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THE IMPACT OF SALES GROWTH, PROFITABILITY, AND ASSET STRUCTURE TOWARD CAPITAL STRUCTURE

Valensia Kristy Lie[1], Sofia Prima Dewi[1*]

[1]Faculty of Economics and Business, Universitas Tarumanagara, Jakarta - Indonesia
[*]*Email: sofiad@fe.untar.ac.id*

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ABSTRACT

This aim research is to obtain empirical evidence about the impact of sales growth, asset structure, and profitability toward capital structure. Technique sampling uses purposive sampling. The amount of sample in this research was 31 consumer goods companies that listed on the Indonesia Stock Exchange for 2018-2020. Techniques for data analysis is multiple linear regression, and processing data by using EViews. The research results concludes that sales growth has no impact toward capital structure with positive direction, asset structure has no impact toward capital structure with negative direction, and profitability has impact negatively toward capital structure.

Keywords: *Capital Structure, Sales Growth, Profitability, Asset Structure*

1. INTRODUCTION

The COVID-19 pandemic had a considerable impact on the world's economy, including in Indonesia. With COVID-19, the government created a work from home (WFH) policy and also restricted activities outside the home so that company activities and operational time were also limited. COVID-19 has caused many companies in Indonesia to experience a decrease in profits, experience losses, and some companies have gone bankrupt because they cannot cover the company's operational costs. This is in accordance with Junaidi and Salim (2021) which shows that COVID-19 has a negative impact on the company's return on asset, especially consumer goods companies.

Indonesian people have also been affected by the COVID-19 pandemic, such as a decrease in salaries and layoffs. With conditions like this, people tend to prefer to save expenses so that there is a decrease in purchasing power and interest in products outside of basic needs and health. In the COVID-19 pandemic, in order for companies to generate stable profits and survive in the market, of course, companies must continue to innovate to produce the latest quality products and in accordance with public demand. Companies must also be able to manage company finances appropriately by paying attention to the company's capital structure. In conducting product innovation, the company will certainly need additional capital. The additional capital needed by the company can be obtained through two sources, namely funds originating from internal and external companies. Funds originating from internal companies can be in the form of company profits or additional capital from the management or shareholders, while funds originating from external companies can be in the form of debt. The decision for funding that will be chosen will affect the company's financial position and performance so that the selection of the company's capital structure appropriately is very important.

Capital structure can be influenced by several factors, such as sales growth, company profitability, and asset structure. Companies with stable sales growth do not always raise

funds from debt, but companies with high profits must raise funds through common capital or retained earnings obtained as a source of funding. The fixed assets of a company can assess the size of a company and these assets can be used as collateral to the bank, but not all companies will choose funding from debt, because for large companies it is more profitable to obtain additional funds by increasing the shares outstanding to public.

This study replicates the research of Aulia et al. (2019) which examines the effects of sales growth and asset structure on capital structure. This research has several differences with previous research. First, this research uses consumer goods companies that listed in the Indonesia Stock Exchange, while Aulia et al. (2019) use real estate and property companies that listed in the Indonesia Stock Exchange. Second, this research use period from 2018-2020, while Aulia et al. (2019) use period from 2013-2017. Third, there is an additional variable, which is profitability from Sari and Samin (2016). Based on the description above, it is necessary to analyze again the impact of sales growth, profitability, and asset structure toward capital structure. The purpose of this research is to obtain empirical evidence regarding: (a) The impact of sales growth toward capital structure; (b) The impact of asset structure toward capital structure; and (c) The impact of profitability toward capital structure.

2. LITERATURE REVIEW

Pecking-Order Theory

Brealey and Myers (1991) states that pecking-order theory explains that companies have a preference in choosing funding sources by considering the lowest cost with the least risk. Pecking order theory shows that: a. Companies prefer internal funding; b. Companies adjust the dividend payout ratio to their investment opportunities so that dividend payments do not experience too large changes; c. Sticky dividend policies, fluctuating profitability, and unpredictable investment opportunities result in internal fund flows sometimes excess or less for investment; and d. If external funding is required, then the company will issue the most secure securities. If the company needs external funding, the company will issue the safest securities first, starting with the convertible bonds. If the capital required by the company is still not enough, the company will issue new shares.

