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## Efficiency of Working Capital Use at PT Industri Jamu Dan Farmasi Sido Muncul, Tbk in 2019-2021

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### **Abstract**

*This study aims to determine the efficiency of working capital use at PT Industri Jamu dan Farmasi Sido Muncul, Tbk in 2019-2021. This research uses a descriptive method with a quantitative approach. Data collection by using secondary data document methods. The data analysis method used is by calculating the ratio of working capital turnover, receivables turnover and inventory turnover. The results showed that the efficiency of using working capital of PT Industri Jamu dan Farmasi Sido Muncul during 2019-2021 in terms of the ratio of working capital turnover, receivables and inventory was included in the less efficient criteria. The working capital turnover ratio shows that the turnover frequency is less than the efficiency standard of industrial enterprises, which is 6 times the turnover. The receivables turnover ratio shows an average frequency below the efficiency standard of 15 times and the average life of receivables can be collected much longer than the standard life of receivables which is 25 days, while inventory turnover shows a turnover frequency result of less than the standard efficiency of 20 times with the average life of inventory can be sold much longer than the standard inventory life of 19 days.*

*Keywords: Efficiency, Working Capital, PT Industri Jamu Dan Farmasi Sido Muncul*

### **1. Introduction**

Working capital becomes the most important component in an enterprise. Working capital is used by the company to finance various operational production needs. The large amount of working capital used in financing operational activities can encourage an increase in sales turnover [1]. A sufficient amount of working capital will be able to meet the large amount of product demand for consumers, this can increase sales turnover for the company, and vice versa. Therefore, working capital must be guaranteed to be available in sufficient quantities and managed efficiently.

The efficiency of using working capital is one of the benchmarks for the company's financial health. Efficient working capital is shown through an increasingly high turnover of working capital [2]. The higher the level of working capital turnover indicates the faster the working capital used in financing operational activities returns to the company and generates profits. Assessment of the efficiency of working capital use, one of which can be seen from the large level of working capital turnover in generating sales [3]. So to get good data on working capital turnover, it is necessary to have an appropriate

and accurate method to assess the use of working capital.

One of the methods that can be used to assess the efficiency of using working capital is the capital turnover ratio. This method is carried out by calculations that compare two values on the components reflected in the financial statements of the balance sheet and profit and loss. The calculation of the capital turnover ratio will show the change in the frequency of working capital turnover which can be used to assess how quickly working capital can rotate in one period.

The capital turnover ratio method has advantages in assessing the efficiency of working capital use. According to Aprillia [4] the capital turnover ratio in assessing the efficiency of working capital use is not only through working capital turnover but also able to show the turnover of each element that affects working capital, namely receivables and inventories. The ratio of working capital turnover is expressed in units of frequency that are adjusted absolutely to the efficiency standards of industrial enterprises.

PT Industri Jamu dan Farmasi Sido Muncul, Tbk is one of the industrial companies in the herbal medicine

pharmaceutical sector that listed its shares on the Indonesia Stock Exchange (IDX). The products produced by PT Industri Jamu dan Farmasi Sido Muncul, Tbk include traditional herbal medicine, supplements and vitamins, food and beverages as well as modern herbal medicines for mothers and children. Based on survey from insentia research data of PT Industri Jamu dan Farmasi Sido Muncul, Tbk was able to become one herbal medicine company that can survive and increase sales when the competition for herbal medicine pharmacy business increases during the Covid-19 pandemic [5].

The phenomenon that occurred at PT Industri Jamu dan Farmasi Sido Muncul, Tbk showed an increase in sales value and was followed by an increase in the company's working capital during 2019-2021. This can be shown from the sales data and working capital qualitative concepts (the difference between current assets and current liabilities) below:

Table 1. Data On Sales, Current Assets And Current Liabilities Of Pt Industri Jamu Dan Farmasi Sido Muncul, Tbk In 2019-2021

Year	Sales	Current Assets	Current Liabilities
2019	3.067.434	1.716.235	416.211
2020	3.335.411	2.052.081	560.043
2021	4.020.980	2.244.707	543.370

Source: [6 - 8], (date processed)

Based on table 1, the increase in sales value shows a good side to support the efficient use of working capital, however, this does not sufficiently prove that working capital in the company has been used efficiently and optimally. According to Ilhamidya [9] sales growth has not yet reached the efficiency of using capital, but efficiency can only be known from the results of calculating the turnover ratio comparing the value of sales and working capital. Based on this, it is necessary to have an appropriate method to further analyze the efficiency of working capital use, namely by using the calculation of the capital turnover ratio including working capital turnover, inventory turnover, and receivables turnover.

