

Analysis of the Effectiveness and Efficiency of Working Capital on LPD in Dalung Village

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Abstract: The purpose of this study was to determine the effectiveness of working capital use in terms of cash turnover ratios and receivable turnover ratios and to determine the efficiency of working capital use in the LPD Dalung Village. The analysis technique used in this study is quantitative and qualitative analysis. Based on the results of the analysis conducted shows the effectiveness of working capital use when viewed from the ratio of cash turnover, which in 2015 was considered less effective, in 2016 was considered quite effective, in 2017 was considered very effective, and in 2018-2019 it was considered quite effective. Meanwhile, if seen from the receivable turnover ratio, where in 2015 was considered very effective, in 2016, 2017, 2018 was considered quite effective, and in 2019 it was considered less effective. The efficiency of using working capital from 2015-2019 when viewed from the working capital turnover ratio, where in 2015 was considered very efficient, in 2016, 2017, 2018 and 2019 it was considered quite efficient. Whereas if seen from the profit ratio, which in 2015 was considered very efficient, in 2016, 2017 and 2018 it was considered quite efficient, and in 2019 it was considered less efficient.

Keyword: Effectiveness, Efficiency, Working Capital

1. Introduction

Village Credit Institutions is established to support the increase in economic growth of indigenous village communities in the Province of Bali. Based on the Bali Governor Regulation No. 44 of 2017 concerning Village Credit Institutions outlines that the Village Credit Institutions are financial institutions owned by Pakraman Village, which are domiciled in the authority of the Pakraman Village [1]. Seeing the important role of LPD that are able to support the economy of rural communities, the current LPD performance should receive more attention. LPD performance evaluation cannot be separated from its ability to manage its working capital. Having sufficient working capital is very important for LPD to operate as economically as possible and not experience financial difficulties, so that concentration can be focused on achieving even higher results [3]. Errors in working capital management can cause predetermined goals not to be achieved. If the LPD uses excessive working capital to operate, it will result in an excess of funds which shows unproductive funds, it will result in a loss of opportunity to get profit, but if the provision of working capital is deficient, it will have an impact on the company's inability to fulfil its financial short term, this could be a main cause of failure of a company [4].

The following provides information on financial reports for the last 5 years at the LPD in Dalung Village from 2015-2019 as shown in Table 1 and Table 2.

Table 1. The Development of Current Assets and Current Debt at LPD in Dalung Village

Year	Current Asset	Current Asset Development	Current Debt	Current Debt Development
2015	Rp53.887.316.386	-	Rp42.795.625.537	-
2016	Rp59.222.653.749	9,90%	Rp45.911.381.531	7,28%
2017	Rp67.281.652.676	13,61%	Rp52.025.721.046	13,32%
2018	Rp75.541.277.335	12,28%	Rp61.025.634.918	17,30%
2019	Rp83.589.475.081	10,65%	Rp67.083.883.906	9,93%

Based on Table 1, it can be concluded that the development of current assets and current debt from 2015 to 2019 has always increased every year.

Table 2. The Development of Account Receivables and Net Income at LPD in Dalung Village

Year	Account Receivables	Account Receivables Development	Net Income	Net Income Development
2015	Rp41.681.088.200	-	Rp3.121.772.082	-
2016	Rp45.028.940.900	8,03%	Rp3.400.366.452	8,92%
2017	Rp48.918.375.400	8,64%	Rp3.451.567.106	1,51%
2018	Rp53.064.703.500	8,48%	Rp3.145.952.216	-8,85%
2019	Rp55.478.460.250	4,55%	Rp3.222.487.175	2,43%

Based on Table 2, it can be concluded that the development of accounts receivable in the LPD of Dalung Village from 2015 to 2019 has always increased every year, while the development of net income from 2015 to 2019 has fluctuated. The purpose of this study is to determine the effectiveness and efficiency of the use of working capital in the LPD of Dalung Village.

2. Literature Review

1.1. Village Credit Institutions (LPD)

Village Credit Institutions or LPD is financial institutions belonging to Pakraman Village which are domiciled in the authority of Pakraman Village [5]. The LPD is one of the elements of the Pakraman village institution that carries out the financial function of the Pakraman village to manage the financial potential of the Pakraman village. This institution has great potential and has been proven in advancing the welfare of the village community and fulfilling the interests of the village itself.

1.2. Financial Statement

The financial statement is a structured presentation of the financial position and performance of an entity [6]. Financial statements are basically the result of an accounting process that can be used as a means of measuring communication between financial data or activities of a company and parties with an interest in the company's data or activities [7]. The purpose of financial statements is to provide information about the financial position, financial performance and cash flow of an entity that is useful for most users of financial statements in making economic decisions [6]. Complete financial statements consisting of: 1) financial position report at the end of the period; 2) statement of profit or loss and other comprehensive income during the period; 3) change in equity during the period; 4) cash flow statement during the period; 5) notes to financial statements. The parties with an interest in financial reports, namely: owners, management, creditors, government, and investors [8].