Internal funding has advantages such as the company does not require issuance costs and does not need to provide information about the company's financial condition. That why, profitable companies tend to prefer funding from internal funds rather than funding from external funds.

Trade-Off Theory

Trade-off theory shows if the debt is greater, than the burden that must be borne by the company is higher, because there is a debt interest expense, bankruptcy costs, and agency costs. The use of external funds from debt provides benefits in the form of tax savings (tax shields) because the higher the debt, the higher the interest that must be paid by the company which causes pre-tax profit to be lower. But on the other side, the greater the proportion of debt, than the greater the bankruptcy costs incurred. Thus, the optimal capital structure is achieved when the company balances the benefits of tax savings with the burden of using debt. According to Brealey and Myers (1991): a. Companies with high business risk should use less debt than companies that have low business risk, because the greater the use of debt will increase interest expense which makes business risk even greater and complicates the

company's finances; b. Companies that are taxed high enough should use funding from debt because of tax savings (tax shields); c. The target debt ratio for each company will be different. Mostly companies that are profitable and have a lot of tangible assets have a higher target debt ratio than companies that are unprofitable.

Capital Structure

According to Riyanto (2013), capital structure is a permanent expenditure that reflects the balance between long-term debt and equity. According to Sartono in Aulia et al. (2019), capital structure is the balance of permanent short-term and long-term debt, and preferred or ordinary shares. According to Simanjuntak et al. (2014), the capital structure is related to the selection of the company's source of funds, both from within the company and from outside the company. Capital structure in this study is proxied by the debt-to-equity ratio (DER) which is calculated by comparing total debt with total equity owned by the company. The higher the debt-to-equity ratio, the higher the use of long-term debt as a source of corporate funding.

Sales Growth

According to Subramanyam and Wild (2009), sales growth is analysis of trends in sales by segments is useful in assess the profitability. According to Carvalho and Costa (2014), sales growth refers to the increased sales and services between the current and previous year in percentage. According to Harahap in Suweta and Dewi (2016), sales growth is the difference between the number of sales in this period and the previous period, then compared to the sales of the previous period. The increase in products produced can affect the sales growth rate of a company. Sales growth is calculated by compare the increase or decrease in the company's net sales between the current period and the previous period, then divided by the company's net sales in the previous period.

Asset Structure

According to Saleh et al. (2015), asset structure refers to a variable that reflects the fixed assets and current assets that are used for company operations. According to Ukhriyawati et al. in Temuhale dan Ighoroje (2021), asset structure is all resources and assets owned by the company which are used in its operations and are expected to provide future benefits. According to Delcoure in Aurelia and Setijaningsih (2020), asset structure refers to a variable that reflects how much fixed assets dominate the composition of the company's wealth. Company size can be measured by the size of the company's asset structure. The asset structure in the research is proxied by the fixed-asset ratio (FAR), which is calculated by comparing total fixed assets with total assets owned by the company.

Profitability

According to Subramanyam and Wild (2009) profitability is measures of operating income to sales, and operating income to identifiable assets by segment that are useful in analyzing profitability. According to Kieso et al. (2018) profitability ratio is a ratio that measures the degree of success or failure of a given company for a given period of time. According to Brigham and Houston in Ahmad et al. (2017) profitability is the end result of various policies and decisions made by the company. Companies with high profits have the ability to raise funds through capital or retained earnings obtained from operational activities. Profitability in

this study is proxied by return on assets (ROA) which is calculated by comparing earnings after tax with total assets owned by the company.

