# THE EFFECT OF CURRENT RATIO, QUICK RATIO, DEBT TO ASSET RATIO, DEBT TO EQUITY RATIO AND RETURN ON EQUITY ON FIRM VALUE (A study on property companies listed on the Indonesia Stock Exchange from 2014 to 2020)

Marista Khairunisa
Laras Sahrinaz Putri
Sofan Mulia
Iqbal Budi Prakoso
Okta Novayani
Sendi Gusnandar Arnan

**DOI: https://doi.org/10.37178/ca-c.23.1.224**

---

***Marista Khairunisa,*** *Accounting Department, Widyatama University, Indonesia*
*marista.khairunisa@widyatama.ac.id*

***Laras Sahrinaz Putri,*** *Accounting Department, Widyatama University, Indonesia*

***Sofan Mulia,*** *Accounting Department, Widyatama University, Indonesia*

***Iqbal Budi Prakoso,*** *Accounting Department, Widyatama University, Indonesia*

***Okta Novayani,*** *Accounting Department, Widyatama University, Indonesia*

***Sendi Gusnandar Arnan,*** *Accounting Department, Widyatama University, Indonesia*

---

**Abstract**

This study aims to determine The Effect of Current Ratio, Quick Ratio, Debt to Asset Ratio, Debt to Equity Ratio and Return on Equity On Firm Value in property sector companies listed on the Indonesia stock exchange in the period 2014 to 2020. The sample in this study was 64 financial statements from 10 companies. The research method used in this research is descriptive and explanatory methods. The sampling technique used in this study was non probability sampling with a purposive sampling method. Analysis of the data used in this study is a panel data regression analysis at a significance level of 5%. The program used in analyzing data using SPSS v 20. The results showed that Current Ratio Affects firm value but Quick Ratio, Debt to Asset Ratio, Debt to Equity Ratio and Return on Equity have no affects firm value.

**Keywords**: Current Ratio, Quick Ratio, Debt to Asset Ratio, Debt to Equity Ratio, Return on Equity, Firm Value

## *Introduction*

The company must have a meaningful value where the impact will increase the share price so as to provide welfare for shareholders. The value of the company is the price that would be paid by prosperity buyers if the company is sold. The indicator for measuring the value of the company can be seen from the share price of companies that have gone public in the capital market.

To invest in a company we need to have knowledge of the value of the company. According to experts, company value can be measured using Price To Book Value (PBV), namely the ratio between price per share and book value per share. Based on this ratio, the company's stock price can be known to be above or below its book value. Investors will assess the current and future performance of the company from the share price and company value[1].

Property sector companies for the period 2013-2017 tend to experience a decline every year. According to Soelaeman Soemawinata, the impact of the economic slowdown is very influential on the country's industry. Almost all industrial sectors in the country experienced a decline. Several industrial sectors affected by the economic slowdown include: steel industry, electronics industry, pharmaceutical industry, retail industry, textile industry and property industry. This is due to the weakening of the rupiah exchange rate against the United States dollar and the purchasing power of the people which has also decreased due to increased selling prices[2, 3].

Industries in the country are starting to worry about exchange rate fluctuations, if the weakening of the rupiah exchange rate lasts for a long time, it is feared that many industries in the country will collapse. The higher exchange rate has a serious impact on the property industry, especially the high-end property segment such as apartments or housing with high import elements will face serious problems. Only the housing segment for Low-Income Communities (MBR) is not affected by exchange rate fluctuations due to subsidies from the government. According to [4, 5] 90% of property development companies use imported raw materials, so property developers have to pay higher import fees than usual [4]

According to [6-8], the Covid-19 pandemic has had a major impact on the property sector in Indonesia. The reason is, the entire property sector experienced a sharp decline of up to 90 percent during the pandemic. As a result of the pandemic, almost all natural property sectors are in free fall. Such as malls fell by 85 percent, average hotel occupancy fell by 90 percent, offices fell by 74 percent and commercial homes fell between 50 percent and 80 percent. Currently, only the subsidized housing segment is still surviving during the pandemic. In particular, in the regions there is still enthusiasm from consumers, the property sector actually began to recover in the second quarter of this year, especially in the Greater Jakarta and Banten areas [9]. Based on the phenomenon, the authors deciding doing research on: ”The Effect of Current Ratio, Quick Ratio, Debt to Asset Ratio, Debt to Equity Ratio and Return on Equity On Firm Value” (A study on property companies listed on the Indonesia Stock Exchange from 2014 to 2020).

## Literature Review

According to [10-12] the financial ratio is:

"Numbers obtained from the comparison of one financial statement item with other items that have a relevant and significant (meaningful) relationship".

The following ratios is used:

1. Current Ratio

$$\frac{\textit{Current Asset}}{\textit{Current Liability}}$$

This ratio is used to compare current assets with current liabilities. The greater the value, the greater the company's ability to cover its short-term liabilities.

