to (Rosyid et al., 2018) found that asset growth affects profitability as an indicator of the company's going concern through assets owned by affecting business productivity and efficiency.

**H2: Asset growth positively and significantly affects the company's going concern.**

***The Influence Of Activity Ratio On The Company's Going Concern***

Activity ratio is one of the financial ratios used to measure the effectiveness of companies in utilizing their assets. The high activity ratio illustrates that the company carries out its main operating activities well, so it is hoped that its business continuity can be maintained. One of the activity ratios used is Total Asset Turnover (TATO). Total asset turnover is a ratio used to measure the turnover of all company assets and the number of sales obtained from each asset (Nur'Aini et al., 2020). The higher turnover value is better, which means that the company has used its total assets well to generate revenue, so the profit obtained is also high. An increased turnover will increase ROA (Utami & Suria, 2021). This result was in line with the research by Utami & Suria (2021), which states that TATO has a positive and significant influence on the company's going concern.

**H3: The activity ratio positively and significantly affects the company's going concern.**

***The Influence of Leverage on The Company's Going Concern***

To measure how far or how much the company's financial needs are covered by loans is used the leverage ratio (Simamora & Hendarjatno, 2019). One of the leverage ratios is the Debt to Asset Ratio. Debt to asset ratio (DAR) is a ratio that can measure how much a company's assets are financed by debt (Kasmir, 2016). The bigger liability or debt indicates that the bigger companies are unable to repay the loans (Simamora & Hendarjatno, 2019). So it impacts payment difficulties in the future and reducing profitability. This result was in line with the study by Marusya and Magantar (2016) that the Debt to Assets Ratio (DAR) has a negative and significant influence on the company's going concern.

**H4: Leverage negatively and significantly affects the company's going concern.**

## Research Method

***Research approaches, types, and sources of data***

This study uses an associative quantitative approach, a relationship between two or more variables. The data used in this study comes from the financial statements of Property and Real Estate Companies listed on the Indonesia Stock Exchange (IDX) in the 2017-2021 period.

***Population and Sample***

The population in this study is Property and Real Estate Companies listed on the Indonesia Stock Exchange (IDX) in the period 2017-2021. Sample determination is carried out by purposive sampling technique, with the following criteria:

1. The company is in the property and real estate subsector

2. The company was consistently listed on the Indonesia Stock Exchange (IDX) during 2017-2021.
3. The company consistently publishes financial statements on the Indonesia Stock Exchange (IDX) during 2017-2021.

Based on the existing criteria, 41 companies were obtained that met the requirements of 80 existing companies.

***Research Variables***

The dependent variable in this study is the company's going concern measured using Return on Asset (ROA). Meanwhile, the independent variables in this study are liquidity, asset growth, activity ratio, and leverage. The following formula measures these variables:

**Table 1**
**Operational Variable Measurement Indicators**

| Variables | Measurement | Type |
|---|---|---|
| Profitability | $\frac{Net\ Profit\ After\ Tax}{Total\ Assets}$ | Return On Asset |
| Asset Growth | $\frac{Current\ Assets - Previous\ Year'S\ Assets}{Previous\ Year's\ Assets}$ | Percentage |
| Liquidity | $\frac{Current\ Assets}{Current\ Liabilities}$ | Current Ratio |
| Activity Ratio | $\frac{Net\ Sales}{Total\ Assets}$ | Total Asset Turnover |
| Leverage | $\frac{Total\ Debt}{Total\ Assets}$ | Debt to Asset Ratio |

***Data Analysis Methods***

To able to prove the purpose of this study, the authors used a Partial Least Square (PLS) analysis

**Results and Discussion**

***Hypothesis test results***

Hypothesis testing is carried out based on the results of the Inner Model test, which includes output path coefissien, F-square, R-square, T-statistics, and P Values.

**Table 2**
**Total Effect Analysis**

| | Company's Going Concern | Liquidity | Asset Growth | Activity Ratio | Leverage |
|---|---|---|---|---|---|
| Company's Going Concern | | | | | |
| Liquidity | -0.504 | | | | |

| | |
|---|---|
| Asset Growth | 0.006 |
| Activity Ratio | 0.532 |
| Leverage | -0.485 |

Based on the data in table 3, it can be interpreted as follows:

1. The value of liquidity on the company's going concern is 0.504, meaning that if liquidity increases by one unit, the company's going concern decreases by 50.4%. The influence is negative.
2. The value of asset growth on the company's going concern is 0.006, meaning that if liquidity increases by one unit, the company's going concern also increases by 0.6%. The influence is positive.
3. The value of the activity ratio on the company's going concern is 0.532, meaning that if liquidity increases by one unit, the company's going concern also increases by 53.2%. The influence is positive.
4. The value of leverage on the company's going concern is -0.485, meaning that if the leverage increases by one unit, then the company's going concern decreases by 48.5%. The influence is negative.