Prior Research

Research by Widayanti et al. (2016) and Purba et al. (2020) stated that sales growth does not have impact with positive direction toward capital structure. However, the results of research conducted by Aulia et al. (2019) shows that sales growth has no negative impact on capital structure. These results contradict with Suweta and Dewi (2016) which shows that sales growth impact positively toward capital structure.

Research by Prastika and Sudaryanti (2019) shows that asset structure has no impact with negative direction toward capital structure. Ariyani et al. (2018) shows that asset structure has no impact with positive direction toward capital structure and research conducted by Sari and Samin (2016) concludes that asset structure impact negatively toward capital structure. In addition, Suweta and Dewi (2016), Ahmad et al. (2017), Aulia et al. (2019), Aurelia and Setijaningsih (2020) which show that asset structure impact positively toward capital structure.

Research conducted by Sari and Samin (2016), Ahmad et al. (2017), Ariyani et al. (2018), and Yuwanita et al. (2020) have the same research results which state that profitability impact negatively toward capital structure. Riyanti and Darto (2019) states that profitability impact positively toward capital structure. Research conducted by Purba et al. (2020) also shows different results state that profitability has no impact with negative direction toward capital structure, while in research conducted by Widayanti et al. (2016) stated that profitability has no impact with positive direction toward capital structure.

Hypothesis Development

The Impact of Sales Growth toward Capital Structure

Sales growth is an indicator used to see an increase or decrease in the company's net sales between the current period and the previous period compared to the company's net sales in the previous period. An increase in sales growth can encourage a company to expand its business which causes the company to need a large amount of capital. In providing credit to companies that need additional capital, banks will analyze the company's turnover. If the company has a stable increase in sales growth, the company becomes more trustworthy because it has good business prospects so that it will facilitate the company in the process of applying for working capital credit. This is in line with the view expressed by the trade-off theory, where companies with small business risks are more profitable to use funding from debt. So, the higher the company's sales growth, the higher the capital structure ratio. Based on the explanation above, it can be concluded that the first hypothesis that will be proposed in this study is as follows:
Ha1: Sales growth impact positively toward capital structure.

The Impact of Asset Structure toward Capital Structure

Asset structure is an indicator to determine the amount of fund allocation for each component of the company's assets by comparing the amount of fixed assets owned by the company with its total assets. In addition, the company's asset structure can be used as an indicator to

determine the size of a company. The more fixed assets owned, then the size of the company is greater. It means that more operational activities are carried out to generate higher profits. This shows that the larger the size of the company, the company's decision to fund through external parties becomes the last solution to be taken and this is in line with the views expressed by the pecking order theory which shows that profitable companies tend to prefer funding derived from internal funds rather than funding derived from external company funds. So, the higher the company's asset structure, the lower the capital structure ratio. Based on outline above, it can be state that the second hypothesis that will be proposed in this research is as follows:
Ha2: Asset structure impact negatively toward capital structure.

The Impact of Profitability toward Capital Structure

Profitability is a company indicator to assess and know how efficient the company is in using its assets to make a profit. The profit earned by the company will be allocated to retained earnings which can be used as the company's internal funding source. Companies that earn high profits have the capability to raise funds through capital or retained earnings, so the company's decision to fund through external parties is the last solution to be taken. For companies with low profits tend to raise funds through external parties because the capital owned from internal parties is not sufficient to fund the company's operational activities. This is in accordance with the view expressed by the pecking order theory, where profitable companies tend to prefer funding from internal funds rather than funding from external funds. The higher profitability of the company, then the capital structure ratio is lower. Based on the outline above, it can be state that the third hypothesis that will be proposed in this study is as follows:
Ha3: Profitability impact negatively toward capital structure.