2. Quick Ratio

This ratio shows the balance between total assets minus inventory and then compared with total current liabilities. So this ratio shows that current liabilities can be covered by current assets.

$$\frac{\textit{Current Asset - Inventory}}{\textit{Current Liability}}$$

3. Debt to Asset Ratio

$$\frac{\text{Total Liability}}{\text{Total Asset}}$$

This ratio is used to measure the amount of company assets obtained from the amount of debt. The lower the value, the lower the loan used to invest in assets.

4. Debt to Equity Ratio

$$\frac{\text{Total Liability}}{\text{Total Equity}}$$

The purpose of this ratio is to measure how much capital you have to finance your obligations/debts. The lower this ratio, the better because the guaranteed equity is greater than the obligation or debt

5. Return on Equity

This ratio measures the company's ability to earn profits for the people who buy the shares.

$$\frac{\text{Earning After Tax}}{\text{Total Equity}}$$

6. Firm Value - Price to Book Value (PBV)

This ratio can provide an overview of the potential movement of a stock's price so that from this description, indirectly this PBV ratio also has an influence on stock prices. PBV is calculated in the following way

$$\frac{\text{Market Share Value}}{\text{Earning Per Share}}$$

**Framework of Theoretical and Hypotheses**

Investment funding and a high level of liquidity indicate that the company is operating effectively, which is certainly an attraction for investors which results in an increase in the value of the company's shares. Companies with high liquidity are considered to have very good performance, thereby increasing the value of the company.

Hypothesis 1: current ratio affects firm value

Hypothesis 2: Quick ratio affects firm value

Leverage can be understood as an estimator of the financial risk inherent in a company. Companies in obtaining assets from loans have a fairly high risk. the higher the leverage it will affect the value of the company. the lower the ratio of DER and DAR, the better the company's performance.

Hypothesis 3: Debt to Asset Ratio affects Firm Value

Hypothesis 4: Debt to Equity Ratio affects Firm Value

Profitability is measured by the Return On Equity indicator. Profit growth shows that the company's performance is getting better, investors will take advantage of companies that are performing well. stock prices are formed from the company's performance. An increase in demand for shares will lead to a high share price so that the value of the company will increase.

Hypothesis 5: Return on Equity Ratio affects firm value

**Research Approach**

The variable used in this study is the dependent variable, namely firm value. While the independent variables are Current Ratio, Quick Ratio, Debt to Asset Ratio, Debt to Equity Ratio, Return on Equity Ratio. The analysis used is multiple regression with panel data, meaning that this procedure is used to analyze the combination of time series and cross section base data. The data used are financial statements obtained from 10 companies on the Indonesia Stock Exchange. Sampling of this study used purposive sampling[13, 14].

**Findings and Analysis**

The results of data processing as shown in the table below:

*Table 1*

**Coeficient**

| Model | Unstandardized coefficients | | standardized coefficients | t | sig | Correlations | | | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|---|---|
| | B | Std. Error | beta | | | Zero order | partial | part | Tolerance | Vif |
| Constant | 406.676 | 132.226 | | 3.076 | .003 | | | | | |
| Current Ratio | -58,936 | 19.345 | -.463 | - 3.047 | .003 | -.506 | -.356 | -.316 | .465 | 2,151 |
| Quick Ratio | .482 | .481 | .125 | 1.002 | .320 | -.148 | .124 | .104 | .695 | 1,439 |
| Debt to assets r | 248.698 | 248.270 | -.140 | -.865 | .390 | .293 | .107 | -.090 | .409 | 2,442 |
| Debt to Equity | 117.274 | 78.425 | .271 | 1.495 | .140 | .407 | .148 | .155 | .329 | 3,042 |
| Return on Equity | 5507 | 2859 | .225 | 1.926 | .059 | .117 | .234 | .200 | .787 | 1,270 |

Based on the results, it is stated that the Current Ratio variable affects firm value. Current Ratio has an effect on company value in property companies on the Indonesia Stock Exchange for the period 2014-2020. This shows that the higher the company's current ratio, the higher the company's value[13, 15].

1. Quick Ratio variable has not Affect on firm value. This is because the Quick ratio is a ratio that shows the company's ability to meet current liabilities with current assets without taking into account the value of the company.
2. The Debt to Asset Ratio variable has nt affects firm value in property companies on the Indonesia Stock Exchange for the 2014-2020 period. This is because it is reflected in the significant return on its shares in the property sector. The number of other fundamental factors that can affect the value of a company may be one of the factors causing the insignificant relationship between the company's Debt to Asset Ratio to its stock returns,
3. Debt to Equity Ratio variable has not affects firm value in property companies on Indonesia Stock Exchange for the period 2014-2020. The decrease in DER will not be followed by a decrease in the value of the company. Not all companies that have a high DER are not attractive to investors to invest their capital. Because the composition of the amount of debt/liability is greater than the total net capital owned by the company, it will be covered if investors enter and manage their debt properly so that the company's financial health improves.
4. The Return on Equity variable shows that there is not affects the value of the company, this can be interpreted in carrying out investments not only by looking at the high rate of return, but also by looking at the investment environment. If the rate of return is high, but the investment climate is not good, investors will consider their investment even though the firm's value in good condition.