1.3. Capital

Capital is defined as all concrete goods contained in the debit balance sheet and the purchasing power or exchange rate of these goods that are recorded next to credit [9]. Capital according to its form is known as active capital consisting of current assets and fixed assets. Based on the functioning function of assets in active capital, they are divided into working capital and fixed capital. Meanwhile, according to the source, capital is referred to as passive capital, consisting of own capital and foreign capital.

1.4. Working Capital

Working capital is defined as an investment that is invested in current assets or short-term assets such as cash, banks, securities, accounts receivable, inventories, and other current assets [8]. Working capital is a company's investment in short-term assets in the form of cash, marketable securities, inventories, and accounts receivable [10]. There are several factors that can affect working capital, namely: 1) type of company; 2) credit terms; 3) production time; 4) the rotation rate of the preparation. The source of the company's working capital consists of the results of the company's operations, profits from the sale of securities, sale of shares, sale of fixed assets, sale of bonds, loans and grant funds [8].

1.5. Effectiveness of Working Capital

Effectiveness is a condition in which in choosing the goals to be achieved and the means or equipment to be used, along with the desired goals can be achieved with satisfactory results [11]. Effectiveness refers to the accomplishment of objectives, whereas efficiency refers to the resource used to achieve those objectives. An example of effectiveness is the production of parts without defects. Efficiency concerns whether those parts are produced at minimum cost [12]. As for the effectiveness of organizational performance in carrying out work in essence the workers need a sense of security, which has to do with future guarantees, an organizational atmosphere that provides opportunities for growth, without any threats, the relationship between superiors and human subordinates [18]. To measure the effectiveness of using the working capital of a company can use the following ratios: cash turnover ratio and accounts receivable turnover ratio [13].

1.6. Efficiency of Working Capital

Working capital efficiency is the optimal use of working capital in the company's operational activities to increase prosperity for the company itself [14]. Efficiency is the best ratio between input and output (the result between profits and the sources used), as well as optimal results achieved with the use of limited sources [15]. To measure the efficiency of using the working capital of a company, it can use the working capital turnover ratio and the operating profit ratio [16].

3. Research Methods

The quantitative data used in this study are financial statements consisting of balance sheets and income statement at the LPD in Dalung Village for the 2015-2019 period. The qualitative data used in this research is the working capital management policy at the LPD in Dalung Village. Data collection techniques in this study through interviews and documentation. The analysis technique used is quantitative and qualitative analysis techniques.

3.1 Effectiveness of Working Capital

$$\text{Cash Turnover} = \frac{\text{Revenue Total}}{\text{Average Cash}}$$

$$\text{Accounts Receivable Turnover} = \frac{\text{Credit Sales}}{\text{Average Accounts Receivable}}$$

3.2 Efficiency of Working Capital

$$\text{Working Capital Turnover} = \frac{\text{Sales}}{\text{Average Working Capital}}$$

$$\text{Operating Profit Ratio} = \frac{\text{Earning Before Tax}}{\text{Average Working Capital}} \times 100\%$$

3.3 Statistics Analysis

This analysis is used to return an assessment of the effectiveness and efficiency of the use of working capital. To calculate the average value of each ratio, the formula used is [17]:

$$\bar{X} = \frac{\sum X_i}{n}$$

To calculate the standard deviation, the formula used is [17]:

$$S = \sqrt{\frac{\sum (X_i - \bar{X})^2}{n - 1}}$$

1. If the ratio is above $(\bar{X} + S)$, then the use of working capital is effective/very efficient.
2. If the ratio is between $(\bar{X} - S)$ dan $(\bar{X} + S)$, the the use of working capital is quite effective/quite efficient.
3. If the ratio is under $(\bar{X} - S)$, then the use of working capital is less effective/less efficient.

4. Result and Discussion

4.1 Effectiveness of Working Capital

To measure the effectiveness of using the working capital of a company, it can use the cash turnover ratio and the accounts receivable turnover ratio. The following is the result of calculating the cash turnover ratio which can be seen in Table 3.

Table 3. Cash Turnover Ratio in LPD Dalung Village

Year	Revenue Total	Average Cash	Cash Turnover
2015	Rp7.560.096.395	Rp960.592.322	7,87
2016	Rp8.097.546.207	Rp664.929.081	12,18
2017	Rp8.342.571.756	Rp524.039.726	15,92
2018	Rp8.752.045.851	Rp686.435.951	12,75
2019	Rp9.883.325.111	Rp985.229.234	10,03

To provide an assessment of the results of the cash turnover ratio above, a statistical analysis is carried out using the historical ratio standard which can be seen in Table 4.

Table 4. Effectiveness of Working Capital from Cash Turnover Ratio Based on Historical Ratio Standard

Year	Cash Turnover	Historical Ratio Standard	Desc
2015	7,87	8,73...14,77	Less Effective
2016	12,18	8,73...14,77	Quite Effective
2017	15,92	8,73...14,77	Very Effective
2018	12,75	8,73...14,77	Quite Effective
2019	10,03	8,73...14,77	Quite Effective

Accounts receivable turnover is a ratio used to measure how long it takes to collect accounts receivable during a period. The higher the ratio indicates that the working capital invested in receivables is lower and of course this condition for the company is getting better. The results of the calculation of the account receivable turnover ratio at the LPD Dalung Village can be seen in Table 5.