The research model is as follows:

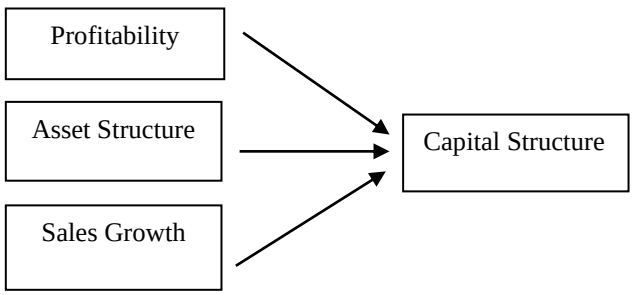

Figure 1. Research Model

3. RESEARCH METHODS

Population and Sample

Population in this research are all consumer goods companies that listed in the Indonesia Stock Exchange from 2018-2020. The technique used for selecting the sample is purposive sampling. Criteria that use for selecting the sample used are: (1) The company presents financial statement at the end of December 31; and (2) The company always gain a profit.

Based on those criteria, a sample of 35 companies was obtained with 4 companies outlier. Total of sample in this research are 31 companies with a research period from 2018 to 2020, so there are 93 data obtained.

Data Collection Technique

Data is collected from the financial statements of consumer goods companies that listed in the Indonesia Stock Exchange from 2018-2020. The collected data in this research processed using EVIEWS 12 SV software.

Variable Operations

The dependent variable in this study is capital structure, and the independent variables are sales growth, asset structure, and profitability. According to Aulia et al. (2019) research, capital structure proxied by debt-to-equity ratio (DER) is measured using the formula:

$$\text{DER} = \frac{\text{Total debt}}{\text{Total equity}}$$

According to Aulia et al. (2019) research, sales growth symbolized by SG is measured using the formula:

$$\text{SG} = \frac{S_t - S_{t-1}}{S_t}$$

Note:
S_t : Sales current year
S_{t-1} : Sales previous year

According to Aulia et al. (2019) research, asset structure proxied by fixed-asset ratio (FAR) is calculated using the formula:

$$\text{FAR} = \frac{\text{Total of Fixed Asset}}{\text{Total of Asset}}$$

According to Sari and Samin (2016) research, profitability proxied by return on asset (ROA) is measured using the formula:

$$\text{ROA} = \frac{\text{Earnings After Tax}}{\text{Total asset}}$$

4. RESULTS AND DISCUSSION

Descriptive Statistics

Based on the criteria above, a sample of 35 companies was obtained with 4 companies that are outlier. Total of sample in this research are 31 companies with a research period from 2018 to 2020, 93 data were obtained. The results of descriptive statistics test for each variable are shown in Table 1 as follows:

Table 1. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Dev.
DER	0.073733	1.732365	0.598109	0.400461
SG	-0.339485	0.504026	0.066141	0.142897
FAR	0.050084	0.806644	0.428462	0.169087
ROA	0.000500	0.290509	0.088668	0.061109

The minimum and maximum value of capital structure (DER) respectively is 0.073733 and 1.732365. The mean and standard deviation value respectively is 0.598109 and 0.400461. The mean value of capital structure is greater than standard deviation value. It concludes that the distribution of data from capital structure is small. The minimum and maximum value of sales growth (SG) respectively is -0.339485 and 0.504026. The mean and standard deviation value respectively is 0.066141 and 0.142897. The standard deviation value of sales growth is greater than mean value. It concludes that the distribution of data from sales growth is large. The minimum and maximum value of asset structure (FAR) respectively is 0.050084 and 0.806644. The mean and standard deviation value respectively is 0.428462 and 0.169087. The mean value of asset structure is greater than standard deviation value. It concludes that the distribution of data from asset structure is small. The minimum and maximum value of profitability (ROA) respectively is 0.000500 and 0.290509. The mean and standard deviation value is 0.088668 and 0.061109. The mean value of profitability is greater than standard deviation value. It concludes that the distribution of data from profitability is small.

Chow Test

The Chow test result is shown in Table 2 as follows:

Table 2. Chow Test

	Prob.
Cross-section F	0.0000

The probability of cross-section F from the results of Chow test is 0.0000. Because 0.0000 is smaller than 0.05 then the fixed effect model was chosen.