**Conclusions**

Based on the results of research, it can be concluded that:
1. Current Ratio (CR), has affects firm value.
2. Quick Ratio (QR) has not affects firm Value
3. Debt to Asset Ratio (DAR) has not affects Firm Value.
4. Debt to Equity Ratio (DER) has not affects Firm Value.
5. Return on Equity (ROE) has not affects Firm Value.

## References


1. Healy, P.M. and K.G. Palepu, *The effect of firms' financial disclosure strategies on stock prices.* Accounting horizons, 1993. **7**(1): p. 1.
2. Tho'in, M. and I.E. Prastiwi, *An Analysis the Rupiah Exchange Rates Effect Against the American Dollar and Inflation Against the Growth of Islamic Banking Mudharabah Deposits in Indonesia.* International Journal of Islamic Business and Economics (IJIBEC), 2019. **3**(1): p. 82-91.DOI: https://doi.org/10.28918/ijibec.v3i1.1797.
3. Rašidagić, E.K. and Z. Hesova, *Development of Turkish Foreign Policy Towards the Western Balkans with Focus on Bosnia and Herzegovina.* Croatian International Relations Review, 2020. **26**(86): p. 96-129.DOI: https://doi.org/10.37173/cirr.26.86.4.
4. Dick, H., *Survey of recent developments.* Bulletin of Indonesian Economic Studies, 1979. **15**(1): p. 1-44.DOI: https://doi.org/10.1080/00074917912331333441.
5. Huridi, M.H., A.R.A. Hadi, and M.H. Hashim, *Malaysian Politics After 14th General Election: Do the Number of Parliamentary Seats Matter for Bn's Victory?* Croatian International Relations Review, 2021. **27**(87): p. 95-111.
6. Herwany, A., et al., *The influence of the COVID-19 pandemic on stock market returns in Indonesia stock exchange.* The Journal of Asian Finance, Economics and Business, 2021. **8**(3): p. 39-47.
7. Stopić, Z., *Croatia and the Chinese "17+ 1" Cooperation Framework.* Croatian International Relations Review, 2020. **26**(86): p. 130-154.DOI: https://doi.org/10.37173/cirr.26.86.4.
8. Zulyadi, R., et al., *Analysis of the Ethical Practices of Immigration officials in Improving Immigration Services Delivery: A Study on Indonesia and China Immigration Department.* Croatian International Relations Review, 2021. **27**(87): p. 112-132.
9. Steinberg, F., *Jakarta: Environmental problems and sustainability.* Habitat International, 2007. **31**(3-4): p. 354-365.DOI: https://doi.org/10.1016/j.habitatint.2007.06.002.
10. Tubbs, R.M., *The effect of experience on the auditor's organization and amount of knowledge.* Accounting Review, 1992: p. 783-801.
11. Solihin, D., *Pengaruh Current Ratio dan Debt To Equity Ratio Terhadap Return On Asset (ROA) Pada PT Kalbe Farma, Tbk.* KREATIF: Jurnal Ilmiah Prodi Manajemen Universitas Pamulang, 2019. **7**(1): p. 115-122.DOI: https://doi.org/10.32493/jk.v7i1.y2019.p115-122.
12. Bakota, I., *"Diamond Stage" in Sino-Croatian Relations.* Croatian International Relations Review, 2020. **26**(86): p. 156-176.DOI: https://doi.org/10.37173/cirr.26.86.6.
13. Heikal, M., M. Khaddafi, and A. Ummah, *Influence analysis of return on assets (ROA), return on equity (ROE), net profit margin (NPM), debt to equity ratio (DER), and current ratio (CR), against corporate profit growth in automotive in Indonesia Stock Exchange.* International Journal of Academic Research in Business and Social Sciences, 2014. **4**(12): p. 101.DOI: https://doi.org/10.6007/IJARBSS/v4-i12/1331.
14. Tolić, I., *Creating and Managing Experiences in Cultural Tourism _ Edited By: Daniela Angelina Jelinčić and Yoel Mansfeld.* Croatian International Relations Review, 2020. **26**(86): p. 179-182.
15. Adnan, M.F., et al., *The Influence of Social-Media and Public Policy on Public Political Participation in Handling COVID-19 Pandemic: A Study from Indonesian Domestic and Overseas Youngsters Perspective.* Croatian International Relations Review, 2021. **27**(87): p. 133-156.