The Effect of Earning Assets Toward Return On Assets

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Abstract

Purpose- This study aims to determine the effect of earning assets toward return on assets.

Design/Methodology/Approach- The population in this study consisted of descriptive methode. Techniques of data collection that used by the author is the library research and field research. Hypothesis test using the t test by SPSS 20th version.

Findings- Based on the results of the study showed that there isn't significant effect of earning assets toward return on asset.

Research Limitations/Implications- This study has several limitations, he advice that researchers can convey based on the results of research that has been done is other factors that can affect Return On Assets (ROA).

Practical Implications- For BPR Cabang Garut in order to further increase Return On Assets (ROA) so that they are in a good condition every semester, through cost efficiency so that there is no increase in costs that are more than income.

Keywords - Earnings Assets; Return On Assets

Paper Type - Research Paper

Introduction

Lending to the public is one of the activities carried out by banks in developing the funds they have. The credit sector in the banking sector is a productive asset that generates bank income whose productivity must be well maintained so that it can support the development of the banking business. Bank Perkreditan Rakyat (BPR) Garut city is a business entity owned by local governments whose business activities in the field of credit. One way that can be used to measure the financial performance of banks is with profitability analysis. A company's performance is often related to how to improve the ability of a company, generating profits that are highly dependent on the funds needed. Measuring tool that is useful for discussing both the management uses the total resources needed by the company to generate profits that is by using the Return On Assets (ROA) ratio.

Year	Semester	Earnings Assets	ROA (%)
2010	I	38.726.899	2,57
	II	41.603.468	0,86
2011	I	58.156.883	1,86
	II	77.319.455	1,10
2012	I	114.538.144	1,11
	II	117.811.180	1,33

Table 1. Earning Assets and ROA at BPR Garut

Source : Annual Report

Based on Table 1, the total earning assets and Return On Assets (ROA) in PD. Rural Credit Banks (BPR) from 2010 to 2012 have total assets that continue to increase while the Return On Assets (ROA) tend to fluctuate. One way that can be used to measure the financial performance of banks is with profitability analysis. The performance of a company is often measured by how the ability of a company to generate profits, bank profits are highly dependent on the placement of funds on the side of productive assets. A useful measurement tool to indicate how well the management is utilizing the total resources owned by the company to generate profits by using the Return On Assets (ROA) ratio. Bank profitability is the ability of a bank to make a profit. Profitability is basically profit (rupiah) expressed as a percentage of profit (Kasmir, 2012). The Return on Assets (ROA) ratio is an indicator used to measure the ability of bank management in obtaining overall profits. Profit is generally used as a basis for investment decision making, and predictions for predicting future earnings.

Literature Review

1. *Earnings Asset*

Assets that can create profits or income are called earning assets. Earning assets are investment of bank funds both in rupiah and foreign currencies in the form of loans, securities, interbank fund placements, investments, including commitments and contingencies in administrative account transactions (Taswan, 2005). Earning Assets are all assets in rupiah and foreign currencies owned by banks with the intention to obtain income in accordance with their functions, so that credit is one form of productive assets (Budisantoso & Sigit Triandaru, 2006). Earning assets are all investment funds in rupiah and foreign currencies intended to earn income in accordance with their functions (Siamat, 2005). Based on these definitions, earning assets in general are assets owned by banks with a view to earning income in accordance with their functions. The types of productive assets are (Siamat, 2005):

1) Credit

Credit is the provision of money or bills that can be equaled, based on an agreement or agreement between the bank and another party that requires the borrower to repay the debt after a certain period of time with the provision of interest, including:

- Overdraft, which is a negative balance in a customer's current account that cannot be paid in full at the end of the day;
- Takeover of bills in the framework of factoring activities;
- Acquisition or purchase of credit from other parties.

2) Securities

Securities are letters of acknowledgment of debt, notes, bonds, credit securities, or any derivatives thereof, or other interests, or an obligation from the issuer, in the form commonly traded on the capital market and money market.

3) Interbank Funds Placement

Placements are placements of bank funds in other banks in the form of demand deposits, interbank call money, time deposits, certificates of deposit, loans and other similar investment funds.

4) Acceptance bills

Acceptance bills are bills that arise as a result of acceptances made on time notes.

5) Reserve Repurchase Agreement or Reserve Repo

Reserve Repo is a bill for securities purchased with a promise to resell.

6) Derivative Charges

Derivative receivables are claims due to the potential profit from an agreement / contract for a derivative transaction (positive difference between the value of the contract and the fair value of the derivative transaction at the report date), including the potential profit due to the mark to market of the current spot transaction.

7) Equity Participation

Equity participation is the investment of bank funds in the form of shares in banks and other financial sector companies, as stipulated in applicable laws such as leasing companies, venture capital companies, securities companies, insurance companies, as well as clearing and settlement clearing institutions, including investment in the form of convertible bonds (convertible bonds), with stock options (equity options), or certain types of transactions, which results in banks owning or will own shares in banks and or companies engaged in other financial fields.