Hausman Test

The Hausman test result is shown in Table 3 as follows:

Table 3. Hausman Test

	Prob.
Cross-section random	0.1539

The probability of cross-section random from the results of the Hausman test is 0.1539. Because 0.1539 is greater than 0.05 then random effect model chosen.

Lagrange Multiplier Test

The Lagrange Multiplier test result is shown in Table 4 as follows:

Table 4. Lagrange Multiplier Test

	Cross-section	**Test Hypothesis Time**	**Both**
Breusch-Pagan	48.89085 (0.0000)	1.296351 (0.0000)	50.18720 (0.0000)

The probability value (Prob.) of Breusch-Pagan from the results of the Lagrange Multiplier test is 0.0000. Because 0.0000 is greater than 0.05 then random effect model chosen.

Random Effect Model

Random effect model test results are shown in Table 5 as follows:

Table 5. Random Effect Model

Variable	**Coefficient**	**Std. Error**	**t-Statistics**	**Prob.**
C	1.104483	0.164706	6.705795	0.0000
SG	0.295669	0.160579	1.841274	0.0689
FAR	-0.481307	0.288456	-1.668562	0.0987
ROA	-3.656437	0.689597	-5.302278	0.0000

Adjusted R squared

The Adjusted R-squared test result is shown in Table 6 as follows:

Table 6. The Result of Adjusted R-squared

Variable	**Adjusted R-squared**
DER	0.209883

The value of the Adjusted R-squared test is 0.209883. It concludes that sales growth, asset structure, and profitability are only able to explains the variation of capital structure of 20.99%. The remains 79.01% is explained by other variables that are not included in model research.

Hypothesis Test Results

The hypothesis testing results are shown in Table 7 as follows:

Table 7. The Result of Hypothesis Tests

	Coefficient	Prob.	Description
SG ➔DER	0.295669	0.0689	Ha_1 Not Accepted
FAR ➔DER	-0.481307	0.0987	Ha_2 Not Accepted
ROA ➔DER	-3.656437	0.0000	Ha_3 Accepted

The regression coefficient of sales growth (SG) toward capital structure (DER) is positive at 0.295669. The probability of p-value is 0.0689 greater than 0.05. The result shows that sales growth has no positive impact toward capital structure, that means Ha1 is not accepted.

The regression coefficient of asset structure (FAR) toward capital structure (DER) is negative at -0.481307. The probability of p-value is 0.0987 greater than 0.05. The result states that asset structure has no negative impact toward capital structure, that means Ha2 is not accepted.

The regression coefficient of profitability (ROA) toward capital structure (DER) is negative at -3.656437. The probability of p-value is 0.0000 smaller than 0.05. The result shows that profitability has a negative impact on capital structure, that means Ha3 is accepted.

Discussion

The Impact of Sales Growth toward Capital Structure

Sales growth has no impact with positive direction toward capital structure. These results are consistent with Widayanti et al. (2016) and Purba et al. (2020) which states that sales growth has no impact with positive direction toward capital structure. Research conducted by Aulia et al. (2019) has inconsistent research results, namely sales growth has no negative impact on capital structure. These results contradict with Suweta and Dewi (2016), which show that sales growth impact positively toward capital structure.

An increase in sales growth can encourage a company to develop its business such as by increasing production, releasing the newest products, expanding its business by opening many branches, or other business activities that cause the company to require substantial capital. The additional capital needed by the company in developing a business can be in the form of funds that come from external and internal sources. One source of external funding is bank debt. The bank will analyze and consider whether the company is eligible for credit. The aspect that will be analyzed by a bank is of course the company's turnover. With the company having a stable increase in sales growth, the company becomes more trustworthy to outsiders because it has good business prospects so that it will facilitate the company in the process of applying for working capital credit.