Table 5. Accounts Receivable Turnover Ratio in LPD Dalung Village

Year	Credit Sales	Average Accounts Receivable	Account Receivable Turnover
2015	Rp41.681.088.200	Rp39.143.057.413	1,06
2016	Rp45.028.940.900	Rp43.355.014.550	1,04
2017	Rp48.918.375.400	Rp46.973.658.150	1,04
2018	Rp53.064.703.500	Rp50.991.539.450	1,04
2019	Rp55.478.460.250	Rp54.271.581.875	1,02

To provide an assessment of the results of the accounts receivable turnover rate above, a statistical analysis is carried out using the historical ratio standard which can be seen in Table 6.

Table 6. Effectiveness of Working Capital from Accounts Receivable Turnover Ratio Based on Historical Ratio Standard

Year	Accounts Receivable Turnover	Historical Ratio Standard	Desc
2015	1,06	1,03...1,05	Very Effective
2016	1,04	1,03...1,05	Quite Effective
2017	1,04	1,03...1,05	Quite Effective
2018	1,04	1,03...1,05	Quite Effective
2019	1,02	1,03...1,05	Less Effective

4.2 Efficiency of Working Capital

To measure the efficiency of using the working capital of a company, it can use the working capital turnover ratio and the operating profit ratio. The higher the rate of working capital turnover, the more efficient it is in the use of working capital. The results of the calculation of the working capital turnover ratio are Table 7.

Table 7. Working Capital Turnover Ratio in LPD Dalung Village

Year	Sales	Average Working Capital	Working Capital Turnover
2015	Rp41.681.088.200	Rp10.057.373.837	4,14
2016	Rp45.028.940.900	Rp11.646.586.191	3,87
2017	Rp48.918.375.400	Rp12.965.094.058	3,77
2018	Rp53.064.703.500	Rp13.925.440.541	3,81
2019	Rp55.478.460.250	Rp14.718.028.668	3,77

To provide an assessment of the results of the working capital turnover rate above, a statistical analysis is carried out using the historical ratio standard which can be seen in Table 8.

Table 8. Efficiency of Working Capital from Working Capital Turnover Ratio Based on Historical Ratio Standard

Year	Working Capital Turnover	Historical Ratio Standard	Desc
2015	4,14	3,71...4,03	Very Efficient
2016	3,87	3,71...4,03	Quite Efficient
2017	3,77	3,71...4,03	Quite Efficient
2018	3,81	3,71...4,03	Quite Efficient
2019	3,77	3,71...4,03	Quite Efficient

Operating profit ratio measures the efficiency of working capital by looking at the amount of working capital's ability to generate operating profits. The results of calculating the operating profit ratio at the LPD in Dalung Village can be seen in Table 9.

Table 9. Operating Profit Ratio in LPD Dalung Village

Year	Earning Before Tax	Average Working Capital	Operating Profit Ratio
2015	Rp3.121.772.082	Rp10.057.373.837	31,04%
2016	Rp3.400.366.452	Rp11.646.586.191	29,20%
2017	Rp3.451.567.106	Rp12.965.094.058	26,62%
2018	Rp3.145.952.216	Rp13.925.440.541	22,59%
2019	Rp3.222.487.175	Rp14.718.028.668	21,89%

To provide an assessment of the results of the operating profit ratio above, a statistical analysis is carried out using the historical ratio standard which can be seen in Table 10.

Table 10. Efficiency of Working Capital from Operating Profit Ratio Based on Historical Ratio Standard

Year	Operating Profit Ratio	Historical Ratio Standard	Desc
2015	31,04%	22,27%...30,27%	Very Efficient
2016	29,20%	22,27%...30,27%	Quite Efficient
2017	26,62%	22,27%...30,27%	Quite Efficient
2018	22,59%	22,27%...30,27%	Quite Efficient
2019	21,89%	22,27%...30,27%	Less Efficient

5. Conclusions and Suggestions

Based on the results of research and discussion, it can be concluded that the effectiveness of the use of working capital when viewed from the cash turnover ratio, where in 2015 it was considered less effective, in 2016 it was considered quite effective, in 2017 considered very effective, and in 2018-2019 considered quite effective. Meanwhile, if you look at the accounts receivable turnover ratio, which in 2015 was considered very effective, in 2016, 2017, 2018 it was considered quite effective, and in 2019 it was considered less effective. Efficient use of working capital from 2015-2019 when viewed from the working capital turnover ratio, where in 2015 it was considered very efficient, in 2016, 2017, 2018 and 2019 it was considered quite efficient. Meanwhile, if viewed from the profit ratio, where in 2015 it was considered very efficient, in 2016, 2017 and 2018 it was considered quite efficient, and in 2019 it was considered less efficient.

As for the suggestions that can be given, the LPD should better optimize cash management so as to prevent unused cash and increase revenue or profit for the LPD. In addition, it is also hoped that the LPD will pay more attention to the amount of credit disbursed because LPD income is very dependent on the interest revenue that given from credit to customers.

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