8) Administrative Account Transactions

Administrative account transactions are commitment and contingent obligations which include but is not limited to the issuance of guarantees, letters of credit, standby letters of credit, credit facilities that have not been withdrawn and or other commitments and contingencies.

9) Other Forms of Provision of Funds

2. Return On Asset

Profitability is the ability of a company to generate profits, the single most important measure of profitability is net income (Astuti, 2004). Profitability ratios consist of the ratio of profit margin to sales ratio of return on total assets known as Return On Assets (ROA), the ratio of return on common stock equity or known as Return On Equity (ROE). Banking business profitability is the ability of the banking business to earn profits based on the investment it does (Ahmad, 2004). The types of profitability are (Siamat, 2005):

1) Return On Total Assets (ROA)

ROA is the ratio between profit before tax and the average total assets. Calculation of profit before tax is annualized.

2) Return On Equity (ROE)

ROE is the ratio between profit after tax and average core capital. Calculation of profit after tax is annualized.

3) Net Interest Margin (NIM)

NIM is the ratio between net interest income and average earning assets, where net interest income is obtained from the difference between interest income and interest expense. The calculation is almost the same as ROA or ROE.

4) Operating Costs and Operating Income

Comparison between operating costs and operating income.

5) Development of Operating Profit

Obtained from the difference between operating income and operational costs.

6) Composition of Earning Asset Portfolio and Diversified Revenue

Obtained from a comparison of the Earning Asset Portfolio Composition with the composition of operating income from earning assets. In addition, Fee Based Income Ratio is a comparison between operating income excluding interest income and Operational income.

Quantitative and qualitative approach assessment of profitability factors, among others, carried out through the assessment of the following components Return On Total Assets are (Vethzal Rivai, 2013):

- 1) The ratio of profit before tax in the last 12 months to the average business volume (ROA) in the same period. ROA describes the asset turnover measured by sales volume.
- 2) The ratio of the ratio between the ratio before tax with total assets.
- 3) This ratio is used to measure the ability of banks to obtain overall benefits. This ratio is formulated by

$$ROA = \frac{\text{Profit Before Tax}}{\text{Total Assets}} \times 100\%$$

4) Conclusion:

The greater the ROA, the greater the level of benefits achieved from the better position of the bank in terms of asset use.

Methodology/Materials

1. Hypothesis Development

This research uses descriptive analysis, which is a method to study the problems in society, as well as the procedures that apply in society and situations including about relationships, activities, attitudes, views, as well as ongoing processes and influences -the effect of a phenomenon (Iqbal Hasan, 2001). This research examines hypotheses related to variables namely productive assets as independent variables and Return On Assets (ROA) as dependent variables.

H₀: There is no significant effect between earning assets and Return on Assets (ROA).

H_a: There is a significant influence between earning assets and Return On Assets (ROA).

2. Method

2.1 Sample and Data Collection

Balance sheet and income statement in Bank Perkreditan Rakyat Garut 2010-2012.

2.2 Measurements

The data processing technique used to discuss the problem in this study is to use a parametric statistical test. The data is further processed using computerized calculations, namely the Statistical Product and Service Solution (SPSS 20) program.

Result

1. Measurement

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,424 ^a	,180	-,025	,64349

a. Predictors: (Constant), Aktiva Produktif

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,424 ^a	,180	-,025	,64349

a. Predictors: (Constant), Aktiva Produktif

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,048	,668		3,064	,038
	Aktiva Produktif	-7,715E-009	,000	-,424	-,938	,402

a. Dependent Variable: Return On Asset

2. Hypothesis testing

T-test results performed using the help of SPSS version 20 for Windows can be seen that the t-count is -0.938. Based on the degree of trust $\alpha = 5\%$, the degree of freedom $n-2$ is obtained by a table of 2.78. So that $t_{count} < t_{table}$ ($-0,938 < 2.78$) which means that accept H_0 and reject H_a means that productive assets have no significant effect on Return on Assets (ROA), this shows that the hypothesis proposed that productive assets have a significant effect on Return On Assets (ROA) rejected.

Findings

Based on the description of the results of research and discussion by the author about the effect of productive assets on Return On Assets (ROA) on BPR Garut, then the following conclusions can be drawn;

1. Earning Assets in BPR Garut for six semesters from 2010 to 2012 continues to increase every semester. This shows that the bank's performance is getting better in terms of the amount of credit given and the placement of funds in other banks.
2. Return On Assets (ROA) on BPD Garut for six semesters from 2010 to 2012 fluctuated and healthy. This is indicated by the existence of ROA which is classified as healthy for three semesters, which is quite healthy for two semesters and which is not healthy for one semester.
3. Earning assets have no significant effect on Return On Assets (ROA) in BPD Garut.

Conclusion

BPR Garut in order to further increase Return On Assets (ROA) so that they are in a healthy condition every semester, through cost efficiency so that there is no increase in costs that are more than income.

Implications

For further researchers it is advisable to examine other factors that can affect Return on Assets (ROA) in order to obtain a different picture, for example examining fixed assets and other assets that can affect Return On Assets (ROA).

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