In addition to funding sources that come from outside, there are funding sources that come from internal sources, namely capital from the owner or management of the company and also retained earnings. If the company has been impactive and efficient in using company assets, an increase in sales growth will be accompanied by an increase in profits received. However, the increase in sales growth is not one of the aspects that influence the company in choosing which source of funds to choose as an additional source of funds. Many companies that have a stable increase in sales growth prefer to increase cash flow and use capital or company profits as an additional source of funds to finance their operational activities. That's why companies that experience increased sales, do not always taking funds from debt. They prefer to use their own capital or retained earnings as a source of funding.

The Impact of Asset Structure toward Capital Structure

Profitability has no impact with negative direction toward capital structure. The results obtained state that asset structure has no negative impact toward capital structure, where this result is consistent with Prastika and Sudaryanti (2019). Research conducted by Ariyani et al. (2018) concludes that asset structure has no impact with positive direction toward capital structure. Sari and Samin (2016) shows that asset structure has impact negatively toward capital structure. In addition, the results of research conducted by Suweta and Dewi (2016), Ahmad et al. (2017), Aulia et al. (2019), Aurelia and Setijaningsih (2020), which show that asset structure impact positively toward capital structure.

The size of a company can be seen through the asset structure owned by the company. The more fixed assets owned, then the size of the company is greater and the more operational activities carried out. Fixed assets that are used impactfully and efficiently for the company's operational activities can increase sales growth, minimize costs incurred, and also increase profits generated. In addition to operational activities, fixed assets of a company can also be used as collateral if the company needs additional funds from external parties. In addition to paying attention to the sales growth aspect, the bank will also pay attention to the value of the assets to be pledged in analyzing creditworthiness. If the assets that will be pledged to the bank are assets with good quality and easy to market, then the credit application process will be smoother because the risk owned by the bank will be smaller. Because if the company experiences bankruptcy in the future, the company can still pay its debts by selling these fixed assets.

In addition, the value of the assets pledged can affect how much nominal funds the bank will lend. But no matter how many assets a company has, the structure of these assets cannot affect the actions that the company will take. Whether the company will choose additional funds from external or internal sources, and whether the existence of fixed assets that can be pledged as collateral for bank loans makes the company prefer external funding in the form of debt. In other words, not all companies will choose funding from debt. Because, for large companies it is more profitable to get additional funds by increasing the shares circulating to the public.

The Impact of Profitability toward Capital Structure

Profitability has a negative impact on capital structure. The results of research conducted by Sari and Samin (2016), Ahmad et al. (2017), Ariyani et al. (2018), and Yuwanita et al. (2020) have the same research results which state that profitability has a negative impact on capital structure. These results contradict with Riyanti and Darto (2019) which shows that

profitability impact positively toward capital structure. Research conducted by Purba et al. (2020) also shows different results stating that profitability has no impact with a negative direction toward capital structure, while Widayanti et al. (2016) stated that profitability has no impact with positive direction toward capital structure.

Profitability has a significant impact in determining which source of funds the company will choose. The higher the profitability, the better the condition of the company. Companies that earn high profits have the ability to raise funds through capital or retained earnings, so the company's decision to fund through external parties is the last solution to be taken. Companies with low profits tend to raise funds through external parties (debt) because the capital owned from internal parties is not sufficient for funding the company's operational activities. Therefore, companies tend to raise funds through external parties.

5. CONCLUSION

Conclusion

The research aims to obtain empirical evidence about the positive impact of sales growth toward capital structure, the negative impact of asset structure toward capital structure, and the negative impact of profitability toward capital structure. The research results concludes that sales growth has no impact with positive direction toward capital structure, asset structure has no impact with negative direction toward capital structure, and profitability impact negatively toward capital structure.

Limitation

The research limitations are due to the fact that the independent variables used to explain the capital structure in this study only three variables and the research period used only three years, namely 2018-2020. For next research, it is better to add other independent variables, like firm age and firm size. Also extend the research period.

Implication

The research implication is to help provide new information and expand the information owned about the capital structure of a company. It also may help company management to make decisions in order to achieve an optimal capital structure. In addition, it is also expected that the company will better understand what factors or aspects affect the capital structure.

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