**Table 3**
**F-square**

| | **Company's Going Concern** | **Liquidity** | **Asset Growth** | **Activity Ratio** | **Leverage** |
|---|---|---|---|---|---|
| Company's Going Concern | | | | | |
| Liquidity | 0.505 | | | | |
| Asset Growth | 0 | | | | |
| Activity Ratio | 0.547 | | | | |
| Leverage | 0.395 | | | | |

The F-square value is 0.02 for petite, 0.15 for medium, and 0.35 for significant. Values less than 0.02 can be ignored or considered to have no effect (Sarstedt et al., 2017). Based on table 4, liquidity, activity ratio, and leverage have a significant effect, and the growth of assets is worth less than 0.02, so it is considered not to affect the company's going concern.

**Table 4**
**R square**

| | **R-square** | **R-square adjusted** |
|---|---|---|
| Company's Going Concern | 0.526 | 0.473 |

R-square values of 0.75, 0.50, and 0.25 indicate that the model is robust, moderate, and weak (Sarstedt et al., 2017). The value of the R-square in this study is 0.526, then, it can be explained that all exogen variables simultaneously affect the company's going concern by 52.6%. Since the R-square is less than 0.75 and more than 0.50, so the effect of all independent variables on the company's going concern is relatively moderate.

**Table 5**
**Mean, STDEV, P values, T values**

| | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (O/STDE) | P Values |
|---|---|---|---|---|---|
| Liquidity -> Of Company's Going Concern | -0.504 | -0.446 | 0.168 | 3.001 | 0.003 |
| Asset Growth -> Of Company's Going Concern | 0.006 | -0.011 | 0.156 | 0.035 | 0.972 |
| Activity Ratio -> Company's Going Concern | 0.532 | 0.543 | 0.144 | 3.692 | 0.00 |
| Leverage -> Company's Going Concern | -0.485 | -0.443 | 0.199 | 2.436 | 0.015 |

The rules of thumb used in this study are T-statistics with a value >1.96 and a p-value with a significance level of 0.05. From the results of the table above, it can be explained as follows:

1. The T-statistics value of liquidity is 3,001, and the p-value is 0.003, so liquidity can significantly influence the company's going concern.
2. The T-statistics value of asset growth is 0.035, and the p-value is 0.972, so asset growth cannot significantly influence the company's going concern.
3. The T-statistics value of the activity ratio is 3,692, and the p-value is 0.00, so the activity ratio can significantly influence the company's going concern.
4. The T-statistics value of leverage is 2,436, and the p-value is 0.015, so leverage can significantly influence the company's going concern.

## Discussion

### ***The Effect Of Liquidity on Company's on The Going Concern***

Based on the results of the hypothesis test, H1 is accepted because liquidity has a significant negative impact on the company's going concern. This study is suitable to the study by (Lie et al., 2016). The current ratio measures the company's liquidity. The results of this study show that liquidity has a significant negative effect on profitability. According to James & Wachowicz (2005) in their book Principles of financial management, the liquidity is inversely proportional to ability to obtain profit. This inversely proportional ability will become a problem in a company when a company has large quantities of assets but is not optimally used to reach levels of profitability, thereby reducing firm profitability is unable to meet all or part of its short-term needs because partially owned assets are used to operate the company. So that these conditions will threaten the company's going concern.

### ***The Effect Of Asset Growth on The Company's Going Concern***

Asset growth has a positive effect, but an insignificant influence on the company’s going concern. H2 is rejected. It is because the growth of assets does not necessarily result in high profits for the company. It is also suitable to the book by (James & Wachowicz, 2005) in their book Principles of financial management, that companies that only increase the assets will not necessarily be able to use them effectively to increase profits.

***The Effect Of Activity Ratio on The Company’s Going Concern***

H3 was accepted because the activity ratio had a positive and significant impact on the company’s going concern. It is in line with the study by Utami & Suria (2021). The activity ratio is measured using total asset turnover. The more a company can generate sales from its total assets, the more it will earn. Increased sales lead to increased profits, so the company’s going concern can be guaranteed.

***The Effect Of The Leverage Ratio on The Going Concern Of The Company***

The leverage ratio measured by DAR has significantly negatively influenced the company’s going concern. H4 accepted. It is suitable to the study by Marusya and Magantar (2016) that the Debt to Assets Ratio (DAR) has a negative and significant influence on the company’s going concern. It happens because higher DAR indicates the high assets of the company that are financed by debt. The company must pay more to fulfill obligations, which impacts its profitability, thus threatening its going concern if it cannot fulfill its obligations.

## Conclusions

In this study, it can be concluded that liquidity and leverage significantly negatively influence the company's going concern; the higher the liquidity and leverage, the lower the company's going concern. The activity ratio negatively affects the company's going concern, meaning that the higher the company's activity ratio, the more the company's going concern activity ratio will also increase. Meanwhile, asset growth does not significantly influence the company's going concern. This study has limitations that can be considered in future studies, in that each variable is only measured with one proxy, so the results may be more accurate if each variable is measured with several indicators.

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