Assessment of the efficiency of working capital use with the capital turnover ratio can show the company's ability to use its working capital efficiently through changes in the frequency of turnover that is increasing according to efficiency standards. So that the results of the assessment can be used as a basis for consideration of policy making and evaluation related to the use of working capital for the future period.

## 2. Research Methods

This research uses a descriptive method with a quantitative approach. The location of the study was determined using the purposive area method, where the researcher determined the research location intentionally by paying attention to certain considerations [10]. The location of this research was conducted at PT Industri Jamu dan Farmasi Sido Muncul, Tbk with fundamental considerations including the company is a large manufacturing industry that has gone public and this company is able to survive and increase its sales when the economic situation declines during the Covid-19 pandemic. The main data is in the form of financial statement documents for 2019-2021 and supporting data in the form of management and financial profile documents related to the use of working capital of PT Industri Jamu dan Farmasi Sido Muncul, Tbk obtained from the official website of the Indonesia Stock Exchange (IDX). The data analysis method uses the calculation of the ratio of working capital turnover and elements of working capital receivables and inventories adjusted to the standard efficiency ratio of industrial companies.

### Turnover Ratio Analysis

Assessment of the efficiency of working capital use using the turnover ratio is carried out by calculating the ratio of working capital turnover, receivables turnover and inventory turnover. The calculation is carried out by comparing the value of the components related to working capital contained in the balance sheet and profit and loss statements. The Working Capital Turnover Ratio is used to assess how much or how quickly working capital is used in operational activities rotates over a period. The formula used to determine the turnover of working capital is as follows:

**Sales**

**Working Capital (Current Assets – Current Liabilities)**

Receivables turnover is used to assess how many times the working capital invested in receivables can rotate back to the company as well as how long the receivables can be collected. Measurement of receivables is carried out by calculating the value of sales and average receivables. Thus, it can be shown by the calculation formula as follows:

**Sales**

**Average Receivables**

As for calculating the average life of receivables, namely:

**Amount of days in 1 period**  
**Receivables Turnover**

Meanwhile, inventory turnover is used to assess how many times the working capital embedded in the inventory can rotate back to the company into a working capital fund in the form of cash and assess how long the inventory can be sold. Thus, the calculation of inventory turnover can be done with the following formula:

$$\frac{\text{COGS}}{\text{Average Inventories}}$$

As for the formula for measuring the average life of inventory can be sold, namely:

**Amount of days in 1 period**  
**Inventories Turnover**

The standard efficiency ratio of industrial enterprises used in assessing the efficiency of working capital use to the ratio of the turnover of working capital, receivables and inventories.

Table 2. Standard Efficiency Ratio Of Industrial Enterprises

Ratio Type	Standard	Criterion
Working Capital Turnover	<6 Times	Less Efficient
	6 Times	Efficient
	>6 Times	Less Efficient
Receivables Turnover	<15 Times	Less Efficient
	15 Times	Efficient
	>15 Times	Less Efficient
Inventory Turnover	<20 Times	Less Efficient
	20 Times	Efficient
	>20 Times	Less Efficient

Source: [3], *processed*

### 3. Results and Discussions

The results and discussion of this study are related to the efficiency of working capital use at PT Industri Jamu dan Farmasi Sido Muncul, Tbk in 2019-2021. The way to assess the efficiency of using working capital is to calculate the ratio of working capital turnover, receivables turnover and inventory turnover as follows:

Working Capital Turnover Ratio

The working capital turnover ratio is one of the calculation methods used to assess the efficiency of working capital use at PT Industri Jamu dan Farmasi Sido Muncul, Tbk in 2019-2021. The working capital turnover ratio is carried out to see the magnitude of changes in the frequency of the working capital turnover ratio in each period and assess management's ability to manage working capital in generating sales. The following data related to the calculation of the working capital turnover ratio of PT Industri Jamu dan Farmasi Sido Muncul, Tbk for 2019-2021 can be seen in the table below:

Table 3. Results Of Working Capital Turnover Ratio

	Year		
	2019	2020	2021
<b>Sales</b>	3.067.434	3.335.411	4.020.980
<b>Working Capital</b>	1.300.024	1.492.038	1.701.337
<b>Turnover</b>	2.3 Times	2.2 Times	2.4 Times
<b>Standard Ratio</b>	6 Times	6 Times	6 Times
<b>Criteria</b>	Less Efficient	Less Efficient	Less Efficient

Source: Primary Data, processed

The efficiency of working capital use of PT Industri Jamu dan Farmasi Sido Muncul, Tbk in terms of the working capital turnover ratio during 2019-2021 is included in the "less efficient" criteria. The frequency of the working capital turnover ratio shows less than the efficiency standard of industrial enterprises, which is 6 turnovers. The low working capital turnover ratio is due to the lack of management ability to manage the use of working capital indicated by too high cash balances/ cash equivalents, low turnover of inventories and receivables. Munandar et al [2] also stated that the low turnover rate of receivables and inventories, the amount of net working capital that is too large and the amount of working capital embedded in securities and cash affect the slow rate of working capital turnover.

Based on table 3, working capital turnover experienced a not-so-significant decrease in the ratio in 2020, which was 0.1 times the turnover. This is due to the decrease in receivables turnover in 2020 which can be seen in table 4. In addition, the increase in the value of cash / cash equivalents which was quite high in 2020 was also the cause of the slow turnover of working capital because working capital was embedded in many assets that were not used productively.

In 2021, the ratio of working capital turnover produced by the company increased slightly from the previous year of 0.2 times. This condition is caused by an increased receivables turnover ratio so that working capital funds embedded in receivables can immediately rotate back to the company and working capital can achieve its efficiency. According to Riyanto [11] the large turnover rate of receivables has a direct impact on the turnover rate of working capital efficiency.

#### Receivables Turnover Ratio

The receivables turnover ratio is one of the elements that greatly affects the level of working capital turnover. The calculation of working capital turnover is carried out to see how many times the working capital embedded in receivables can rotate back to the company as well as to find out the average life of receivables that can be collected. The following are the results of the calculation of the receivables turnover ratio of PT Industri Jamu dan Farmasi Sido Muncul, Tbk for 2019-2021 can be seen in the table below:

Table 4. Result Of Receivables Turnover Ratio And Average Receivables Life (In Millions Of Rupiah)

	Year		
	2019	2020	2021
<b>Sales</b>	3.067.434	3.335.411	4.020.980
<b>Average Receivables</b>	476.451	602.375,5	667.375,5
<b>Turnover</b>	6.4 Times	5.5 Times	6.1 Times
<b>Standard Ratio</b>	15 Times	15 Times	15 Times
<b>Age of Receivables</b>	57 Days	66 Days	59 Days
<b>Standard Age of Receivables</b>	25 Days	25 Days	25 Days
<b>Criteria</b>	Less Efficient	Less Efficient	Less Efficient

Source: Primary Data, processed

The efficiency of using the working capital of PT Industri Jamu dan Farmasi Sido Muncul, Tbk in terms of the receivables turnover ratio during 2019-2021 is included in the "less efficient" criteria. The frequency of receivables turnover generated by the company over the past three years is below the standard efficiency ratio of 15 turnovers. This condition is caused by the softening of the company's receivables repayment period, which should be to achieve the efficiency of receivables turnover, namely  $n/30$ .

According to Theresia [12] The softer the terms of payment of receivables, the longer the capital is tied to receivables because the turnover of receivables is getting lower.

Based on table 4. in 2020, the turnover ratio of receivables generated by the company decreased slightly, namely by 0.9 times the turnover. This is due to the longer repayment time of receivables for 66 days as well as a considerable increase in the value of receivables. The increase in receivables is one of PT Sido Muncul's strategies to survive and compete to increase sales due to the Covid-19 pandemic [1]. This condition not only increases sales but also receivables which as a result of which large receivables become lower turnover and less efficient.

In 2021, the turnover ratio of receivables generated by the company slightly increased compared to 2020, which was 0.5 times the turnover. This is due to the increase in cash sales, as seen in the declining receivables component and the increase in the sales component in the 2021 financial statements

#### Inventory Turnover Ratio

The inventory turnover ratio is the second element that greatly affects the level of working capital turnover. The calculation of the inventory turnover ratio is carried out to assess how many times the capital embedded in the inventory can rotate from production and sales activities. In addition to this ratio, it is also to find out how long the product inventory can be sold. The following are the results of the calculation of the inventory turnover ratio of PT Industri Jamu dan Farmasi Sido Muncul, Tbk for 2019-2021 can be seen in the table below:

Table 5. Result Of Inventory Turnover Ratio And Average Inventory Life (In Millions Of Rupiah)

	Year		
	2019	2020	2021
<b>COGS</b>	1.386.870	1.496.628	1.734.948
<b>Average Inventory</b>	305.218,5	304.361	382.144
<b>Turnover</b>	4.5 Times	5 Times	4.5 Times
<b>Standard Ratio</b>	20 Times	20 Times	20 Times
<b>Age of Inventory</b>	80 Days	73 Days	80 Days
<b>Standard Age of Inventory</b>	25 Days	25 Days	25 Days

Criterion	Less Efficient	Less Efficient	Less Efficient
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Source: Primary Data, processed

The efficiency of using the working capital of PT Industri Jamu dan Farmasi Sido Muncul, Tbk in terms of the inventory turnover ratio during 2019-2021 is included in the "less efficient" criteria. The frequency of inventory turnover ratio over the past three years is less than the industrial company's efficiency standard of 20 turnovers. This condition is due to the company's overinvestment in inventories so that the turnover is low. Ilhamidya [9] also stated that the decrease in inventory turnover was caused by an increase in the number of products so that the working capital embedded in inventories was getting bigger.

Based on table 5 of 2020, the ratio of inventory turnover produced by the company has slightly increased from 2019, which was 0.5 times the turnover. This condition is due to the company increasing its sales on credit which can attract sales of inventory to consumers. This is shown from the increase in receivables and sales in the 2020 financial statements.

In 2021, the turnover ratio of receivables generated by the company actually decreased the same as the previous increase in 2020, which was 0.5 times the turnover. This condition is due to the increase in the value of inventory shown in the 2021 financial statements. The increase in inventory value was due to an increase in the amount of production by 30% but was not balanced with an increase in sales of only 10% [13].

Based on the results and discussion of the efficiency of working capital use of PT Industri Jamu dan Farmasi Sido Muncul, Tbk during 2019-2021 which shows a low turnover ratio frequency and less efficient. On the other hand, the company can still survive and be able to become the largest sales pioneer of herbal medicine. This is due to efforts to increase sales, repayment of receivables that are still in accordance with credit terms, treatment of receivables loss reserves, more market pricing that can cover losses on damaged inventory, and profit income that can still reach the target [13]. According to Nurwahidah et al [14] the increase in sales and profit stability has a positive impact on the condition of poor working capital turnover.

#### 4. Conclusion

Based on the results of research and discussions that have been carried out, it can be concluded that the efficiency of using the working capital of PT Industri

Jamu dan Farmasi Sido Muncul, Tbk in 2019-2021 using the working capital turnover ratio method is included in the "less efficient" criteria. This is due to the ratio of working capital turnover, receivables turnover and inventory turnover produced by the company has a turnover frequency below the standard value of the efficiency of working capital use in industrial companies. The condition of the low turnover ratio is influenced by the large amount of the nominal value of working capital embedded in the elements of receivable and inventory capital, but the ability of financial management is still lacking in managing the turnover of embedded funds to return working capital back to the company. Thus causing low turnover of receivables and inventories and having an impact on working capital turnover so that the use of working capital is still less efficient.

Based on the conclusions that have been described, researchers hope that PT Industri Jamu dan Farmasi Sido Muncul, Tbk can increase the low frequency of average turnover of receivables and inventory through cash sales, market expansion and reduce the amount of excessive production. This is done so that the turnover of working capital can increase in accordance with the standards of the efficiency ratio of industrial enterprises.

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